



PART I:

**THE ORGANIZATIONS AND
LESSONS LEARNED**

Case Statements

Irvin Webster

*Oak Street House
Sketched by Irvin Webster*

Case Studies

RUBICON PROGRAMS, INC.

History of Involvement in Economic Development

Rubicon Programs is a multi-service agency serving the disabled, homeless, and those at risk for homelessness in the Greater Richmond area of the East Bay. Rubicon's earliest experience with revenue-generating ventures began in the 1970s, when the organization wanted to expand services for its mentally disabled clients. The services, known generally as "work therapy," proved an excellent rehabilitative program for clients, in part because they expanded client interaction out of counseling offices and allowed clients to engage in productive activities, interact with staff and other clients in new ways, learn skills, and increase their self-esteem. For some, work therapy was an entry point into the world of work, but expectations for long-term employment were minimal.

In the late 1970s, Rubicon rented a

greenhouse and operated a small retail nursery, which was considered the cutting edge of services for mental health clients. Reflecting the agency's strong social services focus, the greenhouse was primarily run by people with social services background and experience. Operations were funded mostly by the Contra Costa County Department of Mental Health (DMH), supplemented by limited revenues from the business. It was clear that the greenhouse was good therapy but bad business. When DMH cut its subsidy, operating the nursery was too large a drain on the finances of what at the time was a small agency. In 1984, the retail nursery was closed and the business spun off into a small-scale landscaping business and retail cafe.

Building and Grounds

After the nursery closed, Rubicon began performing small-scale building and grounds services including lawn cutting, installation, and general maintenance work for homeowners in the Richmond area. It was quickly determined that revenues from this type of work were small, and the work too irregular and unpredictable to provide quality training opportunities. Rubicon had also obtained a grounds maintenance contract at Scagg's Island Naval Base, near Vallejo, through a set-aside under the National Industries for the Severely Handicapped (NISH). The \$50,000 annual Scagg's Island contract was Rubicon's first

NISH contract work. Initially, the NISH contract was also supported by private foundation grants, Department of Rehabilitation training fees, and other non-business revenues. Very shortly it became clear to Rubicon that larger building and grounds contracts had greater potential than small general maintenance work—both as a successful training opportunity and a business venture.

NATIONAL INDUSTRIES FOR THE SEVERELY HANDICAPPED

Federal law (the Javits-Wagner-O'Day Act of 1971) specifies that federal government agencies, under certain circumstances, must purchase products and services from non-profit agencies that serve and employ severely disabled people. The National Industries for the Severely Handicapped (NISH) was organized in 1971 as a non-profit intermediary to serve as a "broker" between federal agencies and non-profit agencies. NISH helps facilitate set-aside contracts for agencies employing the severely handicapped in much the same way that contracts are set aside for small, minority, and women-owned businesses.

Although the term "severely handicapped" originally meant "blindness or other physical handicap," the definition has since been expanded to include people with a wide range of mental disabilities that impair their ability to obtain employment. Agencies receiving NISH contracts must adhere to strict regulations, known as the NISH ratio, which states that 75% of all non-supervisory work hours on the set-aside contract, and within other non-NISH contracts or businesses run by the organization, must be performed by people who are "severely handicapped."

There is a tremendous amount of competition among non-profit agencies for a limited number of NISH contracts. In 1989 Rubicon began exploring ways to expand its Building and Grounds business by aggressively pursuing NISH and other large contracts.

DEPARTMENT OF LABOR JOBS TRAINING FOR THE HOMELESS GRANT

By the mid-1980s, Rubicon was increasingly serving, through both social services and training, homeless and very low-income men and woman who were not necessarily disabled. In 1988, Rubicon Programs was one of a small number of agencies in the country to be awarded a grant by the U.S. Department of Labor to provide job training for homeless people and to evaluate successful strategies. Implemented in concert with the City of Richmond, the project dramatically increased the number of homeless trainees served by the agency. A significant finding of the evaluation was that job creation was an important part of increasing employment for the homeless.

Rubicon Building & Grounds Finan. Ratio Analysis

Current Ratio (Curr.Asts/Curr.Liab.):	5.59
Quick Ratio (Curr.Asts-Invent./Curr.Liab.):	5.59
Inventory Turnover (Sales/Inventory):	N/A
Days Sales Outstand. (Rec./Avr.DlySls):	78.9
Debt Ratio (Total Debt/Total Assets):	49.27%
ROA (Net Income/Assets):	35.14%
ROE (Net Income/RE):	69.27%
PM On Sales (Net Income/Sales):	17.10%
Gross Margin (Gross Profit/Sales):	54.66%

Consolidated Organ. Financial Ratio Analysis:

Current Ratio (Curr.Asts/Curr.Liab.):	1.01
Quick Ratio (Curr.Asts-Invent./Curr.Liab.):	1.01
Inventory Turnover (Sales/Inventory):	200.93
Days Sales Outstand. (Rec./Avr.DlySls):	117.51
Debt Ratio (Total Debt/Total Assets):	72.46%
ROA (Net Income/Assets):	11.07%
ROE (Net Income/RE):	40.20%

THE ROBERTS FOUNDATION'S HOMELESS ECONOMIC DEVELOPMENT FUND

In 1990, Rubicon received a three-month, \$10,000 planning grant from The Roberts Foundation's Homeless Economic Development Fund to analyze the agency's opportunities to aggressively create enter-

prises employing homeless people. Rubicon hired a consultant to help perform a strategic analysis of the agency, identify new businesses, and prepare a business plan. During these analyses, it was determined that Rubicon's building and grounds maintenance services had great potential for expansion, which would present increased employment opportunities for Rubicon's homeless and disabled program participants. It was also decided that Rubicon would focus its enterprise development energy upon its landscaping enterprise and attempt to grow its bakery at a future date after the landscape business had been fully established. At that time, Rubicon had ended the Scagg's Island contract, but had obtained contracts for maintenance services at the Alameda Federal Center and the San Francisco Federal Court House, and had recently begun planting street trees for the City of Richmond. Annual revenues for the fiscal year ending June 1989 were approximately \$88,000 and were projected to reach \$280,000 for 1989-1990. Several workers were both disabled and homeless.

During the three months of the initial planning grant, Rubicon became aware of an opportunity through NISH to obtain a \$500,000 grounds maintenance contract at Oakland Army Base. Obtaining the contract, however, meant purchasing nearly \$100,000 worth of tractors and other equipment. Rubicon's business manager and consultant prepared a detailed business plan for Rubicon Building & Grounds Services, and a proposal to The Roberts Foundation. The proposal requested support in the following areas:

- ➡ to provide funding to pay for the necessary equipment; and
- ➡ to hire a full-time sales and marketing person for the Building & Grounds business.

The lack of a consistent marketing effort was determined during the three-month analysis to be a key weakness of the business. The Roberts Foundation provided funding for the base salary of a salesperson

with the expectation that in later years Building & Grounds would generate enough revenue to absorb the ongoing cost of the position.

From 1991 to 1995, Rubicon has been able to expand Building & Grounds to annual revenues of \$3 million. Current contracts include:

- Alameda Federal Center
- Oakland Army Base
- Naval Station Treasure Island
- Vista Point Park (Golden Gate Bridge)
- Lake Sonoma Recreation Area
- Palo Alto/Menlo Park Veterans Administration
- Defense Supply Region - Pacific
- Employment Development Department - Richmond
- Rubicon's housing and office properties

In 1995, Building and Grounds contributed nearly \$250,000 in excess revenue to the agency and to support administrative overhead. The total number of employees is now 70. There is currently no Roberts or other foundation support for the building and grounds business. Modest Department of Rehabilitation funding continues to pay any training costs incurred before an individual becomes a regular employee. HEDF funding now targets expansion of the bakery enterprise described below. Rubicon is examining ways to significantly increase the scale of the business, and may seek contracts on a national, rather than local, level.

Rubicon Bakery/Catering

In 1985 Rubicon opened a small cafe in the Richmond YWCA with annual revenues of approximately \$20,000. Training for two to four participants was paid for primarily by the Department of Rehabilitation. Rubicon also provided catering services throughout the East Bay and developed an excellent reputation for the quality of its food services.

In 1988 Rubicon took advantage of three separate opportunities. First, the City of Richmond asked Rubicon to run the cafeteria in the basement of City Hall. Second,

the California Department of Health asked Rubicon to run the cafe at their building in Berkeley. Third, Rubicon received support from the Koret Foundation and the Department of Rehabilitation to build a small commercial kitchen at Rubicon's main building in order to expand catering services for public events as well as lunch services for program participants and local child care programs.

Revenues from the three activities combined reached \$200,000 by 1991-1992, but operational expenses were far greater. There was, however, Department of Rehabilitation support for the training costs. The business revenues combined with the training support had the potential to make the operations a break-even proposition, but the cafe activities proved to be fundamentally limited in their long-term business or training potential.

As part of The Roberts Foundation planning support, Rubicon analyzed its food services ventures. The analysis showed that while food services enterprises were seen as important by staff, board members, and participants, the ventures were losing money and draining the energy and spirit of key staff and managers. The cafes were simply too small to generate positive cash flow or support adequate training, and had little

hope of growing in size.

Staff and consultants believed they could build on the experience and infrastructure of the cafes and the lunch production to create a new enterprise with greater overall potential. Starting in the original three months and continuing for nearly a year, Rubicon sought to identify a new food services business. Three broad criteria emerged:

1) BENEFIT TO PARTICIPANTS:

The selected business would have to provide a variety of tasks in order for trainees to gain experience in multiple areas. For instance, a fresh vegetable warehousing and packaging business was ruled out because, among other things, the work was too boring and repetitive. The business would also have to be able to lead to jobs that could pay a livable wage. The selected business also needed to be feasible for Rubicon's participants. Products would have to be selected that could be made by at least the highest functioning of Rubicon's participants.

2) FINANCIAL AND MARKETING FEASIBILITY:

The business was eventually going to have to support itself and hopefully generate significant enough revenues to aug-

Employees and trainees create "high-end" desserts for some of the Bay Area's finest restaurants and stores.



Frankie Frankeny

ment other funding sources. Therefore the selected business would have to have considerable growth potential and a demonstrated market.

3) QUALITY AND INNOVATION:

Rubicon prides itself on providing high quality, innovative services to its participants. The selected business had to reflect this quality and innovation; it had to be good enough to wear the Rubicon name.

Extensive interviews and visits took place with key contacts such as cooking instructors, retail buyers, wholesale bakery owners, restaurant owners, marketing firms, food editors, and food product development companies. Rubicon's staff and board members participated in many meetings about the new business. A decision-aiding matrix was developed to help evaluate the various ideas and opportunities. (An example of the matrix is shown in Exhibit 1.) What emerged was a plan to produce high-end desserts for sale to retail grocery stores, restaurants, and cafes.

HEDF provided additional funding to Rubicon in 1991 to continue development of a food service venture. This funding was essential to Rubicon's careful planning and decision making regarding potential food service businesses.

PRODUCT DEVELOPMENT AND MARKETING RESEARCH

The marketing research identified two types of desserts as potential products: bundt cakes (attractive, round, pound cakes) and dessert pizza (a hybrid of a pizza and a tart). Both products were considered unusual and innovative, and a lengthy product development period followed.

Rubicon applied for, and secured, the pro bono consulting assistance of the University of California Haas School of Business' Community Management Assistance Program (CMAP). CMAP consisted of alumni of the MBA program who wished to help non-profits solve significant management issues. CMAP found there was quite an interest in the products, and very substantial interest in Rubicon's role as a

non-profit attempting to run a bakery business. However, two problems emerged: bundt cakes have a low selling price, which would make it difficult to sell enough to break even; dessert pizza was too high-end and expensive for many markets. CMAP recommended that Rubicon begin some small-scale sales to start making inroads into the business—and see what evolved.

PRODUCTION START-UP AND OPERATIONS

At this point, most of the planning for the new business was being done by a staff person who was both economic development and housing development coordinator for the agency. Rubicon's food services manager and director of development continued to guide the operation of the business, which at this point consisted of maintaining lunch preparation while phasing out the two cafes. In mid-1992, Rubicon hired an operations manager for food services who had been a baker for 10 years and had previously owned a retail bakery in the Midwest. He had no social services background. Hiring a manager for food services with a strictly business background was a first for Rubicon.

Rubicon was soon able to develop and standardize a line of gourmet desserts including food-service-sized chocolate cakes, bundts, and a variety of tarts. With the shift to gourmet dessert bakery, the business had outgrown the commercial kitchen in Rubicon's office building. With HEDF support, the kitchen and storage areas were remodeled and expanded into an adjoining courtyard during a rehabilitation and reconfiguration of the office building, and more capital equipment was installed. Test sales of the new line of desserts began in 1993, and a marketing logo was developed. It was decided to continue catering because it was good public relations for Rubicon and provided large and rapid, although unsteady, revenues.

After several months of operations, it became obvious that the operations manager could not guide production and handle both sales and marketing. Because his

EXHIBIT 1:

DECISION-AIDING CHART FOR RUBICON FOOD SERVICES VENTURE

PRODUCT CRITERIA	CATERING	DESSERT PIZZA	BISCOTTI	APPLE PIE	BUNDT CAKES	FROZEN SOUPS
I. CLIENTS/ TRAINING						
A. Useful skills						
B. Many job opportunities						
C. Living wage						
D. Business has varied tasks						
E. Repetition/consistency						
F. Schedule 8 am - 5 pm						
G. Work site in Richmond						
II. MARKET AND FINANCIAL						
A. Wholesale customers						
B. Larger customers						
C. Can be widely distributed						
D. 2 year break-even w/subsidies						
E. 3 year break-even w/o subsidy						
F. Market is growing						
G. Market demonstrated						
I. Storefront unimportant						
III. PRODUCT						
A. Compatible with our image						
B. Easily standardized						
C. Developed in our kitchen						
D. Large variety not needed						
E. Healthy product						
F. Obvious/distinctive						
G. Easily storable						
H. Interesting and fun						
I. Trainees can make it						

For initial assessment and comparison, use a ratings scale of:

1 = Poor 2 = Fair/OK 3 = Good ? = Unknown

After initial assessment, can calculate relative weight or importance of each criterion.

Some of the products will have similar ratings because they are baked goods. Other types of products and services will receive very different rating (for example, "Frozen Soups").

skills were best suited to production, Rubicon hired a salesperson in early 1994 and sales began in earnest. With this new emphasis, large sales were made to hotels and country clubs. Rubicon also found it could bid for, and successfully service, larger catering events.

Rubicon Bakery/Catering is now overseen by a business enterprises manager, with the bakery responsibilities taking up a majority of her time. Rubicon Bakery/Catering products are sold throughout the Bay Area to grocery stores, restaurants, hotels, and other food institutions. Present efforts focus on marketing the products to individuals and institutional buyers. The high quality of the products is always the first message to customers; the social message is added as "icing on the cake." Sales in 1995-1996 were initially projected to reach \$168,000, but are now expected to reach \$300,000. By the end of 1996, it is expected that Rubicon Bakery/Catering will be financially breaking even. The company currently employs seven full-time production/delivery staff and two full-time salespersons. In addition to these employees, the business will provide training for 36 program participants in 1995-1996.

The Organizational Culture

At Rubicon, there is strong general agreement at the board, management, staff, and participant levels that the agency should be both a social services agency and economic development agency. It is acknowledged and agreed by all that the agency has dual missions:

- ➡ To serve as a social services agency providing a variety of counseling and rehabilitation services to help individuals overcome their personal barriers.
- ➡ To serve as a community and economic development agency providing housing, job training, and employment through

development and operation of its own enterprises.

There is also strong agreement that by combining these types of services, Rubicon has become an innovative, effective, and independent agency capable of offering a broad range of necessary programs. Balancing the often competing demands of these two missions has been one of the most difficult issues for Rubicon to address.

Rubicon's organizational culture makes it an effective, innovative agency and has allowed it to be an uplifting and positive place for staff and participants. That organizational culture is best understood by examining the two broad types of constituencies within the agency. Although a few staff and board members are not easily categorized because they have some experience in both social services and community development, the division of the organization's stakeholders into two constituencies is generally evident.

COMMUNITY/SOCIAL SERVICES CONSTITUENCY

The first constituency is the "Community/Social Services Constituency." Since Rubicon was originally a fairly traditional social services agency, many long-time board members and staff could be categorized within this constituency. Typically, their background is in social services, and their view of Rubicon reflects that perspective. Staff for these programs are hired based on their experience and credentials in counseling, psychology, substance abuse recovery, independent living programs, or residential treatment programs. Many staff are former consumers of homeless or mental health services. The skills, orientation, politics, and values of these employees and managers are very typical of workers in these professions. They want Rubicon to focus on the individual needs of each client, believing that a quality intervention of counseling and support services will ultimately lead to successful placement of individuals in the community. To these

**EXHIBIT 2: Rubicon Programs, Inc.
BUILDING AND GROUNDS EMPLOYEES & TRAINEES***

EMPLOYEES	1991	1992	1993	1994	1995
TOTAL	25	40	51	59	71
% Trainees - Who Were Program Participants	16%	33%	49%	44%	49%
TRAINEES					
TOTAL	114	68	46	71	54
% Completed Training	32%	44%	33%	38%	52%
% Continued Training	29%	19%	35%	27%	13%
% Exited Training Unsuccessfully	39%	37%	33%	35%	35%
TOTAL PEOPLE ON PAYROLL	139	108	97	130	125

*These are not unduplicated numbers from year to year. An individual could be a trainee one year and an employee for the next several years.

individuals, business operation, with its need for financial and marketing analyses and focus on net income, is foreign. Instead, their measures of success and reporting are based on their years of experience in the field. They tend to value "process" more than product. They also have learned to function fairly well in a highly bureaucratic environment, because of the years of monitoring and financial support by federal, state, and local government.

BUSINESS CONSTITUENCY

The second constituency would be called the "Business Constituency." Since the late 1980s, staff, particularly at the management level, have been hired based on work or other life experiences that include years of experience within the business world, having operated their own businesses, or having some type of formal education such as a Master's of Business Administration.

Some members of this constituency, particularly at the management and board levels, were interested in the entrepreneur-

ial aspects of the agency and thought they could have a more interesting experience there than in the corporate world. Others, primarily at the worker level, were people with many years of experience as landscapers, bakers, etc., who became involved in Rubicon simply because they answered a job ad in their field of expertise. They tend to have a somewhat narrow view of Rubicon, because what they see and experience is generally confined to the work performed at their site. In their eyes, Rubicon is focused on running successful businesses, which translates into income for the workers and funding for the agency. The bigger and more successful the busi-

ness, the greater the level of employment and agency funding. With few exceptions, those with a business orientation have no social services experience; the language and process of social services is foreign to them. Further, their training and prior experience has been to focus on accomplishing the requirements of a contract or a job, not to meet the individual needs of a trainee/worker.

Finding the Balance

The constant balancing of the constituencies, influences, and orientations creates a degree of strain and tension which is generally felt at the management, rather than at the staff, level. Debates often center around what kind of work to take on, which trainees to hire, how to market the businesses, and whether the agency is primarily a "bottom-line" business or a "community agency."

HIRING WORKERS FOR NEW CONTRACTS

Whenever Rubicon obtains a new janitorial or grounds maintenance contract, new workers must be hired to form a site crew. During the hiring process, the strain to find the proper balance for a crew is most apparent.

Rubicon's vocational placement staff naturally advocate for as many program participants as possible to be hired for the contract. These program participants comprise both people who are being trained in Rubicon's businesses as well as others receiving job-readiness and/or job placement services. The business managers, with little time to gear up the contract, are concerned with hiring people who will immediately be good workers. While they know many of the program participants will eventually prove to be good workers, they also know that initially these individuals tend to be the least skilled, least dependable, and least productive workers, and will consume large amounts of supervisory time and energy. At the same time, business managers must also maximize the number of disabled participants who are hired. The strain for managers to balance the need to employ Rubicon's participants with the need to perform well on a new contract is quite palpable.

Each time a new contract is obtained, this balance is achieved slightly differently, depending upon the trainees available and the scope of the contract. Typically, when Rubicon takes on a new contract, the site is suffering from deferred maintenance and requires considerable restoration expertise. One approach has been to initially hire a crew comprised of "general population" (not program participant) workers, fill out the crew with a few of the most "work ready" clients, and get to work on the contract as soon as possible. As the site is restored and the work becomes more stabilized, additional program participants are hired. Another approach has been to "borrow" the best workers (program participant and others) from other Rubicon work sites during the first month of a new project and gradually hire on an additional work force. There is no exact formula for satisfying the cus-

tomers, getting the work done well, and bringing along as many trainees as possible.

TRAINEES VERSUS PERMANENT WORKERS

On occasion, the businesses get a large workload increase and quickly need to mobilize as many workers as possible. At these times the businesses look to Rubicon's trainees as the primary source of workers. Recently, Rubicon Bakery/Catering was awarded a \$35,000 catering contract for a dinner for 600 people. The large amount of preparation work and necessary event staffing such as waiters, buspersons, etc., meant the businesses needed a significant number of temporary workers.

The business staff believe it is in the best interest of the businesses, and in fact, represents a competitive advantage for Rubicon, to utilize participants' flexibly. The small but real life experience offered by these temporary positions is good for participants, as they earn a little money and a chance to prove themselves. However, the vocational training department believes what is needed are more structured and stable training slots, with standardized and predictable work patterns.

The vocational department staff want as many training slots as possible for the very large number of people wanting jobs. From their perspective, people need a chance to obtain at least some work experience before they can pursue jobs in the community. Vocational department staff believe that within each contract or within the businesses, a certain number of slots should be set aside as "trainee slots" to be filled strictly by Rubicon's trainees. Ideally, each person filling a training slot should either come away with a regular job at Rubicon or with solid enough training so that they can obtain a job in the community.

The business staff, on the other hand, are concerned with meeting the demands of the contracts or supplying high quality, consistent desserts, on time and at the right price. This leads to a natural tendency to focus on hiring permanent workers. Ultimately, there is the possibility time may

show that Rubicon's greatest success may be in the creation of permanent jobs for homeless and disabled people.

Status of Employment and Training within Rubicon's Businesses

Over the course of five years, the number of employees working in Rubicon's Building & Grounds and Bakery businesses has increased by 140%, from a combined total of 33 in 1991 to a total of 79 in 1995. The 1991 figures include several new positions that were assisted by The Roberts Foundation's first big grant for the Oakland Army Base contract. Similarly, because of Rubicon's multiple strategies for involving trainees in their business operations, the proportion of employees who were also trainees/program participants has also grown dramatically for both businesses. For example, in 1991, less than one-fifth of

the employees hired by the Building and Grounds business were trainees/program participants. By 1995, that proportion increased to nearly one-half of all employees.

Interestingly, during the same time period, the actual number of people going through the training program was more than cut in half. As shown in Exhibit 2, whereas in 1991, there were 114 trainees for Building and Grounds, in 1995, there were only 54 trainees. The same trend occurs for the bakery business: in 1991, there were a total of 46 trainees and in 1995, that number was reduced to 30. This is a result of Rubicon's enhanced ability to appropriately scale the training opportunities within the scope of the businesses, as is discussed below in the section on successful business versus successful training.

If one of the ultimate outcomes for measuring success of these businesses is the long-term stability and employment of the trainees, then placement data becomes an important indicator for success. As shown in Exhibit 4, 72 trainees were placed in full-time jobs during the five-year period of

1991-1995. While there is no exact, unduplicated count of the total number of trainees during this period, it is probably somewhere around 400 individuals. Of those, about half, or 200, successfully completed the training. Using these estimates, Rubicon's businesses placed 36% of the program participants who successfully completed the training in full-time jobs. More than half of those placements were to jobs within Rubicon's businesses (40); the remainder (32) were in other jobs outside of Rubicon.

This 36% placement rate might be an understatement or an overstatement because it is based upon information gathered directly after an individual

EXHIBIT 3: Rubicon Programs, Inc. BAKERY EMPLOYEES AND TRAINEES*

EMPLOYEES	1991	1992	1993	1994	1995
TOTAL	8	7	5	8	8
# Trainees - Who had been Program Participants	2	2	2	3	4
TRAINEES					
TOTAL	46	39	20	33	30
# Completed Training	39%	33%	50%	39%	63%
# Continued Training	20%	18%	30%	30%	13%
# Exited Training Unsuccessfully	41%	49%	20%	30%	23%
TOTAL PEOPLE ON PAYROLL	54	46	25	41	38

*These are not unduplicated numbers from year to year. An individual could be a trainee one year and an employee for the next several years.

completed the training program. If more trainees were hired in other jobs one or two months after the training, then the rate is an understatement. If the people placed in jobs directly following the training were not able to retain those jobs six months later, then the placement rate is an overstatement. Only additional follow-up with the former trainees will answer that question.

The Role of the Employee

INVOLVEMENT IN DECISIONS

Non-profit agencies starting businesses have viewed the role of the employee along a broad spectrum. On one end of the spectrum are those agencies starting businesses whose policy-making entity is dominated by future employees, in some ways similar to a cooperative business. This planning process provides tremendous “buy-in” for participants, while fostering self-esteem and participant empowerment. But the process is also usually very lengthy and has not led conclusively to stronger, more viable businesses. On the other end are agencies that start businesses because they have a good business idea; for them, involvement of program participants in decision making is not a central factor. The

role of the employee is often based on the historic role of participants within the agency as a whole as well as the particular nature of the business being pursued.

In Rubicon’s current businesses, the role of the employee falls somewhere between the two ends of the spectrum. When Rubicon first began planning for a business, key criteria in selection of a business related to how good a “fit” the business was with the skills and interests of their participants. Can the products be made by the participants? What training will be necessary? Will the training eventually lead to well-paid jobs for the participants? If the fit with participants was good, they moved onto other financial and marketing criteria.

Rubicon is not primarily a participant-run agency. Although consumer input is actively sought and used when setting important policies (e.g., three seats on the board are set aside for consumer representatives), final decisions about Rubicon’s businesses are made according to traditional business practice. A board of directors sets the broad policy framework. Management has the responsibility and authority to make decisions (often after consultation with workers), and workers have the responsibility to implement those decisions.

One of Rubicon’s goals is to prepare its participants for work life in the community. Staff and trainees within Rubicon’s busi-

nesses meet together regularly to discuss work-related issues. Site meetings typically occur at least once per month to discuss current progress of the site or upcoming workloads. For example, staff of Rubicon Bakery/ Catering meet to discuss how to improve production procedures, or prepare for large upcoming events. In this way, all the staff and employees are informed and involved in planning and management of operations of the sites.

Individuals enrolled in

EXHIBIT 4: Rubicon Programs, Inc. BUILDING AND GROUNDS AND BAKERY EMPLOYEES*						
PLACEMENTS MADE	1991	1992	1993	1994	1995	TOTAL
Within Rubicon	11	12	4	9	4	40
Outside of Rubicon**	12	4	2	3	11	32
TOTAL PLACEMENTS	23	16	6	12	15	72

* All placements are full-time jobs.
 ** These placement numbers reflect those individuals who got another job directly after employment at Rubicon.

any of Rubicon's services are fundamentally involved in designing and monitoring their own plans for moving out of homelessness or overcoming their individual barriers. They work with their counselors and case managers to design individualized plans that work best for them and meet their own needs and interests. While receiving services, participants regularly meet with their counselors and case managers to monitor their progress, make course corrections, add new services, etc. This involvement in the delivery of their own services is an involvement that continues throughout the training participants receive in the businesses.

NEW BUSINESS OPPORTUNITIES MAY PROVIDE NEW EMPLOYMENT OPPORTUNITIES

In addition to the effective management of current enterprises, Rubicon made a commitment to The Roberts Foundation to explore the development of new business ventures. As of late 1995 there are projects in the very early stages of exploration which might lend themselves to a much greater level of employee participation in the decision making for the business. In particular, Rubicon has begun research on the feasibility of working with the New York based "Cooperative Home Care Associates" to create a business providing home health care to the disabled and the elderly.

Although efforts have been made in the past to replicate the home health care model in California, a significant stumbling block is the dramatic disparity between Medicaid (Medi-Cal in California) reimbursement in New York and in California. The major shift in funding for such services now occurring under the rubric "managed care" may make the economic climate for such a business ripe for California. The pertinent issue is that if home health care proves to be a viable business for Rubicon, the "business cooperative" structure of the cooperative home care model will offer a different business environment for participants and a very different employee role.

BALANCING PRODUCTION AND SUPPORT SERVICES

It is not always clear how much time supervisors should spend meeting with vocational counselors to discuss participant issues. A continuing question is whether employees/participants should be seen strictly as workers with production requirements, or as program participants who are learning to function within a business?

The business staff feel that the businesses have production requirements to meet and only want to meet with vocational counselors when a problem presents itself. Vocational counselors feel the participants are people who have not fared well in the workforce because of a wide range of problems; without ongoing, active support, participants are at risk for failure at Rubicon. A conceptual agreement exists that the employees/participants need some kind of additional support. However, the additional support is sometimes in direct conflict with site productivity.

Successful Business Versus Successful Training

Over the past five years, Rubicon has learned a critical lesson: the non-profit enterprise must clearly define the difference between the business and training purposes of the venture, in order to appropriately scale the training opportunities within the businesses.

In the 1980s, Rubicon's businesses were established primarily as training vehicles. The model in both the Building and Grounds and Food Services ventures was to have all but the management work done by "trainees" who would stay three to six months and then be placed into competitive employment. An additional category was later created for "long-term trainees," typically severely mentally disabled trainees who realistically were not competitively employable after three to six months, and who benefited from working at Rubicon

for at least 12-24 months in the training programs.

At that time, the businesses were smaller and received considerably more in training fees from government agencies than they did in business revenues. In the early 1990s, several things occurred which led to a re-examination of this approach. First, governmental training fees were reduced. Rubicon found it harder to get participants referred by the Department of Rehabilitation (DR) for employment programs, and found it harder for Rubicon's own disabled participants to get certified by DR so that Rubicon could be reimbursed for training costs. The DR fee structure itself also changed. Second, there was increasing realization within Rubicon that the small ventures, in particular the food services ventures, were draining funding and staff energy, with little training success (possibly because of their small size). Third, with the help of The Roberts Foundation, Rubicon was able to bid for and obtain larger Building and Grounds contracts. With these large contracts came increased demand for high quality, efficient services and a need for Rubicon's workers/trainees to perform at higher levels than before.

When the businesses were small, the managers or supervisors could carry the bulk of the production demands if the trainees/participants could not. As the scale increased, either Rubicon had to hire additional "non-program" workers, or trainees/participants would have to become the primary productivity team. This required the participants who appeared most accomplished as trainees to be elevated to permanent worker positions, and the number of trainee slots within the business to be reduced. Short-term trainees were simply too unreliable, unskilled, and inefficient for what became mission critical work. To maintain Rubicon's social mission, but meet contract requirements, Rubicon had to move to a system of hiring the best homeless and disabled trainees they could find as regular, ongoing workers, slowly evolving from being primarily a trainer of homeless and disabled to being an employer. Where once the major evaluation criteria of the businesses was how many

trainees had been served, the criteria became how many program participants were hired and retained as permanent workers. The evolution of the businesses to creating permanent jobs was not necessarily intentional but has, in fact, become the major indicator of businesses' success. There are benefits and costs to this evolution.

BENEFITS:

- 1. The Quality of Work is Higher:** The quality of the contract work Rubicon now performs is much higher than that formerly done exclusively with trainees. Rubicon's Building & Grounds Service has won an award as the highest quality maintenance contractor in the western region from the federal government's General Services Administration. The award was for any contractor, whether for-profit or non-profit, and irrespective of the work force.
- 2. The Quantity of Work is Greater:** Rubicon's businesses have grown considerably. Prior to the evolution to permanent workers, Building & Grounds annual revenues were approximately \$280,000. In 1996, annual revenues should exceed \$3 million at multiple sites.
- 3. Rubicon Can Provide Good Permanent Jobs:** Rubicon has created excellent permanent, full-time jobs for 40 formerly homeless and disabled workers. Rubicon's wages are at or above prevailing wages for the landscaping and baking industries, and provide health and other benefits not often available in these fields. Program participants in this positions have escaped and remain out of homelessness and poverty.
- 4. Rubicon's Businesses are Much More Competitive:** Rubicon's businesses are much more competitive with a permanent work force than with a trainee work force. Rubicon can take on a much wider

range of work and is much more flexible, responding quickly to new opportunities.

COSTS:

1. There are Fewer Trainee Positions:

When positions were primarily for trainees, one full-time equivalent position could enable 10 or 12 trainees to gain some amount of limited work experience. Currently, there is very little turnover in the regular positions. Only as new contracts get added can Rubicon bring on new full-time workers.

2. There is Less of a Focus on Training and More of a Focus on Productivity:

Formerly, site supervisors were often social services people first, who had some interest in the business activity or who saw it as a good method of training people. Now, only rarely does a site supervisor have social services experience. Supervisors are hired because they know their piece of the business.

With the growth of Rubicon's food service enterprise, Rubicon Bakery/Catering is now also transitioning from a venture that provides primarily training slots to a venture that provides primarily permanent employment. However, a somewhat greater effort is being made to balance training and permanent employment. A standard training program has been specially designed to involve six trainees at a time. The progress of the trainees is carefully monitored. The production expectations for these trainees is very low; the primary focus of training is to provide clients kitchen experience with a wide variety of tasks. Nevertheless, the trainees have contributed significantly more to business productivity than was initially expected. The trainee crew is assigned to certain "non-time critical" tasks, such as flour mixing, cleaning, and cake box preparation. The trainees have often been able to keep ahead of production schedules with this prep work, freeing up the production workers to focus on baking.

Lessons Learned

ORGANIZATIONS WITH EXPERIENCE IN ACTIVITIES RELATED TO BUSINESS DEVELOPMENT AND OPERATION, SUCH AS SHELTERED EMPLOYMENT PROGRAMS, APPEAR TO TRANSITION WELL TO A NON-PROFIT ENTERPRISE VENTURE. Rubicon's history of involvement with "work therapy" as an effective program/service for their clients set the stage for successful non-profit venture development. Rubicon's interest in business development grew out of the recognition that work therapy was helping their clients and could be a viable way to help more clients and support the agency.

ORGANIZATIONS WITH STAFF, CLIENTS, AND BOARD MEMBERS WHO UNDERSTAND AND SUPPORT THE PURSUIT OF A "DOUBLE BOTTOM-LINE" INCREASE THE POTENTIAL FOR SUCCESS IN NON-PROFIT ENTERPRISE CREATION. Although there are different constituencies within Rubicon who are more or less oriented toward social services or business development, the organization's businesses benefited from the fact that all constituencies agree on Rubicon's dual mission to be both a social service agency and a community and social purpose business. Strong agreement exists that these missions together have made Rubicon an innovative, effective, and independent agency capable of offering a broad range of necessary programs. Balancing the often competing demands of these two missions has been challenging but has also catalyzed creative

problem solving and the ongoing search for new business and training opportunities.

GOVERNMENT SET-ASIDE CONTRACTS CAN PLAY AN IMPORTANT ROLE IN ASSISTING THE NON-PROFIT TO ESTABLISH ITS ENTERPRISE AS A VIABLE BUSINESS. Rubicon was in the unusual position of being able to capitalize on its status as a non-profit agency serving disabled people in order to secure large government contracts for its Buildings and Grounds business. These set-aside contracts helped Rubicon build a credible track record to then secure other business contracts. Other governmental support was also key to Rubicon's early success, particularly when that support covered the training costs associated with the business.

THE PRESENCE OF PREDEVELOPMENT AND START-UP FUNDING PLAYS A CENTRAL ROLE IN ENABLING ORGANIZATIONS TO ENGAGE IN THE PLANNING AND CAPITALIZATION REQUIRED FOR SUCCESS. Private funding from The Roberts Foundation's Homeless Economic Development Fund served pivotal purposes in the development of Rubicon's businesses. HEDF support helped Rubicon plan strategically for the expansion and professionalization of its businesses. From supporting the feasibility study for the ventures, to supporting staff salaries, to encouraging Rubicon to explore new business opportunities, HEDF has played a significant role in Rubicon's business development over the last five years.

ORGANIZATIONS MUST BE CLEAR WITH REGARD TO THE RELATIONSHIP BETWEEN TRAINING SLOTS AND PERMANENT EMPLOYMENT OPPORTUNITIES WITHIN THE NON-PROFIT ENTERPRISE. It was critical for Rubicon to clearly define the difference between the business and training purpose of the ventures, and to appropriately scale the training opportunities within the businesses. In order to sustain successful and profitable businesses, Rubicon decreased the total number of trainees over time, but increased the proportion of trainees who became employed in the businesses. The scale of Rubicon's businesses simply could not support the number of trainees initially anticipated and still perform the necessary work tasks at a high level commensurate with business expectations.

TO SUCCEED IN THE MANAGEMENT OF ITS NON-PROFIT ENTERPRISES, A NON-PROFIT MUST DEVELOP AN ORGANIZATIONAL SELF-IMAGE OF "JOB CREATOR" AND NOT SIMPLY "SOCIAL WORKER." To maintain Rubicon's social mission, but meet the requirements of the contracts, Rubicon had to evolve from being primarily a trainer of homeless and disabled to being an employer. Where once the major evaluation criteria of the businesses was how many trainees had been served, the criteria became how many program participants were hired and retained as permanent workers. The evolution of the businesses to creating permanent jobs was not necessarily intentional, but has, in fact, become the major indicator of the success of Rubicon's businesses.

JUMA VENTURES

General History

Juma Ventures provides supported employment to high-risk youth living in San Francisco. The organization is a spin-off of Larkin Street Youth Center (LSYC), a 12-year-old organization dedicated to helping homeless youth find lasting alternatives to street life. Each year LSYC provides a continuum of services to over 1,000 young people in San Francisco, including outreach, a drop-in center, counseling, medical care, education, and housing. Over the course of its history, LSYC has enjoyed tremendous support from all sectors of the San Francisco community and beyond. It is widely recognized both in the United States and abroad for its pioneering work with homeless youth.

Juma Ventures began as a project of LSYC in 1991 and was known as Larkin Business Ventures until 1996 when a name change was made in order to avoid confusion between the non-profit involved in business development and that providing services to youth in crisis. Throughout the balance of this case study, the organization is referred to by the name it had during the period in question, Larkin Business Ventures.

LBV began as a project of LSYC in 1991. The project was designed to assess the feasibility of operating businesses that would provide concrete opportunities for homeless and runaway youth in San Francisco. When the feasibility study indicated that such enterprises could be powerful vehicles

for helping youth achieve self-sufficiency, an assessment of business opportunities and organizational structure was undertaken which, two years later, resulted in the formation of Larkin Business Ventures as an independent entity.

A deliberate decision was made to create two distinct organizations, rather than develop the business venture as a project of LSYC, in order to ensure the integrity of each organization's mission and allow each to concentrate on its strengths. LSYC provides a wide array of services to homeless and runaway youth, including work readiness and vocational training, while LBV develops and operates businesses offering employment opportunities and on-the-job training to a broad range of high-risk youth who have lacked access to the kind of opportunities young people need to thrive. The early and ongoing support of The Roberts Foundation played a pivotal role in LSYC's ability to conceive and plan an economic development strategy and in the formation of LBV as a viable entity to implement that strategy.

Three individuals from LSYC became the founding leaders of Larkin Business Ventures. The executive director of LSYC became the CEO of LBV. The individual who had conducted the original feasibility study at LSYC became the LBV president. And the former chairperson of the LSYC board of directors became chair of the new board. LBV received certification of non-profit status from the IRS in early 1995. To foster a collaborative relationship between LBV and LSYC, both organizations agreed that two seats on LBV's board of directors would be held by members of LSYC's board. LBV also maintains a "first look" agreement with LSYC, in which LBV gives first consideration to referrals from LSYC to fill any youth employment openings.

As a separate organization, LBV is able to provide an important distinction for youth between the social service experience

and the employment experience. LBV's goal is to create time and space for youth between their social service experience and their entry back into the community, during which they receive the support, supervision, and on-the-job training they need to integrate new skills, incorporate new behaviors, and synthesize a new sense of self. LBV's employment opportunities are designed to create a sustained transition period that allows youth to move from perceiving themselves as "clients" to feeling like capable, contributing members of society.

LBV's focus has broadened from serving only homeless youth to serving youth lacking access to opportunities for many reasons, including homelessness, poverty, abuse, and a breakdown in family and community. This shift was made because the problems homeless youth face were being echoed in low-income and other marginalized communities throughout the Bay Area. LBV staff realized the enterprise they were

creating could serve those youth equally well. Furthermore, they wanted to be sure they were not labeling or isolating homeless youth, but giving them every opportunity to succeed in the broader community. Those involved with LBV felt the best way to create a healthy environment fostering growth and learning was to bring together young people from a variety of backgrounds, each with his or her own strengths and weaknesses. LBV tries to instill in its work teams an appreciation of differences and an attitude of mutual respect and cooperation. No more than half of LBV's workforce comes from LSYC; the others are recruited from a variety of Bay Area youth organizations, including New Ways Workers, Bernal Heights Neighborhood Center, and The Real Alternatives Program.

¹For an in depth discussion of the Partnership Initiative, please refer to the chapter on non-profit franchises.

Sub-Total Operating Expenses:

Sub-Total Net Inc. Prior Deprec
Less Deprec. & Amortization

Sub-Total Net Inc. After Deprec

Candlestick

Net Sales

Cost of Goods Sold: Materials

Enter. Line Salaries (100%)

COGS: Combined

Gross Profit

Operating Expenses:

Agency Admin. Salaries (10%)

Enter. Mngrl. Salaries (100%)

Business Ventures

BEN & JERRY'S SCOOP SHOP

LBV worked with Ben & Jerry's for several years developing plans for a "Partnershop." As part of its social commitment, Ben & Jerry's waived its standard \$25,000 franchise fee. Start-up costs for each franchise can total an additional \$200,000, not including pre-development and planning expenses. In the case of LVB, the majority of these costs were covered through an enterprise development grant from The Roberts Foundation, which was augmented by additional grants from other foundations. LBV is the sixth non-profit in the United States with whom Ben & Jerry's has partnered in the development of a scoop shop franchise.¹

On April 27, 1995, LBV opened its first Ben & Jerry's scoop shop franchise located at 2146 Chestnut Street in San Francisco's Marina district. The shop has a prime loca-

Joe Hakim

Ben Cohen of Ben & Jerry's with LBV board chair, Penelope Douglas at the grand opening of LBV's first scoop shop on Chestnut Street in San Francisco.

tion directly across from a busy movie theater and near many popular restaurants and retailers. The store's atmosphere is fun and entertaining, offering customers high quality ice cream and service.

The shop, run by a strong adult management team, involves youth employees in virtually all facets of business operations including customer service, marketing, inventory, management, and bookkeeping. Youth begin their work as "scoopers" and may be promoted to shift supervisor posi-

Candlestick Park—now known as 3Com Park) to vend Ben & Jerry's products at both the Giants and 49ers ball games. The contract allows LBV to station as many as six Ben & Jerry's ice cream scooping carts inside the stadium, with up to 10 additional vendors selling ice cream bars in the stands and commenced on April 28, 1995. Stadium concessions is an entirely new market for Ben & Jerry's, and LBV has found it to be an extremely promising one, both in terms of its potential for profit and in the job opportunities it provides for high-risk youth. To date, the Candlestick Park vending operation has created 24 part-time positions—14 for more than 20 hours per week and 10 for less than 20 hours per week.

.....

All young people deserve the opportunity and encouragement to reach their highest potential. Larkin Business Ventures uses business enterprise as the vehicle to provide these opportunities to young people who have traditionally lacked access to them. We operate our businesses on a sound financial basis while seeking to create a new paradigm that simultaneously promotes both people and profits.

— LBV Mission Statement

.....

tions upon achieving a higher level of knowledge and skill. To date, the scoop shop has created 14 part-time positions—nine for more than 20 hours per week and five for less than 20 hours per week. Of those, six are supervisory positions.

BEN & JERRY'S CANDLESTICK PARK CONCESSION

LBV secured a three-year contract with Volume Services (master concessionaire at

ICE CREAM ON WHEELS

Ice Cream on Wheels (ICOW), a special event catering business, serves Ben & Jerry's ice cream at both public and private events throughout the Bay Area. LBV operates ICOW as a joint venture with NYSF Partners, a company that also owns and operates Ben & Jerry's franchises in San Francisco and with whom a joint marketing arrangement was mutually beneficial. Recent ICOW events include A La Carte A La Park, San Francisco Black and White Ball, Hyde Street Pier Festival of the Sea, and Reggae in the Park, as well as numerous private and corporate parties. ICOW, besides being a profitable business, is a valuable promotional tool, and has the ability to offer youth a wider range of work opportunities.

Most of the youth employed in the cart program are also employed at the scoop shop or Candlestick Park. The adult management team of the scoop shop takes direct responsibility for ICOW's day-to-day business operations, with youth teams gradually assuming management responsibilities.

LARKIN BUSINESS VENTURES

Each of LBV's businesses reports to the corporate office of Larkin Business Ventures.

**EXHIBIT 1: Larkin Business Ventures
EMPLOYEE STATUS**

	NUMBER
Number of individual youth in training program	55
Number of youth employees	
Scoop Shop	23
Candlestick Park	35
Number of youth participants	
One year later, of the Scoop Shop's original 11 youth trained:	
Continuing to Work at Scoop Shop	5
Positive Transitions to Other Jobs	4
Did not complete training	2
Of the Candlestick Park Concession's original 17 youth trained:	
Successfully Completed the Baseball and Football Seasons	4
Positive Transition to Other Job	1
Unsuccessfully Completed the Baseball and Football Seasons	12

LBV provides management and business expertise to each enterprise, as well as training through its Human Resources department; it also develops new business ventures for the organization. The LBV office currently provides one youth employment position as office manager.

**EXHIBIT 2: Larkin Business Ventures
HOURLY WAGES**

SCOOP SHOP	WAGE PER HOUR
In Training	\$ 4.25
Scoopers	\$ 5.00
Supervisors	\$ 6.50
CANDLESTICK PARK	
Vendor	\$ 5.00 - 22.00

Employment in the LBV Ventures

During LBV's first year of operating its ventures, a total of 55 young people participated in the training program, which consisted of pre-employment training and on-the-job training. Of those 55, a total of 23 were trained for and/or worked in the scoop shop and 35 were trained and/or worked at the Candlestick Park concession. Three individuals crossed over and worked in both enterprises.

LBV has conducted some follow-up of the original trainees for both businesses to assess individual outcomes of the young people involved with its ventures. For the scoop shop's first round of trainees, LBV has demonstrated remarkable success. As shown in Exhibit 1, of the 11 young people who participated in the first training round of the scoop shop, nine completed the pre-employment training and two did not. Of the nine who completed and went on to work at the scoop shop, five continue to be employed at the shop and four have made positive transitions to other employment, working for software companies, retail clothing establishments, or in the food service industry. Moreover, four of the five still employed at the scoop shop have been promoted to supervisory positions. Given the population targeted by LVB, these outcomes, while they reflect only a small number of employees, are quite noteworthy.

During the 1995 football and baseball seasons, the Candlestick Park concession did not enjoy the same level of success in its employee outcomes. Of the 17 young people who participated in the first training round for the concession, four successfully completed the season, one made a transition to another job as a Candlestick Park vendor, and 12 unsuccessfully completed the season. The 12 employees who were unsuccessful were either fired due to problems with theft, tardiness, or a lack of improvement in job performance, or they simply disappeared from their jobs. According to LBV, this group's overall poor performance is due in part to the 1995 baseball strike, as well as to the limited

time frame the concession had to prepare and train the young people before sending them out to sell ice cream. The short time frame also meant many youth were hired quickly, outside of LBV's normal procedure of recruiting potential employees from youth service organizations from whom the young people can get support and with whom LBV can collaborate in addressing personal problems when they arise.

In response to these problems, LBV recruited its employees for the new season at Candlestick from Young Community Developers, a job referral agency for youth in the ballpark's neighboring community, an area with high youth unemployment. This agency provides youth with additional guidance and support. LBV also instituted "Home Plates," a season-long series of 11 training workshops specifically for the Candlestick Park employees designed to provide additional training and support.

As shown in Exhibit 2, the employees in the scoop shop earn \$4.25 per hour when they are in training, \$5.00 per hour as scoopers, and \$6.50 per hour as supervisors. The wages earned by those working at Candlestick Park vary widely because much of their pay comes from commissions. Some youth employees can earn as much as \$22 per hour.

The Business Development Process

The evolution of Larkin Business Ventures has encompassed three distinct phases of development which are not unique to this organization or, necessarily, to economic development efforts, but are, nonetheless, useful in understanding the process of venture development.

THREE PHASES OF DEVELOPMENT

CONCEPTUAL PHASE - The focus is on values clarification, mission development, and

overall idea formation and feasibility.

STRATEGIC PHASE - Overarching strategic issues are addressed and primary relationships formed—in this case, with strategic partners and funders.

OPERATIONAL PHASE - Ideas and values conceived in the conceptual phase and the strategic decisions made in the strategic phase are implemented.

While the phases are distinct in the levels of thinking they require and types of decisions involved, an organization can be in each phase simultaneously. The challenge is to recognize which parts of the organization are in which phase and tailoring leadership, management styles, and decision making techniques to the complexities of each phase. Those involved with LBV believe very strongly that the foundation of values laid in the conceptual stage must drive the work done in each of the other two.

LBV began its conceptual stage while still a project of LSYC. In 1991, LSYC began clarifying and expanding the organization's mission to include emergency services as well as permanent solutions to the problems facing their young homeless clients. Long-term housing and employment were identified as two ingredients crucial to any permanent solution; developing strategies for these two areas became phases two and three of the process. As planning proceeded for a multi-faceted housing program, a feasibility study was undertaken to assess options for developing employment opportunities.

LSYC dedicated resources to hiring a project manager to conduct a feasibility study that assessed the traditional job-training and placement models among social services as well as newer emerging models of economic development or social entrepreneurship. The feasibility study, which lasted 12 months, encompassed both field research—looking at what other non-profits were doing in the areas of job training and economic development—and a series of pilot projects aimed at assessing the impact of generating jobs directly and seeing the effect on both the young people and organization. The study found that while the pilot projects generated approxi-

.....
We believe that business plays a central role in the structure of society and can be a positive force for social change. We also believe in the critical role of non-profit efforts toward social change. We will seek to combine the best of both in the creation of a new approach.
.....

— from LBV's Statement of Values

mately 80 temporary positions, the impact of these individual jobs was not particularly significant. The study also found that substantial and lasting impact can be achieved through long-term employment opportunities where supportive relationships are forged and in-depth training and skill-building may take place.

By clarifying its mission, conducting field research, operating pilot projects, and completing the feasibility study, LSYC articulated a clear set of values providing the crucial conceptual foundation for future development. These values included the following:

- Marginalized people remain marginalized not just because they lack skills, but because they lack access to mainstream options and empowering opportunities;
- Business plays a central role in the structure of society and can be a positive force for social change;
- A business intended to help people move beyond their status as social service recipients must not reinforce that status by undertaking work that minimizes their human potential or markets their output by capitalizing on sympathy; and
- If the primary function of a business is to provide opportunities for the empowerment of employees, it should

be structured to capitalize on their strengths, not compensate for their weaknesses.

The combination of these values and the practical research of the feasibility study led to the following conclusions:

- Where jobs are structured to accommodate youth's needs, they can be powerful vehicles for helping youth make the transition from being marginalized to becoming productive members of the work force;
- For youth, employment opportunities need to include both full-time and part-time options so youth can also continue schooling;
- A business has perhaps the greatest potential to provide job opportunities in a way that will dramatically impact the lives of the young people involved;
- Any business that LBV undertakes must deal in high-quality products or services not only in order to maximize profitability, but also to maximize the self-esteem impact on youth;
- Any business LBV undertakes must be profitable—not only to be sustainable but, since profits are the yardstick by which success in business is measured, to provide an opportunity for marginalized people to be successful in mainstream terms;
- Any business LBV undertakes will have to be one with which young people can identify;
- Collaborative ventures with socially responsible companies that have a well-developed market presence and strong customer base will maximize LBV's ability to develop profitable, successful businesses at the scale necessary to provide significant employment opportunities for youth.

With these values and criteria in place, it was a fairly easy step to create a list of opportunities to pursue, and a Ben & Jerry's Partnership was at the top of that list for the following reasons:

- Ben & Jerry's franchises represent a profitable business model offering youth-appropriate employment opportunities;
- It is a socially responsible company;
- Its product and image are of the highest quality;
- Ben & Jerry's has a successful track record of working with non-profits and communities; its image and values are such that employees could wear tie-dyed T-shirts as their uniform, and Ben & Jerry's well-known social action activities could provide the youth with a channel for positive community involvement.

Throughout Larkin Business Ventures we will seek to promote a sense of ownership, accountability, and responsibility by empowering each individual and recognizing and encouraging his or her contributions.

— from LBV's Statement of Values

ISSUES OF ORGANIZATIONAL STRUCTURE

While the feasibility study answered many questions and led to a compelling plan of action, it also raised another series of questions related to organizational fit, structure, and capacity: Specifically, could and should this agenda for business development be undertaken within the existing framework of Larkin Street Youth Center? The advantages of doing so included LSYC's status as an established, successful organization with the support and financial position to undertake a new initiative. In addition,

from a practical programmatic point of view, if the business were part of LSYC there could be a seamless coordination between the employment and support services for the clients.

From a conceptual point of view, however, the prospect of integrating employment and support services had a fundamental drawback: the purpose of the business was to help young people make the transition from being social service clients, with all of the baggage that label implies, to being productive members of the workforce, with the recognition of capability that implies. Creating a distinct environment in which young people could begin to view themselves in terms of their capacity, rather than their needs, was a critical factor in the decision to spin LBV off into an independent entity. In addition, there were a number of practical advantages to creating the business as a separate entity. These included maintaining organizational focus within the existing agency, protecting LSYC's tax-exempt status, and protecting each entity from the other's liabilities.

This process was the seed from which Larkin Business Ventures grew. The decision to spin off and create LBV as a separate entity was not an easy one. In many ways it was a more challenging path and required building a new organizational structure, forging a new identity, and creating new relationships—including with Larkin Street Youth Center. However, given the unique challenges that economic development presents to both organizational capacity and culture, as well as the specific context within which this particular process evolved, this strategy made the most sense.

Throughout the process described above there were several major decision points: Should LBV pursue job training or economic development? If they chose economic development, should they pursue it independently or in partnership with the for-profit company? Given the answers to those questions, should the new initiative be undertaken as part of LSYC or spun off into a distinct entity? The directions taken at each of those intersections have had significant and cumulative impacts on all of LBV's future development and have deter-

mined the challenges that have followed. However, at each juncture, a different direction could have been selected and a different result achieved. What is also important is that, at each juncture, choices were made based on a coherent set of values.

Synthesizing Non-Profit and For-Profit Values in One Organizational Culture

In the context of non-profit enterprise development, the central issue of organizational culture involves the synthesis of values inherent in non-profit and for-profit operating frameworks. By definition, such economic development efforts combine elements of each. The people involved in the creation of LBV deliberately set out to create an organization that would hold the tension created by combining these frameworks, because they believed that the strongest solutions lie within this tension. The LBV culture recognizes and embraces the tension, because it permeates the organization from the conceptual level to the very practical operating level. In part for this reason, LBV has chosen a strategy of collaboration that directly involves both non-profit and for-profit partners. The process of forging a workable synthesis, however, is ongoing and requires tremendous time and patience, as well as a tolerance of ambiguity that simply does not exist in organizations operating exclusively in either the for-profit or non-profit arena.

For example, all LBV managers must operate to maximize a double bottom-line that recognizes the importance of both people and profits. On a daily basis, that requires difficult trade-offs in many areas. With respect to hiring, for example, LBV's social mission would suggest that they hire the most high-risk youth. These youth, however, typically have greater skill deficits and require investment of more training resources than their more advantaged

peers, which conflicts with LBV's profitability goals. LBV has approached that conflict by trying to create a workforce with a manageable mix of youth at various skill and functioning levels, and then creating structures that enable the organization to balance this mix over time to accommodate greater training needs while maintaining profitable performance.

The challenge is particularly visible in marketing and public relations. LBV deliberately set out to create a business that would succeed not because it is a "good cause," but because that good cause provides something of value. But as non-profits (and some businesses) prove every day, sentiment sells, and it can certainly sell ice cream.

From a profitability point of view, LBV could probably perform better if they marketed their business based on the fact that it provides jobs to young people who might otherwise be on the street. From the perspective of a social mission that is concerned with providing opportunities for severely marginalized people, however, it is self-defeating to focus marketing efforts on their employees' marginalized status. Instead, LBV has sought, with moderate success, to emphasize the role of employees not as recipients of a service, but as contributors to the community. This occurs through community involvement activities undertaken by the businesses and through the creation of opportunities for those who will follow them as employees in LBV businesses. Only through the employees' efforts and contributions will the businesses be profitable and therefore be around to offer opportunities to other youth in the future.

While LBV struggles to resolve these issues internally, they also continually confront them with external stakeholders in different ways, since the world at large does not yet know how to interpret non-profit businesses. How different stakeholders see these hybrid entities depends on the particular lens through which they are looking. While some foundations are actively engaged in and/or encouraging non-profit economic development, many more do not understand the dynamics of a non-profit that makes money. Similarly, while some

banks play a role in community economic development efforts, most do not know how to gauge the creditworthiness of a business that is structured as a non-profit.

In searching for a site for the Ben & Jerry's shop, LBV assumed that a landlord, if approached by prospective tenants offering competitive rents and track records (in this case, a proven franchise), would be happy to also make a positive social impact by renting to a non-profit. That assumption proved to be incorrect. In many cases landlords would either not consider LBV, or would ask for co-signers and double security deposits. They did not know what to make of an entity that crossed traditional for-profit and non-profit boundaries.

sense of efficacy that comes from being involved in activities or enterprises perceived as productive or successful. In this context, that means working for a business that is profitable, since profitability is the predominant measure of business success.

For an organization like LBV, the tension between traditional for-profit and non-profit values plays itself out very visibly in the arena of training and employee development. This happens at many levels: the philosophical, the strategic, and the day-to-day, operational level.

Philosophically, the challenge for LBV lies in creating the means for young people to redefine themselves in terms of their capabilities and strengths, enabling them to make the transition from being "clients" to being "employees," from being marginalized to having access to mainstream opportunities. At the broadest level, this meant choosing economic development as a strategy instead of other options such as traditional job training and placement. It also meant pursuing businesses that compete in terms of quality and do not trade on the marginalized status of employees. It means setting high standards and allowing people to reach for their highest potential.

At the strategic level, LBV has sought to bridge the gap by stretching traditional business models to incorporate a broader social mission and the additional challenges it raises. For example, LBV is developing a human resources department that acknowledges employees' additional training, support, and development needs within a business model rather than a traditional social service training model. The human resources department takes the specific challenges the young employees bring to the workplace and provides interactive opportunities to assist with their development. LBV is currently designing training modules aimed at problems that arise in the workplace.

LBV recently completed its first major training effort, entitled "Scoop-U-West." This module trained the first group of employees for the scoop shop and Candlestick Park. The training involved hands-on scooping, an in-depth history of Ben & Jerry's, computer and cash register

We believe that people perform best in an environment that promotes continuous learning and high expectations; by persistently and aggressively challenging one another, we can encourage each of us to reach our highest potential.

— from LBV's Statement of Values

Successful Training Versus A Successful Business

A successful training opportunity does not necessarily translate into a successful business opportunity, or vice versa. It is important to distinguish between the two when making decisions about the types of businesses to undertake. The training that severely marginalized people need to access mainstream opportunities often involves more than traditional skill building. LBV believes it also involves building a

training, and field trips to other food service establishments to evaluate their customer service.

At the operational level, LBV's approach has been to clearly differentiate between normal business costs and those costs of additional training the employees need to operate successful businesses. This is an ongoing process. The concept of operating profitable business ventures and simultaneously training high-risk teenagers continues to be one of LBV's biggest challenges.

The Role of the Employee

If a purpose of enterprises like LBV is to use business as a vehicle for empowering marginalized young people, the role of the employee becomes central. Creating roles for young people as capable employees is key in this process. For LBV, empowerment involves helping people to believe they can influence or direct their own fate.

To foster that sense of self-determination among employees, LBV has tried to involve young people in meaningful ways throughout the development of the organization. During the feasibility study phase, focus groups were held with young people from Larkin Street Youth Center to elicit their ideas and input. The pilot projects undertaken in that phase were designed specifically to involve them in testing this model. Once LBV began moving ahead to develop a Ben & Jerry's shop, young people were heavily involved in the market research component of the site selection process.

While each of those steps involved youth in the development process, none of them engaged youth in the actual decision making process. Creating a structure that promotes that level of involvement is a challenge, but is central to LBV's mission. In attempting to meet it, LBV is drawing on organization and management models developed for businesses. For example, borrowing from self-directed work team concepts, LBV is creating a team structure

within the Ben & Jerry's shop that puts teams of employees in charge of different functions, such as marketing and promotions, inventory management, and store maintenance. Teams of employees are also responsible for growing different segments of the business, such as the ice cream cake business. LBV is also in the process of creating a team responsible at the shop level for community involvement, which thus far has included putting shop employees in charge of selecting non-profit organizations to receive profits from special promotions. At the organizational level, LBV has created a position for a young person to participate in new business development.

This emphasis on employee involvement has been a major theme in the mainstream dialogue about effective and progressive business management over the past decade. It represents a shift from outmoded models that looked at labor as an expense rather than an asset. Newer management technologies, such as "open book management" and the use of self-directed work teams, emphasize the engagement of all employees in the success of the enterprise. They rely on sharing crucial information about the workings of an enterprise (including financial information) with all employees and involving them in decision making at all levels. For LBV, this is critical from a social mission perspective as well as prudent from a business perspective.

The successful involvement of young people and their placement in positions that highlight their strengths depends on effective training efforts. Turning liabilities into assets requires intensive training and development at the individual as well as the team level. LBV has made headway with this approach but still has significant work ahead. The biggest challenge lies in identifying the sometimes significant obstacles for the employee or team, creating a feedback and training plan, and presenting it in a way that builds a young person's self-esteem.

While much of the support LBV seeks to provide is dictated by the needs of employees, much of it is also about being a good employer in a way entry level employees typically do not experience. LBV has begun

by providing benefits such as paid vacation, sick time, and holidays to all employees, and health benefits to all full-time employees. LBV actively encourages all employees to develop individual growth plans and works with them toward achieving their goals. LBV has been able to work with individual employees to resolve child care

problems and other personal issues in ways that enable the employees to maintain their commitments and, therefore, ultimately benefit the business. While LBV has had employees they have not been able to help, they recognize this is an area for which they need to continue to find creative solutions.

Lessons Learned

IT IS ESSENTIAL THAT A COMMON SET OF VALUES DRIVES THE PROCESS OF NON-PROFIT ENTERPRISE DEVELOPMENT.

In the case of LBV, articulating a clear set of values set the stage for all of the strategic and operational decision making that followed. These values helped clarify the purpose of any potential economic development venture, the type of opportunities the business should provide, and the kind of employees the business should employ. The articulation of these values also allowed all of the stakeholders in the process to agree on fundamental principles of development, which helped minimize potential discord later.

SEPARATING THE ENTERPRISE EFFORT FROM THE ORIGINAL SOCIAL SERVICE AGENCY ALLOWS FOR BETTER MANAGEMENT OF EACH ORGANIZATION.

It was important for Larkin Business Ventures to become a separate organization from Larkin Street Youth Center in order to maintain the integrity of each separate mission. By spinning off as its own entity, LBV wanted to send a clear message to youth that they can

move on from being social service clients to being productive members of the workforce, with the recognition of capability that implies. In addition, practical aims were also achieved, such as maintaining organizational focus within the existing agency, protecting LSYC's tax-exempt status, and protecting each entity from the other's liabilities.

A SUCCESSFUL TRAINING OPPORTUNITY DOES NOT NECESSARILY TRANSLATE INTO A SUCCESSFUL BUSINESS OPPORTUNITY, AND VICE VERSA.

In deciding what types of businesses to pursue, distinguishing between the two is critical. LBV has had to continually balance its interests in providing effective training for its target population with making its businesses profitable so they can be self-sustaining and provide successful and satisfying employment experiences for young people.

ORGANIZATIONS PURSUING THE DUAL GOALS OF EMPLOYMENT AND TRAINING WILL EXPERIENCE TENSION BETWEEN THE TWO GOALS WHICH MUST BE EFFECTIVELY MANAGED.

The conflict between the goals of operating profitable business ventures and simultaneously

training high-risk teenagers continues to be LBV's biggest challenge. These teenagers require a high level of ongoing training, support and supervision. Providing these supports is an added expense that reduces profitability—and yet it is at the core of LBV's mission. The ability to operate within this dynamic is at one and the same time LBV's greatest challenge and success.

COLLABORATIVE ARRANGEMENTS WITH COMMUNITY-BASED, YOUTH-SERVING AGENCIES ARE ESSENTIAL TO EMPLOYEE RECRUITMENT, SCREENING, AND SUPPORT, BUT ARE ALSO DIFFICULT TO COORDINATE.

While LBV is attempting to provide supportive employment to their workers, they realize their limitations as a business, and have developed collaborative agreements with youth-serving agencies. When LBV is able to utilize those linkages, young people are more likely to simultaneously succeed in their employment and in addressing some of their personal problems. Such collaboration, however, requires a great deal of managerial energy and commitment to maintain effective working relationships.

OAK STREET HOUSE

Sketched by Irvin Webster



Background

The involvement of Golden Gate Community, Inc. (GGCI) in homeless economic development came as a result of a strategic planning process on the occasion of the agency's 10-year anniversary. Founded in 1981, GGCI had fashioned itself as a center to address the physical, social, emotional, and spiritual needs of the poor

and homeless in the Haight Ashbury and Western Addition neighborhoods of San Francisco. GGCI opened a facility called the "Oak Street House," a five-story Victorian built in 1895 and the former home of 1960s rock star Janis Joplin.

During its first 10 years, Oak Street House focused its services on crisis care needs such as food, clothing, and shelter. The House quickly became known as a warm respite from the difficulty of street life and the desperation of poverty. Under that single roof, guests would be assured of a warm cup of coffee, a change of clothes, a supply of non-perishable foods, an overnight stay during particularly cold winter months, and the company of friends and companions. Oak Street House became a community of support for a growing population of individuals who were living on the margin of society during the 1980s.

With the arrival of the 1990s came the realization that for many people, homelessness would not be a temporary status. GGCI was faced with some very difficult questions about its approach to service provision. In 1981 the problems had seemed simple and short-term; a crisis care orientation that addressed people's basic needs had seemed sufficient. Yet 10 years later, many of Oak Street House's clients from 1981 were still accessing the agency, causing it to take a hard look at the seemingly chronic nature of homelessness and the value of crisis-oriented service in that context.

There was little indication during the late '80s that GGCI would take as one of its programmatic centerpieces homeless economic development. However, it should be noted that many of the guests at the Oak Street House were taking the initiative to encourage staff members to identify entrepreneurial opportunities to generate income. Many of the program participants had specific marketable skills in the major trade industries. Carpentry, painting, land-

scaping, and interior decorating skills were common among the individuals who lived at the Oak Street House. In fact, in 1989, with the help of a staff person, a collective of homeless individuals organized and developed a successful street sweeping venture that continues in operation today.

In this environment, GGCI began to examine itself internally as well as interview other agencies across San Francisco and the country. The ultimate objective of this organizational assessment was for the agency to strategically assess its services and identify its effectiveness at helping homeless and poor individuals. As part of

the new direction would be pursued. Many of the early efforts at enterprise development were entirely experimental, and planning was difficult. The concept of homeless economic development was not well defined at that time. And all of GGCI's funders were accustomed to providing funding for meeting the immediate needs of Oak Street House's guests. While the agency found most individual donors agreed that people should get a job, it was easier to raise money for "three hots and a cot."

It was at this time that Oak Street House came to the attention of the director of the HEDF. After several meetings with management staff, the director attended a board of directors retreat to present his vision of homeless economic development and outline the course to be pursued by the HEDF over the coming years. This began a lengthy relationship between the Fund and Oak Street House, which started with a planning grant to assist the agency in securing the services of a community economic development (CED) consultant to work with the organization in creating an approach to its evolving mission.

Unfortunately, many of the consultants who worked with Oak Street House did not appear to believe the organization could achieve its goals. Most seriously doubted the viability of a homeless economic development enterprise operated by a non-profit. Some even said they thought it would involve enough unrelated business income that it would be illegal for a non-profit to run a business! Many of the consultants either took an academic approach to the topic and offered few tools for practical application, or else were unable to shed traditional notions of social service delivery. Not until several years later did Oak Street House begin to find consultants who truly added value to the organization's attempts at homeless economic development. In Oak Street House's experience, the consultants who have been the most helpful have come from a traditional business background. Many consultants with expertise in non-profit management seemed to have difficulty bridging the gap between the non-profit and for-profit sectors.

Oak Street House's initial planning and

In Oak Street House's experience, the consultants who have been the most helpful have come from a traditional business background. Many consultants with expertise in non-profit management seemed to have difficulty bridging the gap between the non-profit and for-profit sectors.

that process, a survey was distributed to Oak Street House program participants to identify the two areas of greatest unmet need. The most significant finding from that survey was the need for affordable housing and jobs. In particular, one person responded, "The services of the Oak Street House have been an island in a sea of insanity ... however, I don't think I will ever get off this island!" With this response, GGCI began to recognize that their efforts and services, while helpful, were not having much of a long-term impact on the lives of their clients.

The information gathered from this self-assessment helped the board and staff agree upon their new course, which would address the economic aspect of homelessness. It was not at all clear, however, how

enterprise development process was very discouraging. In fact, their first seminal ventures failed. Their attempts at house painting, landscaping, and carpentry were extremely difficult to manage and had a steep learning curve on every new job. There seemed to be few economies of scale to be gained from job to job. These early experiences, however, led to the development of a formative knowledge base and a constructive planning process for enterprise selection and development.

THE EARLY STAGES OF ENTERPRISE DEVELOPMENT

Those initial months of planning and experimentation represented a pure form of entrepreneurial spirit for Oak Street House. If one venture failed, they tried something different from a new angle. Job creation was developed according to who was in the labor pool at any given point in time. If one of the homeless individuals or staff members had the skills, a project would be bid on. All of the agency staff assigned to a given business contract worked outside of the agency's formal structures and reporting mechanisms. It was not uncommon to do whatever was necessary to accomplish contractual commitments. Staff used their own credit cards, vehicles, and tools to complete a project. When the Oak Street House was closed for a few days for repairs, staff members opened their homes for overnight accommodations for the homeless guests who were also, in many cases, employees of Oak Street House's businesses.

With this experience and knowledge base, Oak Street House developed a matrix of selection criteria that was used to assess organizational capacity and the appropriateness of potential ventures. This matrix is shown in Exhibit 1. Ultimately, every potential enterprise was evaluated by the criteria identified as key to viability.

Practically and philosophically, Oak Street House made little differentiation between the roles of the professional staff members and the homeless employees. Given the agency's limited resources, everybody had to be involved in the planning,

development, and implementation of any business enterprise. It was in this environment that a homeless individual approached a staff member with the concept of screen printing as a potential venture. After evaluating the idea through the selection criteria, a feasibility review, and ultimately a business plan, this idea became the first venture, after several failures, to exhibit potential long-term viability.

The early frantic and difficult efforts at homeless economic development consumed most of the agency's focus and resources in the early 1990's. Consequently, the crisis care services provided by Oak Street House were progressively phased out. The organization began to focus on long-term developmental approaches to addressing homelessness. Crisis care continued more out of necessity than organizational mission. Ultimately, Oak Street House eliminated most of the walk-in services that were once available for anybody in the neighborhood. Today, the Oak Street House transitional residence is the only remaining pillar of the multiple services provided during the 1980s.

The Organizational Culture

Between 1990 and 1994, GGCI went through a total transition of staff and board members. With new leadership and an emerging organizational culture that differed from that of its first 10 years, transition among staff and board members was nearly continuous. For some, this period offered a graceful opportunity to exit from the demands of working in this field. Others were discouraged by the fact that while the depth of their work had increased, the number of people served agency-wide actually declined. In addition, the introduction of language and practices that evaluated success in terms of business viability and bottom-line profitability led some to believe the mission of the organization was being compromised. A new culture was emerging at the Oak Street House. The ori-

**EXHIBIT 1: Oak Street House Enterprises
MATRIX USED FOR ENTERPRISE SELECTION**

SELECTION CRITERIA	VERY COMPATIBLE	COMPATIBLE	INCOMPATIBLE
Consistent with Agency Mission and Values			
Consistent with Program Objectives			
Agency Management Requirements			
Initial Working Capital Requirements			
Technical Requirements			
Growth/ Profit Viability			
Employment Potential			
Location Requirements			
Compatibility with Community			

entation of services—which had evaluated performance on the quantity of shelter beds provided, clothing distributed, and meals served—was being slowly replaced by more classic business performance outcomes.

In the past, most Oak Street House guests had been passive participants in the service delivery system. They simply needed to show up at the door of the Oak Street House at certain times during the week if they wanted to get a cup of coffee, “shop” in the clothing closet for free clothes, or get a bed in the emergency shelter overnight if the weather was poor. While a few guests were accepted into the Oak Street House residence program where they engaged in more intentional support, most individuals served would come and go with few expectations. To access services, one simply needed to be sober, carry no weapons, and display no violent or disruptive behavior.

That service delivery philosophy was and continues to be an important component of the continuum of programs and approaches designed to address the long-term needs of homeless individuals. Early on, however, it became apparent to those at Oak Street House that simply providing a

place to “crash” would not allow their efforts at enterprise development to be successful. Everybody involved would need to raise their standards of performance, which meant not only increasing the expectations for higher performance among Oak Street House’s clients, but also shifting and challenging staff and volunteers involved throughout the agency.

This transition fundamentally challenged the values and mission of the agency. The mind-set of crisis care service which had been predominant has a relatively short-term focus and therefore proved incompatible with venture development. Where traditionally the agency valued an approach that was inclusive of all those who came through the door, the demands of venture development and business operation began to exclude those participants whose disabilities or life circumstances impeded their ability to function at *any* level in a work environment. As a result, some people who had always been welcomed at the Oak Street House House—those currently using drugs or alcohol, individuals who had no emergency housing, or those who with serious psychiatric disabilities—

were excluded. While there was very little outright conflict expressed over the course of this period, during the transition the organization began to shift its mission, leading to an organizational realignment that allowed for a better balance between the needs of social service delivery and business viability.

These two cultures continue to co-exist in constant tension. For Oak Street House, social service delivery is more process-oriented in that success is based upon identifying and counting units of service. On the other hand, business creation and operation is more specifically outcome-oriented and has a clear bottom-line orientation. Achieving the balance between business and social service is an ongoing challenge. It is never completely accomplished, because the necessary proper alignment is an ever-changing, moving target.

Employment at Oak Street House Enterprises

Currently, Oak Street House operates two businesses—Ashbury Images and The City Store—both of which train and employ men and women who are homeless

or at risk of homelessness. Ashbury Images is a silk-screening T-shirt business that began operations in 1991. The City Store sells San Francisco memorabilia, as well as T-shirts made by Ashbury Images. The City Store opened its doors for business in late 1995.

As shown in Exhibit 2, taken together, Oak Street House enterprises created a total of nine full-time jobs and seven part-time jobs. These positions are intended to last at least 12 months and sometimes longer. Oak Street House enterprises also created a number of temporary, casual employment positions designed to help fulfill contract obligations on an as-needed basis. In the first few years of Oak Street House's experimentation with different enterprises, such as landscaping, gardening, and an odd jobs crew, the businesses tended to hire more temporary workers and try to match skills with jobs. It has since evolved to providing more strategic, transitional employment.

The largest of these early ventures was the odd jobs crew that provided handiwork assistance on a contract basis. After two years, Oak Street House suspended this effort and decided to concentrate its energies on the screen printing business. This was because the odd jobs crew proved to have a number of limitations:

- 1) there was inadequate staff time available to provide quality control over the diverse tasks associated with the various types of contract services provided;
- 2) each job required different skills and some had steep learning curves, such as cabinet making or roof repair; and
- 3) there was little repetition of tasks, which created significant inefficiencies.

In the words of the Oak Street House director, "It was high intensity, high risk,

EXHIBIT 2: Oak Street House Enterprises JOB CREATION — 1991 – 1995*

	1991	1992	1993	1994	1995	TOTAL # OF POSITIONS CREATED
# Full-time Jobs	0	1	1	2	9	9
# Part-time Jobs	3	3	3	4	7	7
# Casual Labor/Temporary Jobs	12	17	8	17	8	N/A

* The number of individuals is duplicated from year to year. The same individual could be employed for multiple years.

and everything required a high level of supervision.”

From the experience with the odd jobs crew, the other early experimental ventures, and the screen printing business, Oak Street House also learned that people rotate in and out of casual labor employment positions. These individuals earn anywhere from pocket change to several hundred dollars. The temporary employment thus provides them with some discretionary income and job readiness experience, but does not provide the skills training preparation that more consistent employment offers.

From 1991 to 1995, anywhere from 12 to 26 people were employed by Oak Street House enterprises, as shown in Exhibit 3.

Oak Street House paid \$34,194 to employees who were homeless or formerly homeless; in 1995, that amount increased more than fourfold to a total of \$148,487 in wages. While that increase in total wages is indeed a positive overall development, it is interesting that the average wage per hour did not change during that five-year period, hovering at an average of \$5.91 per hour.

The Successful Business Venture Versus The Successful Training Opportunity

**EXHIBIT 3: Oak Street House Enterprises
EMPLOYMENT AND PLACEMENT — 1991 – 1995***

	1991	1992	1993	1994	1995
# Employees	15	21	12	23	26
# Secured Outside Employment	3	4	6	3	5
# Secured Long-Term Employment at GGCI or Pursued Recovery	0	3	0	5	1

* The number of individuals is duplicated from year to year. The same individual could be employed for multiple years.

The drop-off in number of employees from 21 in 1992 to 12 in 1993 was due to Oak Street House’s suspension of the odd jobs crew business and the refocusing of efforts on the screen printing business, Ashbury Images. In 1995, the greatest number of people were employed, in part because Ashbury Images was doing a larger volume of business, and in part because of the start-up of The City Store.

As the number of individuals employed and positions created increased over the years, so did the total amount of wages Oak Street House enterprises paid to its employees. As shown in Exhibit 4, in 1991,

Oak Street House operates businesses with the objective of achieving economic viability. The organization believes economic development is compromised if there is not a guiding principle that holds viability as its measure of success. Without such a guiding principle, the House fears it would slip back into a service provider mentality in relation to the employees in the business. While Oak Street House continues to be concerned with meeting the social needs of its employees, that is not their sole objective. They do not want business issues such as quality control, customer service, product development, and business management to become secondary to the service provided to the employees. Thus, the House simultaneously pursues both an enterprise and social services agenda.

For Oak Street House the temptation is great to see their efforts as in tension between the successful business venture on one hand and the successful training opportunity on the other. However, for Oak Street House, one of the distinctive characteristics of homeless economic development is that their enterprises operate in a dynamic, competitive, “real-time” environment. Market fluctuations have a ripple effect on business. Competitors are always looking for an advantage. Technology and technique are constantly changing. New products, different designs,

and creative marketing and packaging must be utilized to reduce the loss of business to the competition.

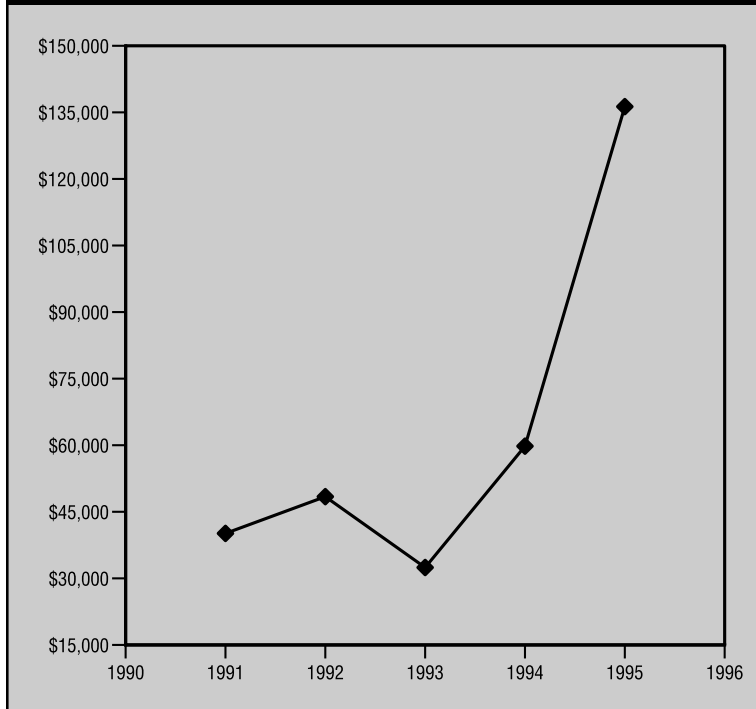
In this environment, Oak Street House believes, if you truly hold economic viability as a central objective, you simply cannot define yourself exclusively as a training opportunity. Training opportunities do not create products and provide services that are competitive in the market.

This is a fairly provocative viewpoint on the conflict of economic viability and training opportunities. Oak Street House draws several conclusions from that premise. First, Oak Street House does believe it is essential to maintain sound employee training and development expectations to meet the demands of a dynamic marketplace. Training is integral to their businesses. Line staff, managers, and support personnel all need to follow a regime of human resource development. Yet that is not considered their reason for existence. Instead, GGCI defines its efforts in home-

less economic development as marked by a focused mission to operate viable businesses while at the same providing employment, advancement, and income generation opportunities for homeless, formerly homeless, and low-income individuals. In order to achieve this mission, the business has to be successful. Oak Street House's San Francisco City Store is currently profitable and its Ashbury Images is on track for achieving profitability in the first quarter of 1997.

Secondly, as a result of this mission, Oak Street House expects management and supervisory costs to be greater than they are in the standard for-profit business. No apologies are made for the fact that the labor force employed is relatively unstable. In truth, their employees often need more substantial support mechanisms than more highly functioning employees in the general marketplace. That is part of the business design, and does not come without a cost. It has to be included in the human resource strategy that is pursued in the business to help employees achieve higher levels of performance. Oak Street House uses a combination of internal support mechanisms and collaborative relationships with other agencies, particularly drug treatment programs, to help employees with the support they require.

**EXHIBIT 4: Oak Street House Enterprises
TOTAL WAGES FOR FULL- AND PART-TIME EMPLOYEES
1991 – 1995**



The Role of The Employee

Between 1991 and 1995, Oak Street House's experiences at employing individuals who are on the fringe were marked by the following outcomes and trends:

- ▀ Employees want the business to succeed. Beyond the basic necessity of work to generate income, the employees appear very invested in seeing that this model of business creation achieves viability.
- ▀ Employees want more responsibility but do not always have the skills to manage

it effectively. In particular, many employees lack basic literacy and mathematical skills. In other cases they may possess limited social and/or communication skills.

- ▀ Employees respond to incentive-driven compensation structures. Many employees demonstrate significant productivity when they are provided with opportunities to increase compensation based on performance-driven objectives. This challenges the widely-accepted notion that this population lacks motivation or incentive capacity.
- ▀ Employees prefer structured, disciplined, and well-managed environments. When the businesses lack structure and suffer from poor management, employees mirror similar patterns in the discipline of their own lives. There is a clear need for well-defined job descriptions, easily

understood reporting patterns, and clear performance objectives.

Essentially, Oak Street House has learned that practices in human resource management require their best efforts at providing discipline, strong management, and clear communication. While their employees may have significant issues related to past substance abuse and poor self-esteem, the businesses are most helpful when they practice strong management techniques. And although an understanding of the needs of this population is necessary and helpful, it also appears employees place high value upon the practice of good business management and that enterprise managers must develop skills which bring out the best in people regardless of their economic or social status. These are, of course, basic lessons in maintaining productive employee relationships in any work environment.

Lessons Learned

THE TENSION BETWEEN SOCIAL SERVICE DELIVERY AND BUSINESS OPERATION REQUIRES MANAGERS TO OPERATE WITHIN AN ENVIRONMENT OF STRATEGIC AMBIGUITY. The non-profit business environment requires finding a way to successfully manage a business with a labor force that is untested and oftentimes unstable. Oak Street House has had to chart a course of business development and growth while balancing the need to have a complete understanding of the human resources available to contribute to their achievement of their business objectives.

A NON-PROFIT AGENCY HAS TO OVERCOME THE TRADITIONAL SOCIAL SERVICE ORIENTATION THAT VIEWS THE PROFESSIONAL STAFF MEMBER AS A SERVICE PROVIDER. An assumption underlying the social service approach is that the professional has all the answers for the client, who need only receive the service for the efforts to be successful. In homeless economic development, the professional must be a manager of resources and a catalyst for high performance among employees. As is reflected in the employee perspective chapter of this document, Oak Street House is still learning how to best draw on their employees as resources in the workplace. This will be an area of focus in coming months.

FEW CUSTOMERS ACTUALLY PURCHASE THEIR GOODS AND SERVICES SIMPLY BECAUSE A BUSINESS EMPLOYS HOMELESS OR FORMERLY HOMELESS PEOPLE. Oak Street House's experience indicates that most customers look first to price, quality, and customer service as factors when deciding about which service or product to purchase. If all things are equal with their competitors, customers may then be swayed toward Oak Street House's products or service because of the cause-based orientation.

MOST OF OAK STREET HOUSE'S EMPLOYEES DO NOT LIKE LABELS THAT CAST THEM AS "HOMELESS." Oak Street House's social service objectives are best achieved by using language that liberates people from stereotypes they are trying to escape both socially and economically. Program participants in other organizations have expressed the same sentiment, which is the basis for a proposed name change for the HEDF to come later in 1996.

A NON-PROFIT ENTERPRISE SHOULD SET LEVELS OF PERFORMANCE THAT MEET MARKETPLACE STANDARDS. When Oak Street House has demanded high levels of performance, employees have performed up to those levels. To set the standards lower because of the problems or life circumstances of the employees, Oak Street House has found, undermines the business by lowering expectations, which ultimately acts as a disincentive for both employee and business development.

THERE IS INHERENT TENSION BETWEEN THE GOAL OF BUSINESS VIABILITY AND TRAINING OPPORTUNITY; TO BE COMPETITIVE, OAK STREET HOUSE HAS FOUND THE CONCERN FOR BUSINESS VIABILITY MUST BE PARAMOUNT. Because of market fluctuations, competition, and changing technology, a business should not allow its concern for training opportunities to overtake those of running a business. Since by design the non-profit business' labor force requires more training and support, the business will have to cover higher management and social support costs than would a business in the general marketplace. Those costs can initially be supported by funding sources such as HEDF and other public or private funders, but as Oak Street House is planning in its own effort, the short-term goal must be to hit break-even and ultimately achieve profitability.

NON-PROFIT BUSINESSES ARE MOST HELPFUL TO THEIR EMPLOYEES WHEN THEY PRACTICE SOUND MANAGEMENT TECHNIQUES. This includes providing discipline, structured management, and clear communication. While many Oak Street House employees have significant problems related to substance abuse and poor self-esteem, they respond well to good business management. While an understanding of the needs of this population is necessary and helpful, it appears to be even more helpful to implement business management techniques which bring out the best in people irrespective of their economic or social status.

CENTRAL CITY HOSPITALITY HOUSE

Background

Central City Hospitality House (CCHH) was founded in 1967 to provide a haven for young people in the Tenderloin, many of whom had come to San Francisco during the “Summer of Love” and ended up living on the streets. This cohort of young people, and others like them, remained the organization’s main constituency over the next several years. They helped shape the organization’s commitment to providing services in a non-traditional manner, namely with minimal bureaucracy and few requirements or restrictions. Twenty-nine years later, the agency still retains this commitment, even as new programs and directions have been added.

The organization began expanding in the late seventies and while an arts program had always been a part of CCHH’s offerings other programs were soon added. In 1977 the agency founded *The Tenderloin Times*, a bi-monthly newspaper designed to address the interests and concerns of the neighborhood. In 1978 CCHH launched a program specifically aimed at street youth. A night shelter program for adults was added in 1982. In the late eighties, the Youth Program purchased and renovated a 12-bed group home. Throughout this 10-year period, the Community Arts Program—which provides art instruction, free materials and free studio space to homeless and low-income individuals—

grew, adding such elements as the production of the annual Tenderloin Arts Festival and an annual art auction.

In the early 1990s, CCHH entered a period of organizational tumult. In 1992, the agency had nearly doubled its annual budget in just a four-year period, and begun its most ambitious project yet: the purchase and renovation of a building in the Tenderloin which would serve as its permanent home. In 1993, however, CCHH found itself seriously overextended and began experiencing financial difficulties. The cost of renovating its building was found to be greater than anticipated. At the same time, public interest in and public funding for programs for homeless people began to wane. In 1994, the agency’s cash flow and fundraising problems worsened, resulting in the resignation of its long-time executive director. Several other key staff members associated with both the parent agency and its small business also decided it was time to pursue other opportunities, which made for a critical leadership gap in the organization. An interim executive director was brought in to stabilize the agency and in 1995, after a transitional period, CCHH named a new executive director. Since that time, the agency’s finances have stabilized, it has begun to attract new board members, and its future has brightened. While there had been concern regarding the agency’s prospects, CCHH now fully expects to continue providing services well into the next century.

Description of the Business Venture

CCHH’s business enterprise, ArtStart, produces and sells greeting cards, and rents and sells artwork. Sales are generated

through mail order and a store located in a downtown mall. All greeting card designs and works of art are created by participants in CCHH's Community Arts Program.

Since its founding, CCHH has operated some form of a Community Arts Program, and the artwork produced by the program's participants has always been available for sale. The Community Arts Program also offered a way for Hospitality House to heighten public awareness and education about homelessness through exhibiting and selling artwork and cards. The transformation of the agency's efforts to more actively market this artwork, which for many years yielded total sales of only a few thousand dollars, was a slow and evolutionary process. Silk-screened cards were added to the products available for sale, mostly for the perceived job training value of teaching clients this skill. A big push to sell Christmas cards in 1991 grossed more than \$20,000. The agency obtained foundation funding for the hiring of a sales representative, and produced a color brochure advertising its greeting card line. Subsequent efforts to target corporations netted Christmas card orders of one thousand units or more. Several positive news stories promoted the program, further increasing public interest and sales. Gross receipts grew from \$27,600 in 1989-90, to \$52,400 in 1990-91, to \$60,900 in 1991-92.

This early success appeared to indicate the production and sale of greeting cards and artwork could fulfill the following goals:

- provide a source of income for artists in the Community Arts Program, who were earning commissions of 40% or higher on all sales;
- provide homeless people with training in a trade (silk-screening) and with experience in service sector skills such as customer relations, mail order, and shipping and receiving;
- raise the agency's visibility and educate the public about the skills, resourcefulness, and creativity of homeless people;
- allow CCHH's board of directors to

expand into an area in which it had long been interested: running a social business venture which would eventually generate surplus income for the agency's other operations.

Major challenges confronted the agency, however, when it formally launched its social business venture:

- 1) Integrating the enterprise into the work of the larger agency proved more difficult than anticipated.** In 1993, the enterprise was established as a separate "department" within the agency, thus formally separating it from the Community Arts Program. This step had the strong support of CCHH's executive director and board of directors, and was encouraged by the enterprise's main funder, The Roberts Foundation's Homeless Economic Development Fund, as well as by a consultant brought in to analyze the enterprise. All of these parties saw the separation as a vital step in making the enterprise run like a business.

The process by which this shift took place, however, was not conducive to broad based acceptance among staff within the agency. There was little communication within the agency about the change, and many staff perceived the shift to be shrouded in secrecy. Because many of the staff and participants in the Community Arts Program were informed about the proposal to split off the enterprise only on the day it was to be put to a board vote, they were suspicious of the motives underlying the separation and opposed the change. Their views were shared, at least to some degree, by other staff at the agency, including members of the management team. As one staff member who supported the separation said during her interview for this report, "The secrecy gave the impression that this wasn't a good thing." The lack of intra-agency communication and planning reduced CCHH's ability to build effective collaborations within the organization which could

support the business' employees. In the past there had been few incentives or systems in place for departments to even consider the possibilities of intra-agency collaboration.

2) Conducting the planning and establishing the systems required for a successful social business venture proved much more complex and time-consuming than anticipated. When it first launched the enterprise, CCHH did not have adequate administrative systems in place to run a social business venture. Because there was no cost accounting system to accurately track enterprise expenses, it was difficult to generate meaningful profit and loss statements. Greeting cards were being sold for less than it cost to produce them. Sales projections were overstated. While sales, marketing, and other operational issues were being fleshed out and had been addressed in the organization's proposals to the HEDF, there was no formal, written business plan in place to guide the venture's development. And the enterprise's director lacked many of the skills and business experience needed to correct these problems. As the former chairman of CCHH's Board said during his interview for this report:

Neither the board nor the staff critically analyzed cost-effectiveness or the issues of [launching] a start-up business. No one on the staff had that perspective, and no one on the board asked the right questions. Maybe there was a brighter picture painted at the onset than was warranted—if you went to the SBA or [private] investors, they would have asked for a lot of homework that we had never done.

Moreover, because the enterprise was already in operation, it was that much more difficult for management to do this homework. The day-to-day tasks of overseeing all aspects of the operation left little time to engage in the kind of thoughtful planning that was needed. Instead, one former employee described

the enterprise's early planning efforts as similar to "trying to stop a train."

3) The separation of the enterprise into its own "department" occurred just as the agency was starting to experience wrenching financial difficulties, brought on by its purchase and renovation of a building in the Tenderloin. These financial difficulties eventually precipitated a crisis at the agency, during which the agency leadership resigned. With the very future of the agency at stake, CCHH's management was spread too thin to closely oversee the enterprise in its new form. Even though the enterprise consistently failed to meet its internal sales goals and other milestones, as well as The Roberts Foundation's stated requirements, the consequences of such shortfalls were late in coming. While the support provided by the HEDF decreased from \$100,000 in 1994 to \$75,000 in 1995 and down to \$50,000 in 1996, one must ask whether decreased support earlier on would have forced the agency to confront reality at a time when they might have stemmed the problems before they became chronic.

This is not to say that intervention was not attempted. In fact, a series of meetings was held at the onset of the staff and organizational transitions and it was clear the organization was in trouble. After a great deal of discussion between the HEDF director, the executive director of The Roberts Foundation, and its board of directors, regarding what role the Foundation should play in this situation, the decision was made not to decrease support (which would have more than likely terminated the enterprise), but to allow consultants and the Venture Committee to continue their efforts to make the business function profitably. The final decision to decrease support did not come until 1995, nearly two years after the problems were identified. A current CCHH staff member closely involved with the program now says about that period, "There was a lack of objectivity (within the organization), which led to a lack of

accountability.” A former CCHH employee said, more bluntly, “I think, in part, we were seduced by the Roberts money [due to the agency’s financial problems].” Regardless, with The Roberts Foundation funding renewed, the agency’s board allowed the enterprise to continue without intervention. A search was held for a new manager.

By the time CCHH hired a new director for the enterprise in August of 1994, the agency’s financial situation was worsening daily, and the board of directors’ patience with the enterprise was beginning to wear thin. Instead of providing CCHH with a source of additional revenue, the enterprise was siphoning off operating funds from the rest of the agency. Moreover, since the

an inability to meet goals within a given time frame, and confused priorities. Work on these issues has been relegated to the board’s program committee, with decisions made by a handful of people and recommendations then made to the full board. Given our basic struggle as an agency overall, we’ve got a whole bunch of things to worry about, not just the fine details of the business.

Despite these challenges, the enterprise has survived. It boasts high-quality products created by talented and motivated clients. It now has staff members who are committed to making the business a success. It has the support of key board members, and a loyal customer base. Its advisory committee has been renewed with new members. It has written a three-year business plan. It has at its disposal the financial tools it needs. And it has engaged the services of a new, pro-bono business consultant, who has helped implement cost-cutting measures and perform market surveys regarding possible price increases in the greeting card line.

The agency’s inability to implement a process to assist staff in attempting to balance these two goals—to allow the enterprise to achieve profitability, while also ensuring it serves as a job training program providing a meaningful source of income for its artists—has proven to be a major stumbling block.

enterprise’s sales relied on holiday greeting cards, revenue was seasonal, which proved to be a significant drain on the agency’s cash flow. The HEDF director and interim executive director of CCHH both advocated closing the enterprise or spinning it off to another non-profit, and for a time, the enterprise’s immediate future was in doubt.

At this time, many problems remain. As the immediate past chairman of the board of directors expressed:

We continue to have problems with the staff and board’s ability to manage the business: difficulty with coming up with realistic goals and objectives;

Organizational Culture

CCHH’s attempts to operate in both the non-profit and for-profit worlds have created considerable organizational conflict. Staff have been split between those who have a traditional social service orientation of “helping people” and those who find value in developing a social enterprise that employs people in need and is run efficiently and profitably.

The agency’s inability to implement a process to assist staff in attempting to balance these two goals—to allow the enterprise to achieve profitability, while also ensuring it serves as a job training program providing a meaningful source of income for its artists—has proven to be a major stumbling block. As the current executive director put it, “In the beginning, we thought we could fulfill all of our goals at once, but as time went on we found that achieving one often came at the expense of

the other—and how do you choose among them? You come up against that question so many times, and you have to know which way to move.”

All social enterprises must balance these goals. As the rest of this book documents, the enterprise can train workers to become skilled, knowledgeable, and motivated, which benefits those individuals as well as the business itself. By generating a profit, the enterprise can also help ensure the continuation of programs that benefit clients. And finally, the two orientations can complement each other, so the business provides individuals with income, skills, and job experience, and the program provides necessary services to help those workers succeed in their jobs.

The challenge, however, lies in managing this process of pursuing a double bottom-line. In this case, the two sides of this conflict—concern for clients, and concern for financial viability—have played off each other again and again within CCHH. Although the enterprise director no longer has to supervise the Community Arts Program as well as the enterprise, she still spends a significant portion of her time on matters not specifically pertaining to the business. Furthermore, as a means of increasing profitability, the enterprise has dramatically reduced the commissions paid

to artists on greeting card sales from the agency-set level of 40% to the market rate of 10%, causing resentment among the artists within ArtStart, but bringing the business closer to economic reality. Still, given its history, the agency has had to take time in a variety of staff, board and program participant forums to discuss and develop an understanding of what it means to pursue a double bottom line of both profitability and supported employment.

This conflict has had practical consequences on the day-to-day decisions and limitations of ArtStart. As the current enterprise director explained:

I want to sell ceramic pins in our retail store. It's taken me three months to get a decision from the art studio about whether they will allow people to make the pins, because it would mean buying supplies that only a few participants would use—we're talking two dollars for 1,000 pin backs here.

These philosophical and related practical conflicts are not the only difficulties that arose from CCHH's attempts to operate a social business venture. Significant questions still linger regarding whether the organization has the collective expertise needed to operate a successful business. An organizational tradition of hiring people from the participant pool who may not have formal credentialed training and of maintaining a very low salary structure has sometimes precluded the recruitment of people with real-life business experience for key positions. The organization's financial difficulties and resulting cut-backs in other departments have made it unable to supply the enterprise with staffing levels and other resources required to operate it effectively. And only this year has the separation of the enterprise from the Community Arts Program taken root; as the director of the Community Arts Program put it, "We're finally getting down to the fine details of what's ArtStart's and what's the studio's." But, as the next section illustrates, the conflict between serving clients and operating the business efficiently has remained the thorniest of all the questions related to operating in both worlds.

EXHIBIT 1: ArtStart

NUMBER OF EMPLOYEES BY TYPE OF POSITION* 1991 – 1995

	1991	1992	1993	1994	1995
Total Number Employed	13	36	16	22	18
Full-time Employees	3	3	3	3	3
Part-time Employees	1	9	3	4	2
Temporary Employees	9	14	10	15	13

* The number of individuals is duplicated from year to year. The same individual could be employed for multiple years.

EXHIBIT 2
NUMBER OF WORKERS SECURING EMPLOYMENT
1 - 2 MONTHS AFTER LEAVING ARTSTART
1991 - 1995

	1991	1992	1993	1994	1995
EMPLOYED IN OTHER BUSINESS	3	4	3	9	6
Permanent Employment	2	3	3	6	5
Temporary Employment	1	1	0	3	1
EMPLOYED WITHIN CCHH	3	14	2	6	5
Full-time Employees	2	2	2	2	3
Part-time Employees	1	12	0	4	2

**The Successful Business
 Versus the Successful
 Training Opportunity**

As initially established, the silk-screening of greeting cards was a key piece of the enterprise's job training work. Clients who were trained in the silk-screening process were able to leave the agency and find a decent livable wage in the outside world. But silk-screened cards are labor-intensive, which makes them much more expensive to produce than cards printed on an offset press. While some customers are willing to pay more for a silk-screened card because of its hand-made look, most would balk at paying the three to four dollars per unit the agency would need to charge to make a profit on these cards. In the 1994-95 fiscal year, the enterprise finally, with some reluctance, decided to contract out most of its card production to an offset printer. This positive step toward profitability in some ways came at the cost of the enterprise's most effective job training component.

Other successful job training elements are still in place, however. The enterprise employs a number of people on a seasonal

basis. As shown in Exhibit 1, these temporary employees comprise the largest proportion of ArtStart employees since the project's inception in 1991. These employees learn many service sector skills, such as graphic design, mail order distribution, operation of point-of-sale inventory systems, and merchandising. They also learn general job skills such as how to take direction from a supervisor and cooperate with co-workers. As shown in Exhibit 2, of those employed by ArtStart during 1994 and 1995, more than one-third have secured jobs outside of the agency and an additional 25% or more have become employed within CCHH. Staff believe ArtStart is one of the few places where homeless people can find job training that is sensitive to their problems and to the crisis-driven nature of their situations.

Staff believe that in the future, the enterprise could strengthen its job training efforts by handing over more of the responsibilities to the existing job development programs within the agency's Youth Department and Adult Services Department. These programs could help screen applicants for the enterprise's job training slots and counsel participants on an ongoing basis; as the enterprise director acknowledges, "Dealing with [clients'] infinite problems is very distracting—marginal housing, mental illness. Trying to set boundaries while also being understanding is difficult." Indeed, the organizational capacity to provide such intensive program support to transitional employees on an "in-house" basis, forms the foundation of many successful social purpose businesses.

If the enterprise has not completely fulfilled its mission with regard to training clients, however, at least the participation of clients has, on balance, helped the enterprise. As the enterprise's business manager noted, ArtStart employees are drawn mostly from participants in the Community Arts Program who are therefore likely to be more familiar with the enterprise's products than outside employees would be. These participants may also feel more of an investment in helping the enterprise succeed than other employees would.

Working in the Community, but Driven by the Market

The most important step in attempting to make the enterprise market-oriented was its separation from the Community Arts Program. Prior to that split, the business component felt obliged to try to sell any and all artwork produced by clients; as the current enterprise director put it, “The whole point [was] really self-esteem, that it made [clients] feel proud and confident if their products were out there.” Sometimes artwork was priced at a level that would generate sales, but failed to adequately cover even the cost of exhibition.

Many of these problems have now been corrected and in many cases, the enterprise has successfully balanced the need to be driven by the market while working in the community. It has, for example, hired its store managers from CCHH’s participant base, and has changed its schedule of paying commissions to a less labor-intensive one without harming its relationship with its artists. Today, the enterprise continues to move further in a market-oriented direction.

Still, conflicts do exist, many of which stem from one of the unique aspects of CCHH’s enterprise: it is a social business venture that is overwhelmingly dependent on one supplier—a social services program—for its products. The enterprise employees may need to focus on finding products that are most marketable, regardless of the therapeutic value to clients of producing such products. But the Community Arts Program’s employees are focused on operating a program whose goal is to provide participants with a venue for exercising their creativity and addressing some of the traumas that accompany homelessness; producing marketable art is viewed as a side benefit. Perhaps inevitably, the missions of the enterprise and the Community Arts Program have come into conflict, hampering their ability to fully flourish. The enterprise, for example, would like to be able to sell painted

chairs in its store, but the Community Arts Program has neither the space to store the chairs nor any particular desire to teach people how to paint chairs. And, as the Community Arts Program’s director noted,

Using the program as a mental health tool is in conflict with using it as an economic development tool. If artists were here just doing art, they’d produce a whole different kind of art. Most of all that’s true for ceramics—they’re less expensive, and sell better. It’s changed people’s art. They’re making ashtrays. One guy wants to make molds of plates that he bought at the thrift store and then start selling them—that’s not therapy.

CCHH’s enterprise has encountered a rocky road. It had the bad luck to be formed just as the agency was undergoing a serious financial crisis. In its first years, it suffered from a lack of adequate planning. It has not always had seasoned professionals at its helm. Board enthusiasm for the program has waxed and waned. Over the last 18 months, however, the enterprise has had several successes. It has begun to operate in a more professional manner, with dedicated managers, better financial tools, and more planning. Its sales have increased, and it has received much positive consumer feedback. It is really on the basis of these last 18 months that the enterprise’s prospects for a sustainable future should be judged.

Break-even and Profitability

The relationship between sustainability and size for CCHH’s enterprise remains unclear to management. Current understaffing of the enterprise threatens to create burnout among employees, but the enterprise’s sales do not meet the costs of present staffing levels, much less the addition of new personnel. Before it could add positions, the enterprise would have to go well beyond its current break-even sales level of \$300,000. In fact, a marginal cost/marginal

revenue analysis based upon current cost and pricing structures shows actual break-even for the enterprise at over \$900,000 in annual sales. While managers may be able to bring that figure down through aggressive cost containment, the enterprise break-even remains a significant hurdle.

Sustainability also hinges on the enterprise's ability to find additional capital, which would eliminate the kinds of cash flow crises that have hampered it in the past. At this time, CCHH does not appear to have additional capital to invest in the enterprise. Finally, sustainability may depend on the enterprise expanding into other, less seasonal product lines. (Staff is presently attempting to create other card offerings in addition to its holiday greeting card line.)

Some factors do seem to indicate that sustainability is realistic; sales, for example, have increased steadily throughout the enterprise's history. In the future, the enterprise will need to carry out market research to determine its realistic growth prospects. This might include: 1) a comparison of its greeting cards with similar ones in the market; 2) an analysis of its potential market share for greeting cards; and/or 3) research into the tastes and practical needs of art purchasers, particularly large corporations.

Prospects for a Turnaround

In order to meet the goals of profitability and job creation, ArtStart must triple its sales volume and establish agency structures that can more effectively support its employees. As of May, 1996, the organization has taken the following steps:

- Establishment of a newly constituted Venture Committee;
- Development of a tiered pricing strategy whereby ArtStart has increased prices on high-end offerings and decreased prices on low-end offerings in order to accommodate the three distribution channels of retail, mail-order, and point of sale;
- Reduced costs of goods sold by 12% through hiring employees at market wage levels and instituting a "just-in-time" approach to inventory management;
- Pursued and secured several "high volume" accounts (for example, a recent order by one firm for 90,000 cards—nearly the total volume sold in 1995);
- Improved intra-agency communication to provide better support for employees, allowing enterprise managers to engage in fewer "social service" activities; and
- Established production-line financial monitoring systems that directly track production expenses as compared to booked sales and other factors, allowing the firm to monitor both general sales as well as how a particular offering is selling.

Lessons Learned

THE HISTORY OF INVOLVEMENT IN ART THERAPY AND LOW-LEVEL SALES OF THOSE ART OBJECTS MAY HAVE HINDERED RATHER THAN HELPED THE BUSINESS ENTERPRISE. Many take it for granted that past experience in an area of service or product gives a non-profit agency an edge if and when it decides to increase its level of seriousness about the enterprise. While in many cases this is true, in Hospitality House's case, it may not be. Because art production was already a program within CCHH, it retained much of its programmatic flavor after it became "ArtStart the business." While various efforts were made to conduct basic cost and sales analysis, it was not until 1994 that CCHH executed a comprehensive business plan with realistic sales estimates or profit and loss statements. Once it received funding to become a business, it just plunged ahead, preoccupied with the daily requirements of managing the different parts of the venture, with no vision of exactly where it was going and how it was getting there.

AN ENTERPRISE HOUSED IN AN ORGANIZATION EXPERIENCING TURMOIL WILL BE DIRECTLY AFFECTED BY THAT TURMOIL. ArtStart was not insulated from the general organizational trauma taking place at Hospitality House. The enterprise was developed at a time when the sponsoring non-profit organization was experiencing general financial and management turmoil. It both became a victim of those problems and in some ways, probably helped expose and exacerbate the problems.

THERE IS A NEED TO DEVELOP POINTS OF PRODUCT DIFFERENTIATION OR COMPETITIVE ADVANTAGE OTHER THAN "CAUSE-RELATED." ArtStart initially targeted consumers "interested in helping a good cause." This niche proved to be relatively small and extremely competitive. A variety of non-profits market greeting cards on a cause-related basis. The ArtStart business has been unable to develop and sell products that consumers will purchase simply to support a worthy cause. Non-profits should also be careful not to assume they will be able to compete on a "cost" basis, since many of their costs will actually be greater than those of a for-profit enterprise.

THE TENSIONS WHICH ARISE FROM BEING BOTH A SERVICE PROVIDER AND A BUSINESS ENTERPRISE WERE NOT ADEQUATELY ANTICIPATED AND ADDRESSED UP FRONT, WHICH HAMPERED THE BUSINESS'S ABILITY TO FUNCTION. Steps were not taken initially to address in agency-wide forums the impact a business undertaking would have on the agency's culture and operations. This resulted in a lack of agency-wide support for the enterprise and inhibited the possibility of intra-agency collaboration in areas such as screening, job training, placement, and support services for employees in the enterprise. It is only in the last year that the youth and adult employment service programs have worked with the business to develop supportive systems which allow the business to focus on its operations.

CLOSELY MONITOR PERFORMANCE. There were not enough immediate consequences, internally or externally, for mismanaging business responsibilities. Even though the enterprise was ineffectively run and losing money year after year, the board of directors allowed it to stay operational and The Roberts Foundation continued to fund it, though at lower levels. Due to the absence of adequate management information systems or a financial manager specific to the enterprise, there was not enough oversight or quality control in place within the agency to ensure accountability or support an earlier outside intervention.

DON'T ASSUME THAT SKILLED PROGRAM MANAGERS CAN BECOME ENTERPRISE MANAGERS; RECRUIT MANAGERS WITH THE APPROPRIATE SKILL SET TO EFFECTIVELY OPERATE THE ENTERPRISE FROM THE START. For the first several years of operation, ArtStart suffered tremendously because it did not have staff with enough business experience or an infrastructure set up to handle business operations. The staff who initially managed the business were social service providers, not business people. The enterprise was therefore run more like a program than a business, with little concern for profitability or marketability, and greater regard for the welfare and training benefits of the employment opportunities. Further, there was no effective business accounting system in place to provide business tracking, profit and loss statements, or any other financial monitoring of the business.

YOUTH INDUSTRY/ HEALING KIDZ

Background

Youth Industry grew out of the merger of two non-profits founded by a physician and his sister who wished to expand positive life choices for San Francisco's at-risk youth. Its mission has been to create programs that enable homeless youth (ages 15-22) to transition from situations of dependency and hopelessness toward self-sufficiency. With these goals in mind, the founders established Healing Kidz, Inc., in 1993. This program was based on a holistic approach that included providing young people with resources for shelter, food, informal counseling, artistic expression, and work opportunities. In addition to support services offered on an "as-needed" basis, the focus of Healing Kidz, Inc. was to provide youth with access to "training centers" staffed by professional volunteers. These training centers would offer skill-building opportunities in a variety of educational and artistic pursuits including welding, bicycle repair, woodworking, ceramics, photography, silk-screening, and computers.

First year funding of \$100,000 was provided by income generated from the founders' personal medical supply business. In the hopes of attracting a funding base in the medical community, the

founders created Healing Kidz, Inc. as a 509(a)(3) organization, a subtype of a 501(c)(3) with a special focus on medical research. The name, Healing Kidz, Inc., was chosen in an effort to emphasize the program's focus on youth health issues. Since the legal name of the organization was seen as potentially condescending to youth, a second name, Ground Zero, was given to the actual agency.

As the agency began its second year of operation, it became clear that it was difficult to offer such a wide scope of services as originally envisioned. In addition, efforts at securing funding within the medical community were not panning out. With these concerns in mind, the executive director began discussions with the director of The Roberts Foundation's Homeless Economic Development Fund (HEDF). Their consultations centered on identifying the most effective strategies for developing revenue-producing enterprises and prioritizing program objectives. Following a series of meetings with the HEDF director which focused upon organizational development issues, the program's managers decided organizational resources would be more effectively utilized if the focus was shifted from the provision of comprehensive services to supported training and employment for homeless and high-risk teens.

This decision was supported, in large part, through the development of collaborative relationships with existing youth service organizations. Referral agreements were made with a number of youth organizations to provide support services, including mental health counseling, substance abuse treatment, emergency food and shelter, and long-term housing.

In 1993, Healing Kidz, Inc. received a grant from the HEDF to develop a consolidated business plan. The purpose of the plan was to identify business ventures capable of generating sufficient revenue to cover program operating expenses while

providing a supportive environment for young people to develop job-readiness skills. As a component of the business planning process, the HEDF director worked intensively with Healing Kidz, Inc.'s staff to develop a strategy for strengthening the basic organizational infrastructure so it could support a non-profit business venture. The HEDF director, for example, strongly urged that a bookkeeping/administrative support position be added to staff prior to expanded business operations.

The HEDF director also recommended Healing Kidz, Inc. focus on getting two business ventures up and running before expanding additional enterprise initiatives. During this start-up period, Healing Kidz, Inc. began two businesses that employed youth on a casual labor/part-time basis: Pedal Revolution (a bicycle repair shop) and Zerolith Productions (a silk-screening and print shop).

An additional \$20,000 in start-up funds was provided by The Roberts Foundation in 1995. Healing Kidz, Inc. used these funds to improve financial operating systems, increase the production capacity of Zerolith Productions, and start a third business enterprise, CompWall Metalwork Shop—a welding and metal works business that produced indoor climbing walls for recreational centers. By the end of the second year of program operations, however, it was discovered the market for climbing walls was not sufficient to sustain this business venture. CompWall Metalworks was eventually phased out.

In 1995, the founders of Healing Kidz, Inc. started a second non-profit named Youth Industry. It was created as a 509(a)(2), with the potential for a broader, more generalized funding base than the health-focused 509(a)(3), as part of a long term plan aimed at establishing a more “general” non-profit, rather than one with a health focus. Youth Industry was launched with the understanding that eventually it would merge with Healing Kidz, Inc. In this way, the reputation and funding sources that were being established with Healing Kidz, Inc. could be carried over to the new non-profit, while the funding base and focus of their efforts would be redefined.

As part of the effort to get Youth Industry off the ground, a collaboration was made with a for-profit, Bay Area thrift store to start a used goods solicitation program called Youth Industry Recycled Merchandise, or YIRM. The solicitation program offered expanded training and employment opportunities for Healing Kidz program participants. At the same time, its start-up costs were minimized because the pre-existing for-profit business had already established operating systems and a secure organizational structure. As a result of the profit made from the revenue generated by YIRM, Youth Industry became self-sufficient almost immediately.

In January of 1996, Healing Kidz, Inc. and Youth Industry merged to become one non-profit. Start-up for a fourth business venture, a thrift store called Nu2u, has since been successfully accomplished. The store has recently opened and is expected to provide four additional full-time employment positions as well as operate on a profitable basis within the first six months of operation.

Description of Youth Industry's Business Ventures

Currently Youth Industry is training and employing youth through four different business ventures—Pedal Revolution, Zerolith, Youth Industry Recycled Merchandise, and Nu2u. Through these enterprises, Youth Industry provides full-time employment for 14 youth during a three-to-five-month training period. Youth Industry guarantees job placement for youth who stick with the training program for at least three weeks. Each business offers a unique employment opportunity to help youth develop skills.

Pedal Revolution and Zerolith are the oldest of Youth Industry's businesses, and have each been in business for over two years. Pedal Revolution provides 40 hours

.....
***Skill-building
at YIRM
focuses on the
basics of job
readiness, such
as being on
time to work,
getting along
with co-
workers, and
working
steadily for a
full day.***
.....

per week of training and employment for up to three youth interested in mechanics and bicycle repair. It operates a store in San Francisco's Mission District, at the same location as Youth Industry's agency headquarters. Youth who receive training at Pedal Revolution are most often placed in jobs at bike repair shops or as bicycle messengers. Since it opened in 1994, Pedal Revolution has provided training for 19 youth.

Zerolith is a silk-screening business that produces T-shirts and greeting cards. Zerolith employs up to two youth at a time and provides youth with the opportunity to learn about silk-screen production as well as express themselves creatively through design work. Like Pedal Revolution, it is located at the agency headquarters in the Mission District. During 1995 and the first quarter of 1996, Zerolith provided training and employment to six youth.

The pay scale for work at both Pedal Revolution and Zerolith is carefully calculated to cover the expenses of a transitional youth living in San Francisco. Youth take home \$600 each month in pay, after taxes, and are provided with \$250 worth of food bank groceries. The youth's pay rate reflects that their employment is actually an internship of sorts; they are being provided with skills training. Youth who work at Pedal Revolution can expect to have a bicycle by the end of their term of employment, which can help them with their transportation needs or potentially secure them a job as a bike messenger. For those youth who live in transitional housing operated by other social service agencies, the money they make can help them get started toward renting an apartment. Once trained, the youth can expect to leverage their newly-learned skills in a higher-paying job.

Work at Youth Industry Recycled Merchandise is aimed at basic "soft"-skill building and is not skill intensive. The youth walk through the Bay Area's suburban neighborhoods, hanging bags on residents' doors to solicit unwanted household goods. Two days later, a van travels the neighborhood and picks up the filled bags. The main task for youth employed at YIRM is to hang the bags on doors. Because the

youth are not receiving specialized job skill training, they are paid more than the workers at Pedal Revolution and Zerolith. Youth work from 32 to 35 hours per week. They start at \$5.50 an hour and can move up to \$6.00 an hour if they take on the extra responsibilities of a "crew leader."

Youth Industry Recycled Merchandise has been a successful employer of at-risk youth for a number of reasons. The job allows youth to be outside and be active. They are not required to dress or act "professionally" and do not have to interact with the public. Their job responsibilities are simple and achievable, and provide a medium for them to develop skills that are essential in any work situation. Skill-building at YIRM focuses on the basics of job readiness, such as being on time to work, getting along with co-workers, and working steadily for a full day. Because the work is repetitive and not skill-intensive, the youth often get bored with it after three months, at which point they are placed at another Youth Industry job, or at a job in the community. Since its inception in 1995, YIRM has employed 20 youth.

Youth Industry's latest venture is Nu2u, a thrift store in the Mission District. Although Nu2u opened only recently, Youth Industry staff already have high expectations for its potential as a youth employer. At Nu2u, youth are provided with a variety of skill-building opportunities. They learn decision-making skills through activities such as sorting solicited goods and pricing goods for sale, and have the chance for creative expression through setting up store displays. It is intended that they will develop customer service and retail sales skills through working the floor at the store. Additionally, Nu2u will offer a management training program for promising employees, giving youth the opportunity to move up within Youth Industry to a position with greater responsibility and better pay. Currently three youth are employed at Nu2u.

The pay rate at Nu2u combines the two approaches of the other Youth Industry businesses. For their first month of employment during their initial training, Nu2u employees will receive a \$600 stipend and a \$250 food bank allowance. After this

first month, the youth are paid \$5.50 an hour, with the potential to move up to \$6.00 an hour. Motivated youth can then receive management training and eventually move up to \$8.00 an hour, with employee benefits. This management track provides a new opportunity for Youth Industry trainees, giving them the option to continue working as a Youth Industry employee for a longer period of time.

Enterprise Revenue and Employees

In 1995, year two of program operations, Zerolith Productions, Pedal Revolution, and Youth Industry Recycled Merchandise generated a combined total of \$468,336 in revenue, accounting for 84% of Youth Industry's total program operating costs. Due to increased start-up costs associated with the opening of Nu2u, the same proportion of revenue-to-cost is anticipated for 1996. By the end of 1997, the percentage of total agency revenue generated by the business ventures is projected to increase to 90% of the agency's total budget. Furthermore, it is projected that by 1998, business revenue will cover 100% of program expenses.

While each of Youth Industry's businesses has developed at its own pace, with

minimal interaction between these businesses, Youth Industry's management is currently identifying how the separate businesses can benefit from working together. One example of the potential for increased cooperation is between the already established solicitation business of Youth Industry Recycled Materials and Nu2u, the thrift store. Another way the businesses are beginning to work together is by offering complementary skill-building opportunities for the youth. Youth can start developing basic job-readiness skills through work at YIRM and later be placed at a Youth Industry job with more specialized job-skill training such as Nu2u, Zerolith, or Pedal Revolution. Conversely, youth who are experiencing difficulty with the complex demands of work at Nu2u, Pedal Revolution, or Zerolith can move to YIRM to focus on the basics of having—and holding onto—a job.

Youth Industry is also developing a "Youth Connection Mentorship Program" that will allow the employees of the respective businesses to come together and learn from each other's experiences. The Youth Connection Mentorship will provide peer support through rap groups and workshops for youth addressing personal as well as work-related issues.

WHO ARE THE YOUNG PEOPLE REFERRED TO YOUTH INDUSTRY?

Young people are referred to Youth Industry from a variety of San Francisco youth service organizations including Haight Ashbury Youth Outreach, Larkin Street Youth Center, Guerrero House, Walden House, Hospitality House, Haight Street House, and West Bay Filipino Center. Staff at these organizations conduct an initial screening to assure the candidate is ready for employment training. After they are referred, youth are screened by the employment coordinator at Youth Industries who conducts two in-depth interviews to ascertain individual interests and skills, and further assess an individual's readiness for entering the program. If a young person is found to be employment-eligible, she or he

EXHIBIT 1:

Gender of Youth Industry Employees January 1, 1995 — May 1, 1996

	NUMBER	PERCENTAGE
Female	9	20%
Male	36	80%
TOTAL	45	100%

EXHIBIT 2:
RACE/ETHNICITY OF YOUTH INDUSTRY EMPLOYEES
January 1, 1995 — May 1, 1996

	NUMBER	PERCENTAGE
Caucasian	27	60.0%
Latino	10	22.2%
African American	6	13.3%
Asian/PI	1	2.2%
Native American	1	2.2%
TOTAL	45	99.9%*

**Does not total 100% due to rounding.*

is then matched to the appropriate business enterprise to begin full-time employment.

As shown in Exhibits 1 and 2, most Youth Industry employees are white and male. The demographic profile of the youth employed at Youth Industry largely reflects the population of the referral agencies, who serve a disproportionately high number of

white and male adolescents, particularly as compared with the ethnic and racial makeup of the general population of San Francisco. In most cases this is because many of the homeless youth in the city are from places outside the Bay Area, and thus do not reflect the rich cultural diversity of the City.

The Provision of Support Services

Once employed with Youth Industry, youth continue to meet individually with the employment coordinator on a weekly basis. The coordinator works closely with the managers at Youth Industry businesses to help ensure a successful employment experience and address unmet needs as the youth moves through the training and employment programs. Youth Industry business managers possess a combination of social work and business experience, enabling them to adeptly operate a business and to identify and begin to address young people's personal problems when they arise on the job. In a sense, the managers become the "frontline" for addressing their employees' problems. Based upon Youth Industry's first year of experience with this approach, the managers are able to provide enough support and guidance to help their young employees through difficult times.

Sometimes, however, the support provided by the business managers is not sufficient. For this reason, the Youth Industry employment coordinator maintains a relationship with the referral agency during the youth's employment. If an individual needs additional support services, the coordinator consults with the referral agency regarding the best way to address the youth's needs. Sometimes the needs are addressed by the referral agency itself; at other times, Youth Industry will work with the referral agency to help the youth access services from yet another agency.

EXHIBIT 3:
AVERAGE LENGTH OF EMPLOYMENT IN YOUTH INDUSTRY BUSINESSES
January 1, 1995 — May 1, 1996

	AVERAGE NUMBER OF WEEKS
Pedal Revolution	10
Zerolith	24
Youth Industry Recycled Merchandise	13
Nu2u	3
CompWall	19
Other	18

EXHIBIT 4:
YOUTH INDUSTRY BUSINESSES EMPLOYMENT & PLACEMENT
 January 1, 1995 — May 1, 1996

	CURRENTLY EMPLOYED AT YI	PLACED	NOT PLACED	TOTAL
Pedal Revolution	3	6	5	14
Zerolith	1	3	2	6
Youth Industry Recycled Merchandise (Solicitation Business)	5	5	10	20
Nu2u (Thrift Store)	3	0	0	3
CompWall	0	1	0	1
Other	0	0	1	1
TOTAL	12	15	18	45

Employment and Placement

On average, most youth remain employed at Youth Industries for about three months. As Exhibit 3 illustrates, the average length of employment varies for each business. Nu2u employees have only three weeks of employment because, at this writing, the store has only been open for three weeks. Zerolith employees tend to work the longest, averaging five to six months of employment. Most employees, however, move on after three months to new jobs, or have dropped out of the program by that time.

Once an individual has successfully

completed the training and employment period with Youth Industry, staff seek to guarantee that person a permanent job placement. As shown in Exhibit 4, during the last year-and-a-half of program operations, Youth Industry has employed a total of 45 young people. Of these, 33% were successfully placed in full-time employment; 27% are currently employed by a Youth Industry business; and 40% left the program before they were placed. Interestingly, the business with the highest dropout rate (50%) and correspondingly, the lowest placement rate, is YIRM, the business that provides the most basic job training experience for its employees. It also targets those who are least skilled, but are ready to learn the kind of concrete skills taught to employees in the other businesses.

Currently, Youth Industry is reporting a 75% successful placement rate for young people who have completed a minimum of

three weeks of training. For youth who have completed the entire three-to-five-month training period, the placement rate increases to 100%. The majority of these placements are in small businesses in San Francisco's Mission District. Upon placement, an individual continues meeting with the employment coordinator on a weekly basis for three months, and then graduates to monthly contacts over the next 12-month period.

This high success rate in job placement is due in large part to the reputation Youth Industry is establishing with potential employers regarding the job readiness of their trainees. The extended period of time available to staff to work with youth and develop job-readiness skills places Youth Industry at a considerable advantage over traditional placement agencies that have only one or two interviews before they must attempt to match an individual with a potential employer.

Lessons Learned

NETWORK AND UTILIZE EXISTING RESOURCES TO THE FULLEST EXTENT POSSIBLE. In the beginning, program staff struggled with the temptation to address every need for every youth. Developing collaborative relationships with other established, youth-serving programs in San Francisco allowed Youth Industry to stretch its limited resources by capitalizing on the expertise of other organizations and to focus on its niche—namely, employment training and placement opportunities for high-risk adolescents.

SCREEN PROGRAM PARTICIPANTS CAREFULLY. The initial, up-front investment of staff time to conduct a thorough interview and screening process is well-rewarded by a high rate of employee placement. This does not, however, mean the agency engages in the practice of “creaming.” An extensive referral system ensures that no individual falls through the cracks, and allows a young person to return to the program once her more pressing needs have been addressed.

INITIAL INVESTMENT IN AN EXTENSIVE ORGANIZATIONAL PLANNING PROCESS IS CRITICAL TO PROGRAM SUCCESS. According to the project director, one of the most important endeavors of the second year of program operations was the program and business planning process required by The Roberts Foundation’s HEDF. With the guidance of the HEDF director, the first half of the second year was spent writing personnel policies, budgets, and concrete program goals. Two organizations were merged into one and an agency focus began to coalesce. The business planning document was invaluable for assisting program managers to “stay on track” and re-evaluate the organizational course at regular intervals using a solid written plan. As an extra bonus, management was able to use the business plan to attract funding from other sources.

CAPITALIZE ON CONNECTIONS WITH EXISTING BUSINESSES IN THE COMMUNITY. Youth Industry is now having its greatest business success by “piggy backing” onto existing businesses and utilizing their solid foundation as a springboard for their own small business and youth employment opportunities. The used-goods solicitation program, Youth Industry Recycled Merchandise, is an example of one such profitable relationship.

THERE IS A TENSION BETWEEN ENTREPRENEURIAL ENTHUSIASM AND THE NEED FOR ADEQUATE MARKET RESEARCH AND BUSINESS PLANNING. If, in the case of the CompWall Metal Works business, an initial feasibility study had been conducted prior to start-up, the metal works business venture would more than likely have never gotten off the ground. However, the organization’s operating style has been to take ideas presented by volunteers and attempt to convert them into viable enterprises. In this example, a Youth Industry volunteer with certification in welding was willing to teach youth to weld while using the training effort as an opportunity to sell to a defined market of which he was aware (e.g., that of climbing walls for recreational centers). Unfortunately, adequate market research would have revealed that the national market for climbing walls is fairly limited; once recreation centers have purchased a wall, it is unlikely they will become repeat customers (!). This lack of research cost the organization \$50,000 in losses during its first year of operation, compared to the \$5,000 or less that basic market research might have cost. At the same time, it is a perfect illustration of how entrepreneurial zeal can sometimes outstrip sound business planning and development strategies.

Case Summaries

BERKELEY OAKLAND SUPPORT SERVICES

Background

Berkeley Oakland Support Services (BOSS) is the largest provider of housing and services to homeless people in Alameda County, California. The organization was founded in 1971 and offers a continuum of care from emergency shelter to transitional and permanent housing.

The history of BOSS's enterprise development work is tied to its employment program, which began in 1988. This program counsels program participants on a variety of activities related to finding and keeping jobs. Services include goal clarification, resume preparation, job search techniques, confidence-building workshops, and individualized referrals and placements. The Employment Program supplements BOSS' own practice of hiring qualified program participants as paid staff.

Organizational Involvement in Employment Training

In early 1991, the coordinator of the employment program acted on a simple impulse to create employment for program participants. He invested \$65 in brooms and gathered several BOSS shelter program participants to sweep the streets of Berkeley. This group effort led to the Clean Streets Program and a \$3,600 contract from the City of Berkeley. BOSS staff also approached local businesses about graffiti removal from private properties. Many entered into contracts with BOSS, giving birth to the Graffiti Masters project.

Within one year, a satisfied City of Berkeley signed another contract with BOSS for \$87,000 to remove graffiti from public properties and to clean city streets. The City was impressed by BOSS' thoroughness, dependability, consistent work quality, and the fact that employment opportunities were extended to homeless people. Within two years, additional services were added and contracts with the City of Berkeley totaled \$280,000. These contracts covered services such as graffiti abatement and street cleaning, litter control, tree planting and maintenance, and a summer youth program so successful the City extended it for an additional nine months. In October, 1995, the City of Berkeley selected BOSS from among four competitive bidders for a total of \$199,000

in contracts to engage in graffiti and litter removal.

Between 1992 and 1995, BOSS's employment program positioned itself favorably within the public and private sectors in Berkeley. Staff became active participants in the Chamber of Commerce, Downtown Berkeley Association, and the Telegraph Avenue Association. This neighborhood-based networking established a strong marketing and public relations framework for BOSS. All these activities, however, took place within a social service mindset and approach. The primary intention of Graffiti Masters and Clean Streets was not to operate as a business, but simply to provide homeless people six-month paid training positions that would serve as stepping stones to other employment in the open market. As a result, BOSS measured the success of its "ventures" solely in terms of how many people they employed and whether the alumni secured employment elsewhere. BOSS did not track business expenses or pursue a strategy for the venture to become self-supporting.

History of Enterprise Development

The transition from employment development to enterprise development occurred as a result of two complementary forces. One was a natural enthusiasm generated from BOSS' success with Graffiti Masters and Clean Streets. If they could get contracts from the government and businesses of one city, why not try expanding into other geographic areas and markets? The other force was an organizational-wide change within BOSS itself. Based on a five-year strategic plan, the leadership had initiated a concerted effort for increased innovation in programs, upgraded systems capacity, creativity in funds development, and other changes in organizational culture. Enterprise development emerged as an important vehicle for testing the BOSS' commitment to both innovation and finan-

cial sustainability.

The biggest shift for the organization was that while BOSS's employment program had been initiated solely to facilitate the employment of homeless people, its enterprise development goal was defined as *"the generation of profitable businesses which would yield earned income for BOSS while also creating training and employment opportunities for homeless people."* Over time, this shift would present challenges for BOSS.

Planning for Enterprise Development

Support for turning the entrepreneurial side of the employment program into a deliberate profit-making business gained strong internal momentum. But BOSS also realized transforming this commitment into reality required a systematic approach distinct from regular day-to-day preoccupations. Following a discussion with the director of the HEDF, the board of directors initiated a focused, step-by-step planning effort to assure they fully understood the implications of creating a non-profit business enterprise.

BOSS applied for and obtained a grant from the San Francisco Foundation to further explore the concept of enterprise development. With the grant, BOSS began looking into the experiences of other agencies that had developed enterprises, reading materials about the subject, becoming familiar with business language and reference points, and talking with entrepreneurs about what it meant to be in business.

The result of that first step was increased organizational commitment and a funding proposal to The Roberts Foundation's Homeless Economic Development Fund (HEDF) for feasibility research and the creation of a business plan. After meeting with the HEDF director to discuss their direction and process, BOSS began by pursuing the answers to three basic strategic planning questions:

1. Can the graffiti removal and street cleaning programs become profitable businesses?
2. What other viable businesses can we get into? and
3. What is our plan for making the business profitable?

When BOSS' HEDF funding was approved in 1995 for \$25,000, a planning process was begun with BOSS' executive director, the employment & enterprises director, and organizational development consultant. This group decided to take a broad-based approach to business planning by creating a venture committee. Within one month, they added an enterprise development consultant, a planning associate with hands-on experience in business operations, a student intern, and a BOSS board member with expertise in accounting and financial management. They also assembled a roster of advisers to contact on specific topics during the course of their work.

The team created a six-month time frame for the planning process—three months for the feasibility research and three months for business plan creation. The team thought this was realistic given the important legwork BOSS had done over the years, generating support for the idea. The team also found that feasibility research and business planning overlapped a great deal. For example, during business planning they continued to test the viability of the marketing and feasibility research.

From the start, the venture committee worked with BOSS' board of directors who acted as both advisors and final decision-makers for the team's work. The venture committee reported monthly to the board—updating, answering questions, listening to and incorporating ideas, and engaging members in market research and development.

Throughout this process, the venture committee also kept in close contact with the Director of the HEDF. Formal meetings were held at the beginning, middle, and end of the planning process. At each stage,

the director evaluated the planning framework, challenging assumptions and pushing the organization to engage in an honest assessment of both their capacity and the market's demand for their services. The venture committee responded to each issue raised by the director and was clearly open to receiving input to the work in which the team was engaged. This openness to input from not only the HEDF director, but a variety of individuals outside the immediate committee, greatly contributed to a sound planning effort, resulting in a business plan worthy of support.

The planning process followed these stages:

1. FEASIBILITY RESEARCH

The goal of feasibility research was to select one or two appropriate profitable ventures for in-depth business planning. This goal was reached through two stages, each with several steps:

A. An inventory and assessment of BOSS' graffiti removal, street cleaning, and landscaping programs.

- (1) The team inventoried current ventures in terms of actual services, work force, equipment, location, marketing, management, accounting system, and customer satisfaction. This was done by pulling together and synthesizing existing information.
- (2) The team also assessed the profit-making potential of BOSS' current ventures. Team members interviewed existing and potential customers, and gathered information from and about competitors.

B. Selection of two businesses through a "focusing" process.

- (1) The team established a list of "Criteria for Enterprise Development." The criteria included:

- Low capitalization
 - Relatively simple equipment needs
 - Relatively high use of labor
 - “Fungible” skills
 - Easy training
 - Relatively easy entrance into the marketplace
- Relatively limited regulatory environment
- (2) The team initiated a brainstorming process involving current customers, business and community leaders, as well as BOSS’ board, program participants, and staff.
- (3) The brainstorming list was matched against the established criteria. The group kept narrowing down possibilities through further face-to-face interviews and library research. Through this focusing process, a list of 91 possible businesses in 22 categories became 52 possible businesses in 13 categories, then seven businesses in seven categories, and finally, three businesses in one category. The remaining category is property maintenance services and the three businesses include residential maintenance, commercial maintenance, and full-service vacant space preparation.

The venture committee compiled the results of the feasibility research in a six-page report, condensed from more than 60 pages of supporting data in appendices. A copy of the report was sent to The Roberts Foundation for feedback, and approved by BOSS board of directors.

2. BUSINESS PLANNING

The venture committee divided the business planning process into four parts: Marketing, Operations, Finance, and Values. This was done primarily to divide

up tasks among members of the venture committee; however, conceptually and practically, the four parts were seen to be intricately connected. The team decided to tackle all issues at the same time and allow the different parts to come together when necessary and appropriate.

A. **MARKETING.** *Positioning in the target market emerged as the central marketing question. In this regard, BOSS asked the following questions:*

- What is our precise niche in the marketplace?
- Who exactly are our competitors?
- How do they operate their businesses?
- How do they advertise their services?
- What exactly differentiates our services and operations from those of our competitors?
- How much should we charge for our services to be both competitive and profitable?

The venture committee felt this is the most crucial part of the business plan and one that requires further work.

B. **OPERATIONS.** *In this section, the venture committee addressed all questions related to doing the work, running the business, and making a profit. For example, some of the areas examined were:*

- How many steps are involved in cleaning a room?
- How long does it take to execute each step?
- How many people are needed?
- What should be their qualifications?
- What kind of training should BOSS provide?
- What should workers’ wages be?
- What kind of equipment is necessary for doing the job and how much does each piece cost?
- What kind of a person is needed to run this business?

Regarding operations, the team reached a critical decision: an experienced business

person was needed to manage these enterprises. In fact, it was the individual who had been running the employment training program at BOSS who first realized he did not have the background to manage this business and raised his concerns to the group. His openness proved extremely important to the group's capacity to honestly assess core staffing requirements for the enterprise. The group decided to hire an individual with experience in the property maintenance industry, a pivotal move toward serious enterprise creation.

C. FINANCIAL PROJECTIONS The information gathered from the marketing and operations research became the basis for the financial projections. Questions included: How much work can we realistically secure? How much would contracts generate in a given month? What are our expenses each month? How would the business phase-in growth and what would be the cost associated with each transition period? An issue that became clear in both the feasibility and the planning phase, was the need for a new accounting system. The system used for the organization as a whole could not meet the financial reporting needs of a market-directed, non-profit business enterprise.

D. COMPANY VALUES. One important task the venture committee accomplished in the midst of its business planning process was to define the values and culture of their company. They did this early on in a retreat setting where they visualized their desired company in terms of

- appearance and aesthetics;
- sales;
- internal management and power dynamics;
- work force and actual delivery of services; and
- customer relations.

Near the end of 1995, all these elements were brought together into a single document. The final business plan was then confirmed by the board of directors of BOSS. This plan was submitted to the HEDF director for final review. A start-up grant in the amount of \$75,000 was awarded in January of 1996 and BOSS is presently implementing the first steps to achieving its goal of small business creation.

Lessons Learned

FOUR YEARS OF EXPERIENCE IN THE EMPLOYMENT AND TRAINING ARENA HELPED POSITION BOSS TO APPROACH ENTERPRISE DEVELOPMENT WITH A TRUE SERIOUSNESS OF PURPOSE. During BOSS' four years of providing employment training opportunities for homeless people, the organization learned about important aspects of being

an employer, and the needs for demanding responsibility and accountability. While BOSS did not view this training work as an enterprise per se and treated it much more like any other contract or program they were operating, the staff nevertheless became more comfortable in the world of employment and training. This helped stimulate their interest in pursuing more serious business opportunities.

THE PRESENCE OF A GOOD BUSINESS DEVELOPMENT CONSULTANT HELPED KEEP THE PROJECT FOCUSED AND ON TRACK. While BOSS had many solid networks from which to draw and brought a solid venture committee together, the involvement of an effective consultant enabled the group to move in the direction it desired, but with the knowledge that they were asking the right questions and identifying the proper resources for information-

gathering and assessment. The consultant did not “drive” the process, but was a valuable resource in supporting the group’s efforts and helping to get the most out of the talent gathered by BOSS.

STANDARD NON-PROFIT ACCOUNTING SYSTEMS ARE INADEQUATE FOR BUSINESS-RELATED FINANCIAL ACCOUNTING NEEDS. Early on it became very clear that the accounting system used by BOSS for its other programs and agency-related finances was inappropriate for their business-

related financial needs. This necessitated an investment in a new, small business accounting system.

THE TEAM APPROACH TO THE FEASIBILITY STUDY AND BUSINESS PLANNING PROVED TO BE VERY CONSTRUCTIVE IN TERMS OF SOUND, EARLY DECISION MAKING ABOUT BUSINESS DEVELOPMENT. The team approach was an excellent choice for BOSS for a number of reasons. First, involving consumers, staff, business development consultants, students, and others in the effort gave the committee efficient

access to many different perspectives, talents and areas of expertise. Second, it allowed for an important cross-fertilization and sharing of knowledge among the different venture committee members. And third, this shared understanding allowed the group to come to its own decisions, such as hiring an experienced business manager to run the enterprise. Had this idea been proposed by someone from the outside, rather than an inside group member, it may have been resisted.



COMMUNITY HOUSING PARTNERSHIP

Background

The Community Housing Partnership (CHP) was created as a collaborative effort of the Council of Community Housing Organizations and the San Francisco Coalition on Homelessness. Many other representatives from non-profit organizations, businesses and corporations, city agencies, and advocacy groups also participated in developing a comprehensive approach to providing permanent housing, support services, and employment opportunities for homeless people. CHP was conceived as a

way to combine the goals of housing development, human services, tenant management training, and community development under the roof of one organization. CHP has 43 full and part-time staff members, 67% of whom are formerly homeless.

CHP’s programs include the following key components:

- developing and operating permanent housing with support services;
- providing prevocational assessment and vocational development services; and
- preparing participants (mainly the residents of CHP’s buildings) for work in the field of housing development, property management and maintenance, construction, and related enterprises.

Since its formation in 1990, the CHP has developed two permanent affordable housing sites in San Francisco, the Senator and the San Cristina residences, which provide 127 units for single adults and 17 one-bed-

room units for families. The CHP is developing a third site, the Iroquois Residence, which will add an additional 63 single-adult units and 10 family units.

In addition to the development and maintenance of safe, affordable housing, a primary goal of CHP has been to provide vocational guidance, training, and employment opportunities to formerly homeless people. To achieve this objective, CHP has developed two distinct, yet interrelated programs: a vocational program and a supportive employment program.

CHP's Vocational Program

In 1991, with support from The Roberts Foundation's Homeless Economic Development Fund, CHP hired its first vocational specialist to develop a prevocational assessment and counseling program. Since that time, an additional vocational specialist was hired to staff the San Cristina Residence and plans have been made to employ a third vocational specialist upon completion of the Iroquois Residence. This staffing will provide for a vocational specialist on-site at each CHP residence.

The vocational specialist works with interested tenants to identify vocational goals. Once these goals are identified, he or she assists the client in developing an individualized training and educational program designed to meet specific long-term employment objectives. The vocational specialist refers employment-ready tenants to open positions both within CHP's programs and in the external job market. Responsibilities of the vocational specialist also include development and oversight of computer labs at each residence site. The labs provide training in basic computer software skills and have been a popular component of the vocational program, with over 120 individuals participating over the past two years in the computer training as well as other related vocational services.

More recently, the vocational program

has expanded to include a structured training program in property management and social services called the Resident Tenant Advocate/Training Institute, as well as a formal mentorship program. The training program spans a total training period of 25 weeks, and the mentorship program offers intensive training opportunities under a specific mentor for up to twelve months.

To expand services offered through the vocational program, an employment specialist was hired in 1993 with funds from the HEDF. The primary goal of the employment specialist position is to assist CHP residents in making the transition from the supportive employment program to more permanent job positions with non-CHP employers. The employment specialist develops relationships with off-site employers and helps place CHP residents who are ready for permanent employment. The employment specialist also works with existing staff who are hoping to advance into positions of higher responsibility and compensation. Once a former CHP resident has secured employment, the employment specialist provides ongoing support and case management to ensure employment retention.

To date, 22 individuals have obtained off-site employment. Additionally, nine of the individuals who were originally employed in supportive employment positions have been promoted and are in positions with supervisory responsibilities. CHP follow-up includes regular outreach to those participants who are still tenants via the phone and actual, face-to-face contact; phone outreach to those individuals who are still working, but living elsewhere; and ongoing job retention groups offered to any individuals who are working and wishing to access additional support.

CHP's Supportive Employment Program

Since its creation in 1990, CHP's staff and board of directors have maintained an organizational commitment to tenant

employment. As an organization providing housing development, property management, and support services to San Francisco's homeless community, CHP's activities provide numerous and diverse training and employment opportunities for skill development in:

- construction and building rehabilitation;
- property management and maintenance;
- administration and office management; and
- client outreach and support services.

CHP construction and rehabilitation contracts have created new jobs as well as opening previously existing positions in the construction industry to homeless and formerly homeless applicants. To ensure the hiring of CHP participants in construction projects, as part of contract negotiations, CHP has required the general contractor to hire a specific number of residents. As an example, CHP used the Senator Residence rehabilitation project to train residents in basic preconstruction skills with the goal of preparing them for construction positions in the workforce. A total of 18 workers were paid \$10/hour to work a total of 160 hours over a 10-week training period. Salaries were generated from operating revenues and supplemental funds from a private donor. Seven of these eighteen workers were subsequently involved for nine months during the construction rehab of the Senator as direct employees of the general contractor in such work as demolition, rough framing, drywall, taping, painting, flooring, and clean-up.

The CHP also performs work on its properties through independent work crews. In the San Cristina Residence, completed in January of 1994, 25 tenants were involved in performing an independent scope of work

valued at \$65,000 which included painting and flooring; four additional individuals worked for the general contractor throughout the construction period. At CHP's current project, the Iroquois Residence, 32 individuals are involved on the work crew and performing work valued at \$220,000 in a variety of areas.

Training in construction and building rehabilitation maintenance is provided by a training supervisor whose primary function is to staff CHP's maintenance and construction training program. For all other CHP positions (grounds maintenance, clerical, social services, and administrative) participants receive "on-the-job" training from the on-site department supervisor.

Participants are also offered the option to participate in mentorship opportunities. In addition to creating employment positions for homeless individuals, the goal of the supportive employment program is to create a structured learning environment which promotes vocational development among residents, many of whom have had poor work histories and interpersonal difficulties. Management and supervisory staff are experienced in working with multi-need populations and act as mentors to clients who may need additional support in building job-readiness skills prior to re-entry into the labor market. There is also an organizational commitment to providing advancement opportunities to staff and tenants of the CHP. For example, 37% of the formerly homeless staff (out of a total of 67% total formerly homeless staff) have been promoted, and 60% of these promotions have been into management and supervisory positions.

Over the course of CHP's four-year involvement in job training and placement, the agency has provided employment opportunities for a total of 121 homeless and formerly homeless people, including 89 positions in building construction and rehabilitation, and 32 jobs in property management and administration.

Lessons Learned

THE TIME AND RESOURCES REQUIRED TO ASSIST A HOMELESS INDIVIDUAL IN BECOMING EMPLOYMENT-ELIGIBLE AND ECONOMICALLY SELF-SUFFICIENT SHOULD NOT BE UNDERESTIMATED.

The complex array of personal and environmental circumstances resulting in homelessness will not be reversed overnight. It was CHP's experience that it took at least six months for individuals moving into housing to stabilize and establish trust with vocational staff. Life on the streets can be extremely brutal, both physically and mentally, and most formerly homeless people need some period of healing before they can begin to effectively build a new future. Once an individual began to pursue vocational goals, on average, an additional six to 12 months were required to build basic job-readiness skills before that individual became employment-ready.

A SUCCESSFUL JOB TRAINING AND PLACEMENT PROGRAM MUST ALSO PROVIDE EFFECTIVE SUPPORT SERVICES FOR ADDRESSING THE INTERPERSONAL AND ENVIRONMENTAL BARRIERS TO VOCATIONAL SUCCESS EXPERIENCED BY HOMELESS AND FORMERLY HOMELESS CLIENTS. A significant advantage to CHP's design of having multiple services "under one roof" is that program staff can work directly with business supervisors to identify and address potential barriers to vocational success. Support services include intensive counseling (with referrals to other care providers when appropriate), formal and informal support groups, and child care assistance. This intensive intervention combined with an employment training program

has proved successful for CHP participants.

FOR A CLIENT MAKING THE TRANSITION FROM A SUPPORTED EMPLOYMENT PROGRAM TO THE EXTERNAL JOB MARKET, A BRIEF PERIOD IN A PART-TIME OR TEMPORARY POSITION MAY BE PREFERABLE TO IMMEDIATE PLACEMENT IN FULL-TIME EMPLOYMENT. CHP has received feedback from participants that many job candidates experience anxiety about returning to work. Concerns center on whether they will be able to meet the demands of a new job, how their income from entitlements or other sources will be impacted, how to make the emotional transition out of homelessness and ultimately back into productive activity, and how to learn to manage time and money successfully after years of living in a survival mode. A period of part-time or supported employment allows participants to realistically address anxieties and move beyond them.

THE CONTINUED PROVISION OF SUPPORT AND CASE MANAGEMENT SERVICES AFTER AN INDIVIDUAL HAS SECURED EMPLOYMENT MAY BE A CRITICAL COMPONENT IN ENSURING LONG-TERM SUCCESS. It has been said that the problem with employment opportunity for formerly homeless people is not so much an issue of finding them a job as one of assisting them in keeping that job. For this reason, CHP's employment specialist remains in contact with and provides support to former participants who have been successfully placed in permanent employment. Feedback from clients suggests that this continued support is a critical factor in successfully meeting the demands of a new job and maintaining employment.

THE JOB TRAINING PROGRAM THAT OFFERS A DIVERSE EMPLOYMENT TRAINING AND BASIC EDUCATIONAL CURRICULUM HOLDS THE GREATEST LIKELIHOOD OF LONG-TERM SUCCESS FOR ITS PARTICIPANTS. Training programs must be flexible enough to accommodate a wide range of educational and skill levels, as well as career interests and goals, among its participants. In addition, specialized training in a specific trade may limit a trainee's general marketability if positions in a given field are not available.

PARTICIPATION IN THE BUILDING MAINTENANCE TRAINING PROGRAM PROVIDED VALUABLE VOCATIONAL TRAINING AND SKILL DEVELOPMENT FOR PARTICIPANTS, YET WAS LESS SUCCESSFUL AT PLACING PARTICIPANTS IN JOBS IN THE CONSTRUCTION INDUSTRY UPON COMPLETION OF THE SUPPORTED EMPLOYMENT PROGRAM. While in the CHP training, participants worked in teams and received regular pay; the work was very structured and participants received a good deal of guidance and personal support. When they obtained jobs in the general labor market, the positions were usually short-term, project-based positions. Of the 57 individuals involved in the construction and maintenance programs of the San Cristina and Senator residences, eight subsequently obtained jobs in the construction or maintenance fields, yet only three retained those positions. This lack of regular employment and financial security made sustaining independent living especially difficult for this population. In addition, the construction industry is an extremely competitive one and former CHP participants reported difficulty in securing new jobs and breaking into employment networks. The CHP has chosen to address these issues through two approaches.

First, the CHP is presently developing a long-term maintenance crew which will have sustained work for participants in order to provide long-term training and employment opportunities. And,

second, the CHP is a member of the Seismic Retrofit Employment Consortium, which has created a labor pool of low-income workers for any retrofit jobs which are executed throughout the City of San

Francisco. Through this labor pool, CHP participants will have access to ongoing construction opportunities with general contractors in the City.



CONARD HOUSE, INC.

Background

Conard House, Inc. is a mental health and social service agency providing services to psychiatrically disabled and homeless adults in San Francisco. The various programs within the agency provide residential, money management, and vocational services to approximately 750 people annually. Conard House Vocational Services (CHVS), the organizational branch responsible for employment counseling, job training, and job development, serves approximately 350 homeless and mental health clients per year. In addition, CHVS operates two client-operated businesses:

ESPRESSO THYSELF, a cafe serving espresso drinks and freshly baked pastries and lunches;

CONARD HOUSE JANITORIAL, providing office cleaning services to businesses throughout San Francisco.

Evolution of Organizational Involvement in Non-Profit Business Enterprise

Conard House's decision to become involved with business enterprise stemmed from the basic need to expand day treatment services to include "hands-on" opportunities for clients to build employment-readiness skills and gain work experience. Most Conard House clients have been unemployed for five or more years; many had expressed the need for an intermediary step, prior to seeking employment in a competitive job market, which would allow them the chance to gain confidence and practice work skills. The creation of a business venture or ventures was seen as a chance to offer Conard House clients such an opportunity.

The businesses were originally envisioned and launched as nine-month, structured training programs to prepare residents for jobs in the food service and janitorial industries. The positive response generated among clients, staff, and the community to CHVS's two ventures led management to consider expanding these training programs to become self-sustaining business enterprises.

Steps taken by CHVS to expand the two programs included:

- ➡ Development of a venture committee consisting of board members and CHVS staff to plan for and provide general oversight of expanded business development activities;
- ➡ Hiring a consultant responsible for developing a business and fundraising plan;
- ➡ Implementing a development campaign focusing on private foundations willing to provide start-up capital for business expansion; and
- ➡ Employing professional supervisors for each business venture who were capable of teaching trainees the specific skills necessary for obtaining employment in that industry.

Conard House's experiences with start-up and implementation is discussed further in the following section which describes the two business ventures in greater detail.

Espresso Thysself

Esspresso Thysself is a cafe serving coffee drinks, baked goods, and light lunches (sandwiches, salads, soups, and quiche) located on Sutter Street in San Francisco's busy financial district. Almost all the products served in the cafe are baked or prepared on the premises. The cafe has two training components: 1) baking and kitchen preparation work; and 2) counter work, including customer service, operating coffee machines, and cashiering. Espresso Thysself currently provides paid, nine-month training positions for up to 26 individuals.

Originally, CHVS had moved to the Sutter Street location—between the Union Square, Downtown and Chinatown areas of San Francisco—to expand its catering business, which had been in operation since

1984. The strategy was to open a cafe that would capitalize on the high volume of foot traffic in the new site, thus expanding sales for the catering business. Espresso Thysself opened in March 1991 as a take-out window, selling coffee and freshly baked muffins. Gross sales during the first six months were approximately \$100 per day.

Within the first year of the cafe's operation, the decision was made to scale down the catering operation. Not only was catering more difficult to operate profitably, but it was less suitable for training Conard House's target population. The volume of catering jobs fluctuated greatly and many trainees found the work stressful. The bakery and cafe, however, offered consistent work and enabled trainees to build job-readiness skills. The catering of large events was phased out and replaced with small-scale catering and delivery offering Conard House bakery products only.

During the first two years of operation, Espresso Thysself was largely subsidized through private foundation and federal Community Development Block Grants. As sales increased, program management recognized the potential for Espresso Thysself to become a self-sustaining business enterprise. In 1993, Conard House implemented two primary strategies to support business expansion:

- ➡ The organization applied for and received technical assistance consulting from Stanford University's Alumni Consulting Team (ACT). ACT consultants spent six months reviewing Espresso Thysself's operations. The Team recommended focusing on two primary activities: (1) improve and increase marketing efforts in order to increase sales volume, and (2) improve production capacity to ensure an increase in volume could be reliably met.
- ➡ Conard House requested and was awarded \$16,000 from The Roberts Foundation's Homeless Economic Development Fund (HEDF) for business expansion. These funds allowed the business to expand its bakery product line, hire more trainees, and offer indoor

seating and restaurant service to its customers. In the year following business expansion, sales volume increased by 77%.

As indicated above, in the months following the grant award to support expansion of the business, Espresso Thysself was meeting its projected goals for both the business and employment of trainees in the enterprise. And then “it” happened—competition!

CAFE COMPETITION AND THE NON-PROFIT ENTERPRISE

Espresso Thysself encountered a potential impediment to continued growth when the business had to respond to its first significant competitor. Until then, Espresso Thysself had been the only cafe within the immediate area. In 1995, the Sonoma Valley Bagel Company opened a shop not in the neighborhood, or just down the street, but right next door. Although sales volumes initially declined following the opening of Sonoma Valley Bagel Company, Espresso Thysself was eventually able to turn a potential threat into an opportunity for growth.

The CHVS program director contacted the director of the HEDF to apprise him of this development and seek assistance in developing a strategy for minimizing the impact of the new competition. Following this discussion and with the assistance of its advisor committee, CHVS first evaluated Sonoma Valley Bagel on their prices, service, and quality of food. They then compared Espresso Thysself's products and services using the same criteria. From this assessment, staff determined areas in which Espresso Thysself retained a competitive advantage and, based on these factors, began to design a marketing plan that differentiated Espresso Thysself from its competitor. In response to the new competition, CHVS developed new promotional materials and increased marketing efforts highlighting the unique aspects of their cafe: fresh goods made from scratch

and baked on the premises, and their mission as a socially-minded business venture providing jobs and training opportunities to deserving individuals. While sales have not completely returned to their earlier levels, the venture is now operating in the black and improving its position with each reporting period.

Conard House Janitorial (CHJ)

Conard House Janitorial (CHJ) started in 1986 as a nine-month training program to prepare psychiatrically disabled individuals for jobs in the janitorial industry. Initially, CHJ was contracted to provide services for Conard House facilities only. After 18 months of successful operation with the Conard House sites, CHJ began marketing its services to other non-profit and for-profit facilities. Currently, CHJ has 13 contracts throughout San Francisco, including The Holey Bagel, Apex Travel, SF Convention and Information Center, and others.

As contract sales increased, the number of paid training positions grew from four trainees in 1986 to 30 trainees in 1995. CHJ employees receive skills training in floor treatment, restroom and office maintenance, and window cleaning.

In addition to providing structured employment and training opportunities for Conard House clients, CHJ has been successful in developing management capacity among its trainees. Four CHJ employees have been promoted to permanent management positions and have assumed responsibility for on-site supervision among the 13 contracts. Overall business management for the janitorial business is provided by a trained vocational counselor whose responsibilities include the development and implementation of organizing marketing plans, contract procurement and negotiation, and oversight of the on-site supervisors.

Lessons Learned

THE EVOLUTION FROM A CLIENT SERVICE PROGRAM TO A SELF-SUSTAINING BUSINESS VENTURE REQUIRES THE NON-PROFIT TO RESPOND TO THE SAME RULES OF THE MARKETPLACE AS THEIR FOR-PROFIT COMPETITORS.

Market forces will not support a business simply because it represents a “good cause.” Unless the non-profit business enterprise is able to supply a needed good or service at high quality for a reasonable price, it will not survive. CHVS learned to pay increasing attention to market demand and was stimulated by a new competitor to focus on

those business products and services that set their enterprise apart from the competition.

REGULAR PERFORMANCE EVALUATION IS A CRITICAL COMPONENT OF A SUCCESSFULLY-RUN BUSINESS. Through regular evaluation and analysis of the business’ financial performance, CHVS was able to ascertain which products and services were most profitable. This allowed Espresso Thyself to streamline business activities, leading to increased production and profitability.

THE HIRING OF EXPERIENCED BUSINESS MANAGERS MAY BE A NECESSARY COMPONENT OF LONG-TERM BUSINESS SUCCESS. The decision to

hire professional business managers to oversee business operations contributed greatly to the transformation of Espresso Thyself and CHJ from training programs to self-sustaining business ventures. Both of the managers hired had experience in their own respective industries and in providing management for other enterprises. This management expertise increased the organization’s capacity to develop and implement reliable accounting systems, analyze financial performance, assess labor and supply costs, and develop aggressive marketing strategies that responded to a competitive market.

A TALE OF THREE VINEYARDS:

Homeless Independence Projects,

The Carroll St. Garden Project,

and

The Santa Cruz Homeless Garden Project

The challenges of establishing a viable agricultural enterprise which generates surplus net income are many and profound.

The vision is shared by many: flowers blooming in a garden, vegetables ripening on the vine; formerly homeless and at-risk people tending the soil, caring for the earth as they heal themselves; and surplus revenue generated from these efforts going to support housing and expanded employment opportunities. On its face, the vision

seems realistic and within reach. However, the challenges of establishing a viable agricultural enterprise which generates surplus net income are many and profound.

What follows are the stories of three non-profits which received grants from the HEDF, each of which experienced different outcomes. One garden has gone out of business, taking the non-profit with it. Another is reassessing its expectations of such an effort. And the last is focusing upon growing its enterprise through the sale of dried flower products and the practice of community supported agriculture. Since the establishment of the Fund in 1990, our office has heard of numerous other such efforts underway from Los Angeles to New York City. It is our hope the lessons learned from these experiences may be of special assistance to others who share our call, tilling the same gardens in the hope of a meaningful harvest.

Homeless Independence Projects

Homeless Independence Projects (HIP) was founded by a small group of concerned residents of Petaluma, California, a mid-sized town an hour-and-a-half north of San Francisco. The group was lead by a charismatic and determined woman, who had created a shelter program for the area's homeless a few years earlier and had a commitment to providing appropriate economic opportunity for her clients. As is the case in many communities, there was initial resistance to the creation of Petaluma's first homeless program and fear it would attract homeless people from the rest of the county. After extended discussion and debate, the City Council approved the project and

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While all efforts at revenue generation through enterprise development are exposed to risk, gardening projects are also exposed to the elements.
.....

provided it with limited operating funds. The program grew to serve both individuals and families and was viewed as a responsible social service provider to the Petaluma area.

HIP was born in 1991 out of the director's desire to offer more to the people coming to her door asking for job leads. HIP's organizing committee consisted of the director and her husband, two homeless people, an accountant, a social worker, and a housing specialist. The group pooled its own money to support HIP's start-up costs, which included leasing land, initial wages to homeless workers, and related expenses. The program quickly drew a wide array of community supporters, including local nurseries, a waste hauler, small businesses, and both the city and county farmers markets.

Founded and operated by volunteers, HIP felt it was critical not to develop full-time, salaried management positions for the garden. They operated within a philosophy which espoused self-help, volunteerism and community control. While the organization received very limited local funding from the city, area residents, and businesses, they intentionally did not seek out foundation or other support in the belief that they should grow their organization in accordance with their ability to produce enough to support their costs.

Within this context, HIP first approached the HEDF with a request for capital funds for additional acreage. This expansion would make possible the growing of additional produce, but would also require the drilling of a well—at a cost of \$5,000—to assure a regular water supply for irrigation. In addition to this capital expense, the project also sought operating support of \$10,500. Their strategy was to use HEDF funds to plant and harvest through the 1993 growing season and then use revenue generated from sales to cover wages and planting costs for each succeeding growing cycle. Under the initial plan, such revenues would adequately cover both the costs associated with growing produce and related support costs for program participants.

HIP was aware they were in a precarious situation. Founded out of the pockets of a

small group of concerned citizens, lacking professional, full-time management, and without a significant capital fund to cover even basic operating costs, they sought to function on a self-sustaining basis from the day they opened their gates to the homeless people of Petaluma. Their goal was to use HEDF funds as seed money to support the organization while they expanded their base of community donations, formalized operations, and secured new markets for their produce. All those involved understood that the expansion was a risky strategy; however, both the leaders of the project and the HEDF director also understood that HIP could not continue as they had in the past. The founders could no longer subsidize operations on their own yet were committed to not becoming "dependent" upon outside resources. Their only chance for survival was to generate the additional funds necessary through the sale of produce. In November of 1992, an HEDF economic development grant in the amount of \$15,500 was awarded in modest support of the planned expansion.

While all efforts at revenue generation through enterprise development are exposed to risk, gardening projects are also exposed to the elements. In the winter of 1992, heavy rainfall made the soil so wet that the well driller could not bring his equipment on site. This created substantial delays in HIP's expansion process. The rains obviously brought plenty of water, but when the dry summer and fall came, the well would be greatly needed. It was projected to be ready for operation in late June of 1993, however, far into the planting season. The heavy rains also prevented the group from completing its Spring planting on schedule. As they evaluated the impact of delayed planting, project volunteers engaged in further assessment of their future. In the course of these discussions, the organizers of the project reconsidered their ability to manage the garden without full-time staff. They worked with a local small business person to develop projections of produce sales, expanded management staff and equipment support needs, a fair market wages for employees, and the number of years they could operate as a

subsidized operation with these new expenses.

The evaluation clarified that the project would need to engage in substantial organizational development and fundraising efforts if it were to succeed. However, by the time the evaluation was completed in mid-summer, funds were short and time running out. HIP would need a major and immediate commitment from a foundation or individual to give them the chance they needed. A number of area foundations were contacted before the group returned to the HEDF with a proposal for a three-year commitment totaling over \$200,000. The request was a significant jump from the \$15,500 grant approved the prior year, and, if funded, meant the HEDF would be placing a major priority on this one effort to create jobs for homeless individuals in a sector of the economy that was extremely competitive, paid low wages and offered few transferable skills. It also meant the HEDF would be committed to a long-term organizational development process with a non-profit that had very little, if any, infrastructure. The organizing committee and the HEDF director would have to agree to a lengthy process of building a program from the ground up. Finally, a decision to support HIP would mean the selection of this organization over the other two gardening projects already receiving funding from HEDF, and, in an honest assessment, HIP was the least competitive of the three programs. Following numerous discussions with the project founders and the executive director of The Roberts Foundation, as well as a review of all the documents, the HEDF director decided against approving the proposal.

In September 1993, Homeless Independence Projects closed its doors. Five thousand dollars in unspent funds, received by HIP from the HEDF, was returned. Other assets were donated to local non-profits, and the land which had been developed and cultivated by HIP during its three years of operation was leased to a community garden cooperative. The organization left no outstanding debts or other liabilities.

Two years after HIP closed its doors,

there is no way to track the long-term impact of the program on its participants or organizers. An evaluation of HIP's payroll report for the first quarter of 1993 shows that nine individuals were employed, receiving monthly wage payments ranging from \$69 to \$1,096, with an average wage for the quarter of \$614. Other documents show that between 1991 and 1993, the project employed over 75 homeless individuals. Because the original goal was to provide transitional employment to homeless individuals living in the program's geographic area, it seems that HIP achieved at least their most basic goal of providing individuals with discretionary income. However, since the records are unavailable and the program is closed, there is no means to assess the long-term impact of the organization on the program participants. HIP was an ambitious effort with a great vision, but ultimately could not be sustained or fully realized considering the organizational support and structure necessary to successfully manage the undertaking.

The Carroll St. Garden Project

Many former prisoners find it difficult to transition to the community, and there are few places to turn for support. Founded in 1990, the Carroll St. Garden Project (hereafter called the Garden Project) seeks to stabilize ex-prisoners' lives during the critical transition period following their release from incarceration. The Garden Project operates two sites in San Francisco, one donated by the San Francisco Unified School District and another by Southern Pacific Railroad. The founding and present director of the Garden Project is a graduate of the Agro-Ecology Program at UC Santa Cruz, has studied biodynamic organic horticulture overseas, and is an employee of the San Francisco County Sheriff's Department.

Because the director's background in agro-ecology did not include significant business or non-profit management skills, the Garden Project was established as a sponsored project of the Tides Foundation, which serves as its fiscal agent. In addition to the basic administrative support provided by the Tides Foundation, an advisory committee was established made up of business, foundation, and other individuals interested in assisting program staff. This committee was not, however, charged with formal program oversight responsibility in the same way as would be a traditional board of directors of an independent 501(c)(3) organization.

The two community-based sites and the Garden Project itself are an outgrowth of the San Bruno Jail's garden program, which donates vegetables to area soup kitchens and non-profits. The goal of the Garden Project was two-fold: the creation of supportive work settings for individuals returning to the community after periods of incarceration, and the creation of a social purpose enterprise which would generate adequate revenue to support both the garden's operating costs and payment of a living wage to program trainees. Unlike HIP or the Santa Cruz Homeless Garden Project, the Carroll St. Garden Project viewed its primary customer market as those high-end restaurants and bakeries in the San Francisco Bay Area which required fresh, organic produce

In the Garden Project program, ex-prisoners learn to take responsibility for their lives through hard work, counseling, and job-skills training. The initial HEDF grant was awarded to the Garden Project in support of early efforts to test out their model for the creation of a community-based garden project employing individuals with few marketable skills. The \$25,000 grant, approved in March, 1992, covered the cost of stipends for former prisoners leaving the jail system. Since the project was a start-up, the first grant was intended to contribute to the operation of the new program while simultaneous, organizational planning was undertaken to create a strategy for revenue generation in order to eliminate reliance upon foundation support.

In November, 1993, a second HEDF grant, an economic development grant in the amount of \$30,000, was awarded to the Garden Project. This grant was to support the start-up of a "dried flower/greeting card" business, an enterprise conceived by staff and volunteers from the Garden Project. The business plan was researched and written by two students from Stanford University's Graduate School of Business Administration. The plan and financial projections were well-researched and based upon reasonable assumptions, and the initial targeted selling period was to coincide with the holiday season. There was immediate debate concerning when to launch the effort; as those discussions continued, the project's advisory board and director began to sense that the Garden Project was not adequately positioned to support an effort that, while related, would not enhance the organization's core competencies and overall development needs. Therefore, the decision was made not to pursue the card venture at that time, but rather to use the grant to support the existing goal of growing vegetables for sale to area restaurants and bakeries.

The director of the HEDF supported this decision and asked that a second business plan focusing upon the Garden Project itself be developed to govern the expenditure of grant funds, which had already been provided to the grantee based upon the prior business plan. Due to miscommunication between the HEDF director and the grantee, the Garden Project did not develop a new plan, but immediately redirected HEDF funds in support of their core program activities already underway. Since revenue projections and other specific goals for the business were not developed in a second business plan, it is hard to state the exact connection between the HEDF grant and enterprise goals or to measure the specific outcomes of this grant; however, the project believes the following outcomes are directly related to the timing and support of the HEDF:

- Receipt of a two-year business development grant from the Mayor's Office of Community Development for \$114,000;

.....
In the Garden Project program, ex-prisoners learn to take responsibility for their lives through hard work, counseling, and job-skills training.
.....

- Generation of \$1,700 per month in sales over a seven-month period;
- Employment of 11 individuals;
- Receipt of \$40,000 in in-kind donations from a variety of public and private organizations;
- Pledge of \$50,000 from another Bay Area foundation in support of a business manager position.

Furthermore, during this period the project was also able to formally organize its enterprise development committee, consisting of individuals who have founded large corporations and successful, high-end restaurant/bakery businesses. These individuals continue to provide guidance and support to the program director of the Garden Project.

As of early 1996, it seems apparent that the Garden Project has succeeded in many of its program goals, but has not realized its potential as a revenue-generating enterprise. In recognition of this fact, the project spent the last part of 1995 working with an outside consultant to assess its business prospects and create a three- to five-year plan which targets an increase in produce sales. After five years of development and two years of enterprise efforts, something less than 10% of the Garden Project's operating revenue (grant, sales, and other sources) is self-generated through sale of produce grown in the garden by program participants.

A number of factors contribute to this situation. The central issue appears to be that the project's primary and overriding commitment is to the social, spiritual, and personal healing of its program participants; the organization's commitment to enterprise creation, however, is not as clear. Without a doubt, the project's advisory board and staff are fully invested in providing opportunities for individual stabilization and personal transformation using a holistic approach. While this commitment is laudable, its primary role has made it difficult for the Garden Project to effectively pursue other organizational goals related

to revenue generation. Clearly the organization views itself first and foremost as a social program, and second as a social program with the potential to generate revenue to defray the costs of operation and support services.

Organizations which achieve greater success in the enterprise aspects of their work are those able to balance the demands of the double bottom-line of program goals and market realities. If the organization cannot manage these competing goals, it may place unrealistic expectations on the enterprise, or never feel the enterprise activity is as valid an intervention as the program. For example, the 1994 business plan for the Garden Project projects hourly wages in excess of \$5.50 an hour with full benefits. This may sound more than reasonable until one considers that the average worker in the agricultural industry is paid minimum wage or "piece work," with no hope of permanent employment, to say nothing of benefits. The Garden Project's 1994 business plan states that this "gap" between the social commitment of the organization and market wage rates will be filled by charging a higher produce fee to customers. While this may work with a limited number of area businesses willing to support the program through a price premium, the Garden Project has no doubt found the broader market less forgiving.

In addition to the challenges of balancing competing goals, the project itself is still developing the capacity to effectively manage its non-profit operations, much less a competitive, profit-making enterprise. The Garden Project functions as a program of a support foundation which provides for accounting, personnel, and fiscal reporting needs. Therefore, while the organization has an advisory board, there is no formal board of directors with direct and accountable responsibility for management or oversight of the program. This places a significant burden upon the project's director who must shoulder responsibility for fundraising, program development and, finally, enterprise creation.

Again, while the Garden Project has been successful in achieving its programmatic goals, over the past five years it has

had no real opportunity to develop its own organizational infrastructure upon which to “cut its teeth” before undertaking a serious business development effort. It therefore has limited management knowledge to transfer from the non-profit organization to the non-profit business. This weakness could be mitigated if a director of enterprise development had been appointed who had sufficient operating authority to manage the business, as well as the appropriate, demonstrated skills necessary to do so. The Garden Project is presently assessing whether to create such a position and what the implications would be for the role of its present director as well as overall management of the organization.

In 1996, the Garden Project is at a crossroads. As it enters its sixth year of operations, the director, program participants, advisory board, and supporting foundation will no doubt come together following the completion of their current evaluation to assess the present vision for and reality of the project. They must now develop a common understanding of the role enterprise development will play in the organization.

The Santa Cruz Homeless Garden Project

The Santa Cruz Homeless Garden Project (hereafter called the Garden) was initially organized on a 2.5 acre plot of land within the City of Santa Cruz, located on the California coast, two hours south of San Francisco. The Garden’s focus was to provide training and jobs within a therapeutic context for homeless people through meaningful work in an organic garden. The Garden’s dual purpose of healing people and sustaining the earth is clearly delineated in its mission statement:

“The mission of the Homeless Garden Project is to provide a therapeutic context

that promotes homeless people’s integration into society through meaningful labor in an organic garden. The Garden provides the environment for the restoration of self-esteem, integrity and responsibility. By applying organic, bio-intensive methods, the Garden enhances the fertility of the earth and provides food to the community.”

A recently endorsed statement of purpose reads: “The Garden is, primarily, a job-training and transitional employment program for homeless and marginalized people who have been unable to function in traditional educational, job-training, and work settings. This is accomplished through the therapeutic environment of the Garden, but extends beyond that to include:

Structured training programs designed to be flexible enough to meet the needs of this hard-to-reach population; and

Support services which seek to address unmet needs of the trainees (such as lack of health and dental care, unresolved legal issues, need for counseling, etc.), which may arise out of—or cause—the marginalized circumstances in which they live.”

In late 1995, the Garden was operating three sites:

- **THE PELTON AVENUE GARDEN:** Training, re-entry employment, and healing are the focus of the original 2.5 acre site, where homeless workers cultivate vegetables and flowers to sell through the Community Supported Agriculture Program. (The CSAP enables area residents and supporters to purchase “shares” in the Garden prior to growing season. These “shares” entitle holders to collect a weekly supply of cut flowers and vegetables throughout the season.) Produce from this site is also sold at regional farmers markets. This site employs 11 part- and full-time workers and two staff people, operates a fully operational greenhouse and composting program, and is the center for training, in-house classes, weekly worker meetings, and other activities. Using hand-cultivated, bio-intensive methods, in conjunction with CSA marketing, the site generated \$54,000 in sales of vegetables and flowers in 1995.

➔ **THE WOMEN'S ORGANIC FLOWER ENTERPRISE (WOFE)** employs five homeless women on a part-time basis restoring the soil and growing a flower garden on a one-quarter-acre plot across the street from the Garden's retail store, workshop, and office. The women receive basic horticultural training and develop skills in floral design, retail sales, and marketing. During the winter months, when working outdoors is no longer possible, WOFE offers employment in wreath and candlemaking to all participants. These products are then sold through the retail store, at farmers markets, and wholesale to local specialty stores. Sales from the WOFE generated \$26,000 in 1995.

Since 1990, 120 homeless workers have been employed on a temporary basis with the Garden, earning \$200,000 in wages. Actual work schedules vary depending upon the individual and the growing season. Most homeless participants work weekly shifts of between 16 and 30 hours, at \$6 per hour. Those participating in the Garden are not provided with formal case management support, which they are able to receive through other social service organizations in the Santa Cruz area. The vision of the Garden is to provide a supportive environment wherein individuals may work and reflect on their lives, while developing the basic work readiness skills necessary to move into the mainstream job market. The Garden relies heavily upon both volunteers and a core group of salaried staff to make the program operate and meet its production goals. Volunteers come from a wide range of groups, including seniors, the developmentally disabled, and young people.

In 1995, the Garden engaged in an organization-wide evaluation to assess its development. That year it had earned \$90,000—36% of its total operating costs; the remaining 64% of its support comes from foundation and public sources. Impending public funding cutbacks have caused the organization to re-examine its ability to become self-sufficient. There is clearly a cost to attempting to grow significant amounts of high quality produce with a rotating pool of formerly homeless and homeless individuals, as opposed to simply hiring a small, experienced crew of organic gardeners to assure production goals are met. The organization's board of directors has had heated discussions regarding whether to devote limited new dollars to the creation of additional salaried positions for "professional" gardeners (who could help generate more revenue at less cost) or to create additional slots for homeless employees (who generate revenue, but also require a higher degree of supervision and training, thus increasing costs).

Recently, the Garden received technical assistance from Keystone Community Ventures (a technical service and capital provider in the Bay Area) to develop a for-

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“The mission of the Homeless Garden Project is to provide a therapeutic context that promotes homeless people’s integration into society through meaningful labor in an organic garden.”

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➔ **NATURAL BRIDGES FARM** is a step toward increased independence for Garden workers. Emphasizing production in sustainable agriculture as a commercial enterprise, four homeless workers grow vegetables and flowers on a two-acre hand cultivated plot to sell at farmers markets and to local natural food stores. Senior gardeners at this site receive basic horticultural training and move on to learn supervisory skills, marketing, and garden planning in preparation for “graduating” into a variety of possible full or part-time positions in the mainstream job market. (By mid-1996, the Garden had consolidated operation of the Pelton and Natural Bridges sites to ensure better resource allocation.)

malized marketing strategy to expand sales of the Women's Organic Flower Enterprise unit. Keystone will also help the Garden evaluate overall organizational issues which continue to inhibit the organization's ability to move more assertively upon an enterprise development strategy.

In multiple conversations with the Garden's board, staff and advisors, it is clear that over the coming months the organization must resolve—or at least learn to more effectively manage—the tensions between its social mission and its commit-

ment to business development. It appears a possible "middle ground" may involve a re-organization of the Garden that would place those employees requiring greater assistance and supervision in a subsidized training program operated at the various growing sites, while full-time employees requiring less direct supervision might be charged with pursuing specific growth and enterprise goals. As of mid-1996, the development of the plan to guide this process is still underway.

Lessons Learned

NON-PROFITS MUST DECIDE WHETHER

THEIR GOAL IS TO ACHIEVE FINANCIAL SELF-SUFFICIENCY OR SIMPLY CONTRIBUTE FUNDS TO THE ENTERPRISE'S BOTTOM-LINE.

The issue is best framed in the following passage taken from a recent Santa Cruz Garden Project monthly report: "Using sustainable agriculture as a vehicle for job creation by definition has the land's carrying capacity and fertility as limiting factors in its relationship to the ever-increasing need for production, wages, and profits. More than a business, it is the art of stewardship: teaching observation, nurturance and health... With food production in this country highly subsidized and food prices remaining artificially low, the true costs of production are not covered (i.e. through Garden sales revenue). With this in mind, we cannot depend on the market economy to support our commitment to training, sustainable gardening methods and access to re-entry jobs." The experience of the three homeless garden projects, and others about which we have heard anecdotally,

is that while revenue generation is possible, the ability to also cover related program costs simply from the sale of produce at its true production cost is not supported by present market-based pricing. For this reason, the Santa Cruz Homeless Garden Project seeks to expand its markets for sale of products from both its WOFE and CSA units. Even with this commitment, the Santa Cruz Garden Project is uncertain that its enterprises will be able to generate enough surplus profit (if there is such a thing) to completely cover its program as well as its business expenses. Regardless, these three organizations experience a serious tension between and among these goals.

IN INDUSTRIES WITH ESPECIALLY TIGHT MARGINS, THE NON-PROFIT MUST AT THE OUTSET CLEARLY DEFINE THE COSTS OF TRAINING VERSUS THOSE OF PRODUCTION.

Quality control is key to successful marketing of organic produce, whether through community-supported agriculture or general sales. Transient or re-entering workers may have serious personal issues that prevent them from paying adequate

attention to quality. While staff oversight is a high priority, it often forces managers to choose between meeting quality and production goals on one hand, and achieving training goals on the other. The two goals can be met simultaneously, but the organization must understand the relative costs of each; it also must be able to create both training and production mechanisms which allow for the pursuit of both training goals and production requirements.

IT IS DIFFICULT TO ACHIEVE ECONOMIES OF SCALE IN COMMUNITY-SUPPORTED AGRICULTURE.

It is natural to expect, in the case of the Santa Cruz Homeless Garden Project, that an increase in acreage will result in increases in production and sales as well. In 1993 through 1995, with an increase in acres, sales were increased 44%. However, expansion onto two additional sites resulted in some degree of fragmentation as human, material, and economic resources were stretched thin. In the end, all three sites were understaffed or resourced, and management, production, and communication were seriously

challenged. Presently, staff are considering purchasing a tractor to facilitate certain tasks, which will require more expertise at the expense of worker positions and, in turn, represent a possible threat to the Garden's commitment to community. Regardless of whether the choice is tractor or hands, additional labor inputs will be necessary to reach the production potential of current, older, acreage.

IN THE SUPPORTIVE ENVIRONMENT OF SOCIAL PROGRAMS THERE IS A TENSION BETWEEN GRADUATING PARTICIPANTS THROUGH THE PROGRAM AND PROVIDING THEM WITH JOB SECURITY WITHIN IT. Training programs expect individuals to develop a given set of skills and then move into the mainstream job market. While non-profit enterprises have the same goal, they often find themselves continually in a "training mode" which makes their production and other business goals harder to achieve. Furthermore, not all workers are on a graduation track; many find a niche and reach what they feel is their capacity. This is generally considered acceptable since

many of these individuals will clearly not be able to successfully compete in local labor markets. These workers stay in the non-profit enterprise and with time stabilize their living situation and become more independent. However, by remaining with the business, they also fill job slots which are needed for others in need of transitional support. This can create a dilemma, because a program obviously does not want to force participants out of their stable situation only to see them back on the street, unemployed. However, program staff would also like to provide additional opportunities for others still living on the street.

GRASSROOTS DEVELOPMENT VERSUS BUSINESS PLANNING. The choice of enterprises was made organically from the nature of the opportunities available to the organizations, given the available human talent and the land offered for cultivation. All three garden projects operated in their early stages with no formal business plan or true market analysis, but grew out of the interests and commitments of founders and the original home-

less people participating in the effort. Indeed, had a thorough market analysis been conducted, some other enterprise might have been launched. Presently, there is a need for new product development, ongoing market analysis, cost structure evaluations, and a range of other business-based activities which must be in place if these projects are to grow and achieve their long-term goal of increased revenue generation. With the support of the HEDF, these issues are now being pursued.

COMMUNITY-SUPPORTED AGRICULTURE HAS ITS LIMITS. Although CSA will offset the risks and challenges of farming and employing marginalized workers, shareholders cannot be expected to pay much more than going market rates. A share cost of \$15 per week, comparable to what a family would pay for organic produce at a store, is reasonable, but also requires the shareholder to surrender personal choice and find their diets limited by season, climatic and soil conditions, and the staff's ability to successfully grow the desired produce.

Conclusion

Each of these three organizations has attempted to create economic opportunity within an agricultural enterprise. One failed, another is re-evaluating its ability to operate a social enterprise, and the third continues to grapple with the challenges of generating surplus net income from its venture. It seems that community agriculture—in some ways more than any other type of non-profit enterprise—is a

particularly difficult route given the extreme low-wage nature of the industry, the especially tight operating margins, and the desire to provide supportive employment opportunities to formerly and currently homeless individuals. As these and other efforts across the country continue to evolve, further evaluation and networking will be necessary so that we may assess both the true impact and potential for community-based agriculture to employ homeless people.

KEYSTONE COMMUNITY VENTURES, INC.

Background

Founded in 1993, Keystone Community Ventures (KCV) is a non-profit, public benefit corporation created to build the capacity of Bay Area non-profit businesses that create jobs and job training opportunities for at-risk members of society. The HEDF director played an important role in conceptualizing KCV with its founding director. Initial planning grants from HEDF made it possible for KCV to “market test” its vision and strategy. The primary goals of Keystone are to:

- Provide business development, management assistance and affordable capital to non-profit organizations to support job creating ventures for members of disadvantaged communities;
- Transfer needed business skills to the non-profit agencies to ensure the ventures’ success after the relationship with KCV ends;
- Leverage the participation of other funders by providing seed capital and business expertise that protects funders’ investments and positions ventures to meet the credit requirements of traditional lenders.

Over the course of a two-year period, HEDF awarded three grants totaling \$110,000 to KCV. These funds covered the cost of the initial feasibility study and busi-

ness plan, seed money to start the organization, and funds for general operating support.

Enterprise Development Undertakings

Keystone’s services are modeled on those of venture capitalists, who have achieved impressive results by providing professional, ongoing management expertise and access to risk capital, coupled with participation in business decision making. Keystone’s idea was to provide business assistance to nonprofit enterprises and access to unsecured loans of up to \$50,000. KCV intended to help sustain its own operations with a 5%-8% interest rate spread between funds loaned out and funds borrowed from investors, plus a 2%-5% royalty on gross sales from the non-profit businesses. Trying to be realistic about the failure rate for new business start-up, KCV planned on being flexible on repayment plans, with terms of up to five years.

Keystone has attempted to combine three economic development strategies:

1. venture capital’s management assistance linked to a specific investment;
2. community loan fund loans to riskier community projects with adapted underwriting, less security and less return; and
3. technical assistance consultants’ expertise in business and non-profit issues based upon a “skills transfer” rather than “service provision” model.

Keystone conducted market research to identify non-profit groups with the potential for business start-ups and expansions. They planned to work with groups that were well-positioned to develop or grow an enterprise, and help move those groups toward a higher state of readiness to manage a successful venture. Not surprisingly,

many of the non-profit groups identified through this effort were already HEDF grantees who had received varying levels of enterprise development assistance from the HEDF director or other business planning consultants.

As of the writing of this summary, KCV has provided management assistance to numerous non-profit agencies seeking to develop or expand businesses, but has actually made only two loans. The first was for \$50,000 to Asian Neighborhood Design, an organization with a strong track record in

economic development that has received funds from HEDF, as well as numerous other Bay Area Foundations. KCV has recently made a \$100,000 loan to Larkin Business Ventures—also an HEDF grantee—to support development of its second Ben & Jerry's Ice Cream Store in San Francisco's Castro neighborhood. In addition, KCV has also expanded its work to include management partnerships which provide management assistance to groups that do not need or are not ready for a KCV loan.

Lessons Learned

NON-PROFITS NEED A SIGNIFICANT LEVEL OF PREDEVELOPMENT PLANNING ASSISTANCE. KCV now recognizes that in most instances, it may need to work with non-profits for one or two years before it is appropriate to make a loan. Whether the venture is a start-up or an expansion, it takes time to do the organizational and planning work needed to know if the business and loan are feasible. Also, KCV found it takes considerable time and effort to develop a mutually trusting relationship necessary for the partnership to work. This long-term development process carries with it no revenue for KCV. Unless KCV continues to be able to attract other sources of capital to support its planning work, it may need to develop other strategies for its own revenue generation.

NON-PROFIT BUSINESSES HAVE A GREAT NEED FOR LONG-TERM, INTENSIVE AND FLEXIBLE MANAGEMENT ASSISTANCE FROM EXPERIENCED BUSINESS PROFESSIONALS. The non-profit enterprises KCV has worked with have been extremely pleased with KCV's management assistance. In

particular, the more sophisticated groups have been able to learn from KCV and have successfully implemented the strategic and operational recommendations KCV has helped develop. These enterprises will rarely reach the scale to justify hiring their own strategic, marketing, operations and financial experts on staff; therefore, it is critical they have access to that expertise on an "on call" basis from an organization sensitive to their issues.

LINKING REVENUE TO BUSINESSES' SALES OR ROYALTIES APPEARS TO BE AN UNREALISTIC MEANS OF SUPPORTING A VENTURE PARTNER WORKING WITH NON-PROFIT ENTERPRISES. The sales levels of a typical non-profit business enterprise are so low, particularly during business start-up or for a new phase of business expansion, that KCV cannot exclusively tie its fee to sales made by the enterprises. Non-profit managed businesses are struggling to break even in their first few years, let alone contend with a loan and sales royalty repayment.

WITHIN THE NON-PROFIT AND FUNDING COMMUNITIES, THERE IS STILL A NEED FOR BASIC EDUCATION ON THE BENE-

FITS, OPPORTUNITIES, AND RISKS OF NON-PROFIT ENTERPRISE DEVELOPMENT. Many non-profits are interested in enterprise development, but do not know very much about what it entails. KCV is doing targeted education to address that interest. Also, funders interested in economic development are not always aware of which groups can benefit from what kind of assistance and for what purposes. KCV believes there are significant benefits to working closely with private grantmakers in helping a venture succeed, particularly if KCV and the grantmakers are working in partnership, rather than at cross-purposes.

MANY NON-PROFITS ARE EXTREMELY HESITANT TO SURRENDER ANY CONTROL TO AN OUTSIDE "INVESTOR." A key part of KCV's approach was the idea that, as management advisors and investors, they would have sign-off over any significant strategic or personnel decisions made by the non-profit. However, many non-profit organizations have been unwilling to enter into this type of relationship, and KCV has had to negotiate terms satisfactory to both the non-profit and Keystone's investors.

MANOS DEVELOPMENT CORPORATION

Background

MANOS business enterprises began as a cooperative venture to reorganize job placement programs in Oakland, California, for Spanish-speaking immigrants. In 1986, MANOS-I opened with members prepared to provide house cleaning, painting, gardening, janitorial, and construction services. In 1989, MANOS-II opened in nearby Contra Costa County. By 1990, the two MANOS worker cooperatives claimed 225 members and were placing 60 work orders per week. MANOS Janitorial Company began in October of 1988, and the last business venture, MANOS Home Health Care, opened in 1989.

MANOS Development Corporation (MDC) was originally incorporated by the cooperative in January, 1990, with the sole purpose of purchasing the physical building and office equipment necessary to support the various MANOS business ventures. Due to the rapid growth of MANOS' various enterprises, however, MANOS business managers wished to investigate the possibility of building MDC into an umbrella agency that would support MANOS' diverse entrepreneurial projects.

The organization sought and was awarded a planning grant from the HEDF in October, 1993. The purpose of the grant was to support a planning process aimed at expanding the capacity of MDC to include provision of management and administrative functions to MANOS enterprises. At the time the grant was awarded, MDC had no paid staff, no permanent development

functions or operations, and a board of directors which was not effectively overseeing the organization. Included in the planning process was a strategy for board development, identification of MDC staffing needs and responsibilities, and development of a fundraising plan to create a permanent funding base and institutionalize the business development process.

Description of the MANOS Business Ventures

MANOS currently operates four distinct business components: (1) MANOS Cooperative, a worker-owned job referral agency providing house cleaning, painting, gardening, janitorial and construction services offered by its members; (2) MANOS Janitorial Company, a small (seven-person), worker-owned custodial company; (3) MANOS Home Health Care; and (4) MANOS Development Corporation (MDC), originally established to serve as a holding company for real estate acquisition.

With only 14.5% of its operating support coming from foundations, MANOS Cooperative generates most of its revenues through membership dues. At present, however, the Cooperative does not earn sufficient revenue through membership dues to cover the cost of program operation. Management is considering merging the cooperative with MANOS Janitorial Company, a venture that is earning a sufficient profit margin to absorb the added programmatic and administrative costs of the cooperative.

MANOS Home Health Care is a mutual-benefit company employing 100 workers, one-third of whom are employed full time, one-third part time, and the final one-third as temporary, part time workers. The home health care business has experienced a period of dramatic growth, from \$300,000 in sales in 1993 to \$600,000 in 1995/96. MANOS Home Health Care is currently operating at a four percent profit margin and meeting all its program-related and administrative costs.

MANOS Development Corporation (MDC)

Seven years after its incorporation, MDC is still reorganizing. The Corporation continues to hold title to MANOS property and office equipment, yet remains without paid staff. The organizational leadership is currently debating the most appropriate role for expansion of MDC. The business manager for MANOS Home Health Care has identified several possible areas of growth for MDC over the next five years.

MDC has expanded its role as a training agent for the businesses. With grants from the Friedman Foundation and Self-Development of People Presbyterian Church-USA (PC-USA), MDC has begun a carpentry and painting training program for its members. MDC is considering starting a home health aide training program after further physical modifications are made to the training room area.

Another possible area of MDC involvement in the oversight of MANOS' business enterprises remains in funding activities. After exploring various staffing strategies, however, it was decided a full-time position devoted solely to development was not appropriate at this time. Rather, management is considering using MDC to fund an existing business manager's position (at 25% time) to devote to fundraising activities, as well as hiring a MDC staff person who would devote 25% to 50% of their time to development.

Consideration is also being given to establishing MANOS as a for-profit holding company, with its various companies operated as wholly-owned subsidiaries of MDC. MDC would then issue stock to the employees of MDC subsidiaries with provisions for stock buy-backs should the employee quit or decide to liquidate his/her stock. The corporation would be privately held, and only employees would be allowed to purchase stock. It is thought that this legal structure would more closely mirror MANOS' management activities and would:

- keep the companies' financial and operational management structures separate;
- unify the companies' overall management structure via the holding company;
- create employee-ownership for all workers without adding administrative burden of managing several co-op structures;
- reduce IRS tax reporting requirements;
- allow MANOS to raise money for new businesses which are separate entities (an important requirement for many funders), but allows each entity to be connected to other MANOS businesses through the holding company.

The reorganized MANOS corporation would then be a company with 150 employees, over a million dollars in annual sales, and assets of \$200,000.

Although management continues to explore the possibility of a more intensive MDC management role in the day-to-day business operations of the various MANOS enterprises, organizational leadership is also considering contracting out administrative and business operation functions through the Tides Foundation, a support foundation. Although such a contractual arrangement may meet immediate needs, it has also raised concerns. Delegating business operation tasks to an outside firm or contracting agency would prevent MDC from developing the in-house expertise and organizational capacity needed to successfully manage and administer MANOS' business ventures. A continuing concern remains that of why MANOS has, at this late date in its development, not successfully addressed the basic issue of organizational structure and capacity. While this is in part due to MDC's relatively thin staffing support, as reflected in the prior narrative, the issue of adequate staffing may be compounded by a lack of clear organizational mission and understanding of how to structure the corporation to best fulfill that mission.

Lessons Learned

BUSINESS MANAGERS KNOWLEDGEABLE AND COMPETENT IN THE START-UP AND MANAGEMENT OF NON-PROFIT BUSINESS ENTERPRISES ARE DIFFICULT TO FIND AND RECRUIT. Understanding and balancing the requirements of a competitive business venture with the demands of client-centered service organization is a challenging task for any manager. A secondary issue identified by MANOS may be its inability to offer wages for the non-profit business manager that are competitive with compensation packages offered within the for-profit sector or by other non-profit organizations.

COOPERATIVE VENTURES FUNDED EXCLUSIVELY THROUGH MEMBERSHIP DUES MAY FAIL TO GENERATE SUFFICIENT REVENUES TO COVER OPERATIONAL EXPENSES, ESPECIALLY THROUGH THE BUSINESS START-UP PHASE. The membership-dues-funded co-op has generated insufficient revenue to cover the cost of program operation. During the last fiscal year, total co-op revenue was \$46,698.72. During this same year, expenses totaled \$54,616.30, creating a \$7,917.58 shortfall for FY 1995. Management is investi-

gating the possibility of temporarily merging this venture with the MANOS Janitorial Company until co-op membership increases.

EXPANSION OF BUSINESS ENTERPRISE SHOULD BE INITIATED ONLY AFTER CAREFUL CONSIDERATION AND THOROUGH PLANNING. Non-profit organizations managing numerous business ventures run the risk of the sudden growth of one or more enterprise(s). Uneven growth may strain an existing, though possibly not fully developed, organizational structure. To ensure long-term organizational success, business operations must be supported by secure operating systems and a strong organizational infrastructure. The rapid and unexpected growth of MANOS Home Health Care (30% annual growth rate over the past three years) has demanded virtually all MANOS' administrative and management resources, leaving little support for development of organizational structure or capacity to meet other operational requirements. Only in hindsight could MANOS have known their core enterprise, the home care business, was about to enter a period of significant revenue growth. In reality, of course, there was no way to truly anticipate this

growth, given that sales had remained stable with annual growth of 10% for each of the last three years. Even if MANOS had been able to predict these trends, the organization did not have adequate structures in place to guide its decision making process.

INAPPROPRIATE LEGAL STRUCTURES CAN GREATLY HINDER THE ORGANIZATIONAL AND ENTERPRISE DEVELOPMENT PROCESS. That MANOS is, at one and the same time, a cooperative, worker-owned enterprise; a for-profit holding company; and a non-profit development corporation has led to many complications in its legal structure and overall management. This is not to say that non-profits undertaking enterprise creation should shy away from attempting to establish structures which will achieve their organizational vision, but that non-profits with non-traditional or multiple organizational structures should fully anticipate the time required to examine the various legal implications of such organizations and the amount of resources necessary to assure the final entity both protects the organization and fulfills its charitable purpose.

INNVISION'S PROJECT RESTORE

Background

InnVision is a community-based organization providing emergency and transitional support to homeless people in San Jose, California.

In 1992, InnVision received a planning grant from the HEDF to develop a feasibility study and comprehensive business plan to identify and develop a self-sufficient economic development project utilizing the skills of clients and residents of InnVision's programs. With funds from the planning grant, a consultant was hired to assist in the planning process and help identify possible business ventures. Agency management opened the economic development process to staff, volunteers, and clients. After evaluation of various suggested business enterprise projects, Project Restore (an environmentally-sound recycling business that re-inked printer cartridges for local business and industry) was identified.

InnVision received an additional \$20,000 from The Roberts Foundation for start-up of Project Restore in 1993. The business plan called for a slow initial start-up phase, allowing project staff the time to develop the technical and managerial skills necessary to operate Project Restore while simultaneously implementing a modest marketing effort. After several months of operation, however, a number of implementation challenges had arisen. Barriers to growth included:

- The lack of an inventory control system to track on-hand stock and outgoing deliveries;
- Quality control problems; and
- A poorly implemented marketing system, which prevented the identification of potential repeat buyers.

Each of these concerns were subsequently overcome by the manager of the effort. Only a small number of initial customers raised concerns regarding product quality (records indicate less than one percent failure rate); the inventory system as well as a system of identifying and tracking repeat buyers were effectively addressed after an experienced business manager was hired. The marketing strategy itself was felt to be sound, but inadequate effort was invested in its execution, and insufficient time was allowed to successfully identify potential customers. Additional delays in the construction of a new housing site, which will include a more visible location for the shop, have also delayed complete implementation of the marketing plan. These setbacks have been reflected in sales which have been lower than initial projections, thus placing greater pressures on both the agency and the enterprise.

The organization has taken action to address these issues. An inventory system capable of tracking orders through the production process was developed that included a computer data base of the entire inventory including the number, types, value and origin of each ribbon and cartridge was created. To improve quality control, the business manager re-evaluated the process and work standards to ensure consistent inking. Most of the customer complaints centered on leaking printer ribbons which would leave streaks or ink blotches on paper. Since that time, the quality control issue has been satisfactorily resolved and customers are reportedly pleased with the improved quality of the product. These organizational and quality improvements have been reflected in improving sales, with March 1996 monthly sales of over \$4,000.

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Project Restore currently provides three sheltered employment slots for homeless individuals at 16 hours per week for approximately three months.
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At start-up of Project Restore, a number of ribbon donations were received, but there was no system in place for tracking the source of the ribbons donated in the evening hours, after the venture had closed. According to program staff, the best market for the ribbons is the companies that donated them in the first place, ensuring a regular repeat customer and on-going accounts. Program management developed a system whereby all ribbons are logged and tracked for resale to existing accounts, and "after hour" returns are now recorded. These new systems have allowed Project Restore to progress substantially toward its goal of a nearly 100% buy-back rate.

Additional market research conducted during project start-up revealed the rapid entry of ink-jet and laser printers into the office equipment market. It was critical at this juncture that Project Restore respond to consumer demand by expanding its services to include the recharging and re-inking of ink jet and laser printer cartridges, even if such a move meant increasing the cost and length of the start-up phase. This shift in the market is a classic example of how non-profits considering entry into a given industry must fully anticipate potential changes in that market before committing to any one technology or service. Project Restore initially responded to this market by contracting with an outside agent to recharge the cartridges until it could develop the capacity to move this function in-house.

Description of the Business Venture

Project Restore currently provides three sheltered employment slots for homeless individuals at 16 hours per week for approximately three months. In FY94/95, of the 16 employees hired, 12 had completed the 90-day transitional employment program. While additional clients have partic-

ipated in the program over the course of its operation, they did not complete the program for a number of reasons, including having secured outside employment. Each participant may work for up to 90 days in the project while receiving supportive services from InnVision shelter programs. The training and employment goal of Project Restore is to provide intensive, short-term job-readiness and technical skills training for InnVision's clients and residents.

Program participants receive employment readiness training followed by on-the-job experience under the supervision of a technical consultant. They work in a number of business-related areas including marketing, inventory management, customer relations, quality control, daily record keeping, office/administrative skills, and small machine operations. Project participants are encouraged to take an active role in management decisions and in determining the direction of the operation by working with a project advisory board made up of members of the community and InnVision board members.

Although they have increased steadily over the past three years, sales remain insufficient to cover program costs. Program staff feel confident that Project Restore's lengthy start-up phase has been justified by the increase in operational stability.

Project Restore will be moving to a new building in late June of 1996. Once settled in their new facility, staff feel confident a significant increase in sales volume will be possible through an aggressive marketing campaign. The marketing strategy for the upcoming year will focus on the procurement of contracts with large volume customers. These decisions are currently under discussion and it is anticipated they will be successfully resolved. At this point in Project Restore's history, leadership is confident the venture has the technical and operational capacity to handle a significant increase in sales volume without requiring additional equipment or significant capital investment.

Description of Programmatic Support Services

Support services include ongoing case management provided throughout the length of the worker's employment. As part of case management, employees set goals

and milestones at weekly review meetings. Participants work with staff to budget and save money to prevent a return to homelessness after leaving the program. Since all Project Restore employees are also residents of InnVision's shelters and/or homeless programs, individuals have access to an array of additional services including individual and group counseling and substance abuse treatment.

Lessons Learned

PERHAPS THE GREATEST OPPORTUNITY FOR MOVING HOMELESS CLIENTS TOWARD SELF-SUFFICIENCY CAME LESS FROM TRAINING IN "HIGH-TECH" SKILLS AND MORE FROM "HANDS-ON" EXPERIENCE DEALING WITH A WORK ENVIRONMENT AND PROVIDING NEEDED GOODS AND SERVICES. Clients had the opportunity to learn basic client relations and employment skills in a supported business environment. Project Restore's business manager then worked with each employee individually to help transition to long-term, permanent employment. This lesson parallels the current discussion in the community development field regarding the difference between training for "hard" ventures versus "soft" skills. This topic is addressed at greater length in the cross-cutting issues section of this document.

A MORE AGGRESSIVE MARKETING PLAN AT START-UP MAY HAVE ENSURED SUFFICIENT SALES TO HAVE REACHED BREAK-EVEN. Although a number of

implementation issues arose early on that demanded management attention, many of these barriers could have been addressed simultaneously with the pursuit of a more aggressive marketing strategy. Project Restore received start-up funding in 1993; three years later, the program has not approached break-even.

CAREFUL MARKET RESEARCH AND A COMMITMENT TO PRODUCT DIVERSITY WAS ESSENTIAL FOR SATISFYING CONSUMER DEMAND AND ENSURING ENTERPRISE SURVIVAL. Relatively early in Project Restore's start-up phase, market research revealed that a concentration solely on products for dot matrix printers would soon render the business obsolete in the face of emerging laser printer technology. With foresight, Project Restore expanded its business activities to include the recharging of ink jet and laser jet cartridges.

LOCATION AND ADEQUACY OF THE OPERATING FACILITY NEED TO BE CAREFULLY EVALUATED PRIOR TO VENTURE

LAUNCH. Project Restore needs to be located in a site which will provide both street visibility and access to clients and prospective customers. Furthermore, the present site does not provide adequate inventory storage capacity, which in this venture's case is critical. Delays in the opening of the new facility, which will address both these issues, has had a direct impact on sales.

THE SPONSORING ORGANIZATION MUST BE PREPARED TO PROVIDE SUFFICIENT MONITORING OF THE ENTERPRISE. Start-ups like Project Restore require extensive administrative supervision during the initial period of operation, before the business manager is fully aware of all operational issues. This monitoring proved more than Inn Vision could provide. The start-up was launched during a period of significant organizational growth (five programs were added and a \$2.8 million capital campaign was underway) which significantly impacted their ability to focus on the needs of the business.

SAN FRANCISCO NETWORK MINISTRIES

Background

Serving San Francisco's Tenderloin community since 1972, San Francisco Network Ministries (SFNM), with a limited staff of four full-time and one part-time positions, provides counseling, housing referrals, education referrals, tutoring, outreach to the elderly, AIDS services, and political organizing and advocacy for individuals and the community.

In 1990, SFNM became aware of an opportunity to purchase a plot of land. Glenda Hope, an ordained minister and Executive Director of SFNM, approached The Roberts Foundation to request a planning grant for purchasing the land, located in the Tenderloin neighborhood of San Francisco. The purpose of the grant was to investigate the possibility of designing and building a vitally needed low-income housing project on the site. A \$10,000 planning grant from The Roberts Foundation was matched by a grant from the Presbytery of San Francisco, Presbyterian Church (USA). Part of these funds were then utilized to engage an experienced non-profit housing developer, Chinese Community Housing Corporation, to conduct a feasibility and planning study for the construction of a family affordable housing project.

The balance of the funds from the original planning and development grant was

used to retain a development consultant to research additional sources of grant money, compose letters of intent and draft the boilerplate for full proposals. As an important first step, legal services were secured resulting in:

- Initial purchase option document and final purchase agreement for the site;
- San Francisco Network Ministries Housing Corporation (SFNMHC) was incorporated as a 501 (c)(3) corporation for the sole purpose of constructing and operating affordable, non-profit housing in San Francisco;
- SFNMHC and Asian Neighborhood Design, a non-profit housing development corporation discussed elsewhere in this report, entered into a limited partnership agreement for the development of an apartment building at the site with SFNMHC acting as the owner.

Due in large part to an intensive, up-front planning process and the engagement of a development consultant, full financing for basic construction costs (excluding amenities) was secured in the amount of \$6.9 million. The land was purchased with money from the City of San Francisco's Redevelopment Agency in 1992, and a toxics study of the site was completed shortly thereafter. Fundraising efforts were then set in motion to secure the remaining funding needed for amenities deemed desirable and necessary for a family housing development, and eventually resulted in approximately \$400,000 in non-governmental funding.

Full architectural plans were completed, and construction began in September, 1993, by the General Contractor, Transworld Construction Company. Caritas Management Corporation was engaged to manage the apartment building beginning with the application and selection process for future tenants. For three weeks in September, 1994, Caritas Management accepted 2,172 pre-applications. A lottery was held which drew 10 times more name submissions than there were available units.

Caritas Management conducted verification of information, interviews with applicants, site visits, and final notifications.

Project Description

The completed family housing project consists of nine studio apartments, 10 two-bedroom units, and 19 three-bedroom units. Within each of these categories, units are rented to residents at 25%, at 35%, and at 50% of the median income for San Francisco. A total of 131 individuals now reside at 555 Ellis Street Family Apartments. Their racial/ethnic origins include African-American, European-American, Chinese, Cambodian, Ukrainian, Vietnamese, and Filipino. Their ages range from one month to 86 years, with several apartments occupied by three generations of the same family.

In addition to the spacious, light-filled apartments, the building boasts many amenities. These include a community room in the front of the building and another larger one in the back of the building which features a well-stocked reference and lending library. Three double doors open

into the activity area of the landscaped backyard. A smaller quiet garden can be reached through a gate from the activity area or from another door in the building. Two small conference rooms allow individual or family counseling or tutoring to take place in private. A fifth floor computer workshop contains five personal computers and a small laser printer. The equipment is available for use by any resident when a supervisor/instructor is present (volunteers have been enlisted for this purpose). A rooftop garden with large planter boxes for each unit will be installed in May, 1996.

Available services to date, provided by SFNM staff, include instruction in English as a Second Language, recreation and arts programs for children and youth, counseling, referral, and advocacy with individuals and families, social mixers for residents, and instruction in computer use. Future programming will include study hall/tutoring for children and youth, exercise classes for senior citizens, and guidance for people wanting to develop small entrepreneurial enterprises. In addition, SFNM receives large quantities of goods such as kitchen tools, new clothing, school supplies, linens, and even two sewing machines, which are made available to residents who need them.

Lesson Learned

INVESTMENT IN AN INITIAL INTENSIVE PLANNING PROCESS INVOLVING THE COMMUNITY MAY YIELD IMPRESSIVE RESULTS. The planning grant from The Roberts Foundation enabled

SFNM to acquire the technical services of planning consultants who guided the organization, a grassroots ministry with no housing experience and limited capacity, through the planning and development process of low-income housing development.

The Roberts Foundation grant of \$10,000 for a feasibility and planning study helped result in a \$7.2 million apartment building for low and very low-income individuals and families with attendant services to aid them in leaving poverty.

SHELTER NETWORK OF SAN MATEO COUNTY

.....
*Sometimes
“Getting to
No” is more
important
than “Getting
to Yes.”*
.....

Background

Shelter Network provides a coordinated network of housing and social services to homeless individuals in San Mateo County, California. The agency also provides information and referral services to assist in the transition from homelessness to economic stability and self-sufficiency.

Although Shelter Network is not currently involved in a for-profit business enterprise, the network's experience in executing an effective feasibility planning process offers important lessons for other practitioners. Shelter Network's thorough and thoughtful organizational assessment illustrates the value of the business planning process, even if the end result is a decision not to pursue a business venture.

Description of the Business Planning Process

In early 1992, with funding from The Roberts Foundation Homeless Economic Development Fund, Shelter Network of San Mateo County embarked upon a business planning and feasibility process. The purpose of the process was to:

- assess the organization's capacity to engage in a revenue-generating business venture;

- investigate client, staff and board interest in and commitment to an economic development project;
- identify a business venture appropriate for meeting enterprise, organizational, and programmatic goals; and
- initiate the development of a comprehensive business plan.

The process was undertaken at the behest of Shelter Network's executive director with approval from Shelter Network's board of directors, which had previously expressed interest in evaluating the feasibility of an economic development project.

During June 1992, a screening committee comprised of Shelter Network senior management staff and members of the board researched and interviewed a number of consultants with expertise in economic development. In July, 1992, Shelter Network selected a consultant and began what was anticipated to be a six-to-eight-month process. The first two to four months of the planning process were earmarked for the feasibility study, with the remaining time dedicated to drafting an initial business plan.

During the fall of 1992 and early months of 1993, Shelter Network formed an economic development advisory committee that included members of the board, management, and service provider staff, and current and former clients of Shelter Network. The committee interviewed members of the board, staff and clients to assess the organization's capacity for economic development, and to generate ideas for possible business ventures. With assistance from the consultant, the committee generated a wide range of more than 40 possible business ideas. The "brainstorming" phase was extended by several months—longer than expected—when the agency unexpectedly took over operations of two other shelters in the county, following the withdrawal of another service provider from the area.

Relatively early in the feasibility study, the organization faced the need to address a number of general issues common to all

economic development ventures, including:

- Given the potential for conflict between programmatic and business enterprise goals, what was the priority in choosing the appropriate business venture—job training and job creation for Shelter Network’s clients, or a guaranteed revenue stream for funding program operations?
- How could the business enterprise be assured of a steady labor pool given the constant and frequent turnover among Shelter Network’s clients?
- What type of business could accommodate the wide range of skills and interests of Shelter Network’s client base, which included both white collar professionals and unskilled workers?
- Could the business venture pay sufficiently competitive wages such that residents would be able and motivated to accept employment with Shelter Network? Additionally, if the priority was to create jobs that paid livable wages, how many clients could the venture employ and what would be the minimal number of jobs created that would make the venture a worthy investment of agency resources?

To help guide decision-making around the issues raised through the feasibility process, Shelter Network looked at case studies of other non-profit organizations’ businesses, and examined the merits and disadvantages of different models, including free-standing businesses and traditional “fundraising” businesses (e.g., thrift stores). After much deliberation by the economic development committee members, board, and staff, it was decided that the agency would place prioritize a venture capable of assisting homeless individuals to develop the skills necessary to attain economic self-sufficiency, rather than focusing exclusively on profit-generating potential.

Selecting a Business Venture

By March, 1993, the economic development advisory committee had narrowed its considerations to two businesses: a residential gardening/landscaping business, and a retail/resale shop. Each business option offered unique opportunities and risks. The residential gardening/landscaping business seemed appropriate to the suburban community of San Mateo County, which had a relatively large population of minimally-skilled, undocumented laborers. Additionally, it was felt that Shelter Network’s donors and supporters, many of whom were elderly homeowners, could be persuaded of the benefits of patronizing such a business. The committee also believed the business would offer training and employment opportunities that could meet the needs of Shelter Network’s diverse client base. This included basic employment-readiness skills training for individuals entering or re-entering the work force, skilled landscaping work for those qualified, and limited clerical and office management opportunities in reception, bookkeeping and other office/clerical activities. The final benefit of a residential gardening and landscaping business was its perceived ability to accommodate a work force constantly in flux.

The second possible business, a retail/resale shop, was considered because of the existing resource of expensive and valuable home furnishings donated to Shelter Network. It was felt that a venue for resale of these items could generate revenue while offering training and employment opportunities in transportation (for pick-ups and deliveries), refinishing and upholstery, retail sales, bookkeeping, and general office management.

In addition to analyzing the market for both ventures, Shelter Network surveyed its donors to assess their support for economic development in general, and these two business propositions in particular. Donors were generally supportive, but raised concerns. Many felt potential customers would be intimidated having homeless people

working near their homes. Others felt Shelter Network's entry into the residential landscaping business would undercut low-income and self-employed gardeners already struggling to support their businesses. Some were concerned about other non-profit organizations in San Mateo County that supported existing landscaping businesses, especially those assisting the developmentally disabled, and did not want to see additional competition. With respect to a retail/resale business, many donors shared Shelter Network's own concern that the "thrift store" market in San Mateo County was already saturated.

For a six-month period in 1993, management staff's attention and resources were pulled from the economic development process by the opening of a new shelter site. When economic development work resumed in September, 1993, the executive director assumed responsibility for staffing the venture (previously led by the director of programs and services). At that point, Shelter Network solicited the support of key donors by administering a detailed survey to ascertain specific interests, and to determine donors' willingness to contribute business expertise and/or financial resources to either of the two proposed ventures. One major donor (a corporate grantmaker) surfaced, expressing an interest in helping to fund a chosen economic venture.

Coincidentally, at this time Shelter Network was contacted by another non-profit organization interested in collaborating on a non-profit business enterprise. This organization operated a jobs- and revenue-generating venture which employed homeless persons. The business was part of a national clearinghouse for corporate donations (furnishings, supplies, computer equipment, food, etc.) that redistributed collected goods to non-profit member agencies nationally.

Shelter Network closely examined this option. Advantages of such a business venture included the frequent but irregular need for large numbers of workers for moving and storage of donated items, the relatively high rates paid by corporate

customers, and the minimal skill levels required of its workers. Additionally, partnership with an existing business would save Shelter Network much of the expense and time associated with business start-up and the development of an organizational infrastructure capable of managing a business venture. A draft business plan was sent to The Roberts Foundation's Homeless Economic Development Fund (HEDF) for review and consideration by the Fund director. In the end, however, the two organizations determined a merger was not in their mutual interests at that time.

Results of the Business Planning Process

Shelter Network of San Mateo County concluded its exploration of an economic development venture in March, 1994. After more than two years (rather than the four to eight months originally anticipated), Shelter Network's board of directors and staff arrived at the conclusion that, although economic development was a promising course it might pursue in the future, Shelter Network had yet to identify the right business venture. In addition, it was felt other programmatic and organizational demands prohibited the agency from committing the resources necessary to launch a successful business venture.

Of the many organizations that received funding from The Roberts Foundation to explore the development of an economic venture, Shelter Network was one of a number that reached the conclusion not to initiate a business enterprise. Nonetheless, staff and board report that the entire process was extremely valuable. Shelter Network's exploration of its organizational capacity to launch a for-profit business venture helped the agency to better clarify its organizational mission, re-affirm its commitment to serving its target population, and to examine more closely the economic issues affecting the homeless community.

Lessons Learned

AN ORGANIZATION MUST BE AT THE APPROPRIATE DEVELOPMENTAL STAGE TO UNDERTAKE ECONOMIC DEVELOPMENT. Shelter Network entered the feasibility/planning stage at the end of an aggressive, five-year growth period that had more than sextupled the organization's staff and budget. At the time Shelter Network studied economic development, the agency had not yet allowed time for a contraction or consolidation phase typically needed in organizational development before additional expansion may be undertaken.

ADEQUATE MANAGEMENT AND STAFF RESOURCES MUST BE AVAILABLE FOR BUSINESS START-UP. Shelter Network's board of directors and executive director were not ready to take on a new business at the time it was investigated.

THE ROLE OF THE CONSULTANT IS CRITICAL TO A SUCCESSFUL BUSINESS PLANNING PROCESS. The individual consultant chosen should demonstrate compatibility with the organization's goals and objectives. At the beginning of the process, Shelter Network's screening committee narrowed the selection down to two consultants: one had developed and operated several businesses within non-profit organizations; the other had also advised non-profit organizations, but had greater expertise in developing and managing his own successful businesses that were stand-alone and self-supporting. Shelter Network selected the latter individual in the belief that the agency would benefit from a consultant who understood Shelter Network's effort to create a self-supporting venture

that would not drain revenue from shelter operations. However, this consultant was found to be less sympathetic to the competing demands of operating a business within the environment of a growing, non-profit organization focused on service provision to the homeless community. To illustrate, staff felt the consultant showed little understanding when periodic crises and other priorities arose that required resources be diverted from the enterprise assessment process. Shelter Network also had some difficulties with their operational relationship with the consultant. Shelter Network had expected, perhaps erroneously, that the consultant would take more leadership in executing the feasibility process. Instead, he tended to assign tasks to Shelter Network staff and committee members, and did not contribute the expected guidance and expertise.

THE STAFF PERSON IDENTIFIED TO GUIDE THE BUSINESS DEVELOPMENT PROCESS SHOULD BE COMFORTABLE WITH AND COMMITTED TO THE GOALS OF A FOR-PROFIT BUSINESS ENTERPRISE. Shelter Network initially selected its director of programs and services (one of three senior management positions, including the executive director) to staff the economic development project. This was a mistake. Trained in social work and interested more in service plans than in businesses, this person may have been inadvertently responsible for some of the early delays in the business planning activities.

THE IMPLEMENTATION OF A NON-PROFIT BUSINESS ENTERPRISE REQUIRES A KEY INDIVIDUAL OR GROUP OF INDIVIDUALS WHO WILL ACT AS ADVOCATES AND MAINTAIN ENTHUSIASM AND

MOMENTUM THROUGHOUT THE PLANNING PROCESS. A successful venture requires a staff "champion" who is passionate about a particular business. Shelter Network never found that champion.

CLIENT INVOLVEMENT THROUGHOUT THE PLANNING PROCESS IS CRITICAL TO SUCCESSFUL BUSINESS IMPLEMENTATION. Shelter Network discovered that it was difficult to maintain client participation in the economic development advisory committee. Homeless clients, regardless of their interest, were largely unavailable because of the pressures they faced in their attempts to secure jobs and permanent living arrangements. For them, participation in a voluntary activity was not a high priority. In addition, because transitional housing residents turn over constantly in Shelter Network's programs, it was difficult to maintain continuity of client involvement.

IN THE BUSINESS PLANNING PROCESS, SOMETIMES GETTING TO NO CAN BE AS IMPORTANT AS GETTING TO YES. Shelter Network is a major provider of services to homeless residents of San Mateo County and is a well-respected organization. It would have been relatively easy for the Network to simply raise a base level of funding and attempt to launch a casual venture on the fly. Had Shelter Network bypassed the business planning process, valuable organizational resources would have been expended in a business venture that would have had little chance for success. Should the Network decide in the future that organizational capacity for and interest in a business venture had evolved, the agency has already laid important groundwork for the start-up of a non-profit business enterprise.

SANTA CLARA UNIFIED SCHOOL DISTRICT - EDUCATIONAL OPTIONS

Background

The Santa Clara Adult Education Program is a division of the Santa Clara Unified School District. The Adult Education Program formed a partnership with the Santa Clara Marriott Hotels and Resorts and area shelters to prepare homeless individuals for jobs in the hospitality industry. This collaboration—between organizations in the public, private and non-profit sectors—holds promise for future programs of its kind. The project has been supervised by an assistant director and program manager provided by the school district. It is staffed by two people responsible for designing the curriculum, coordinating the shelters and hotels, and implementing the program.

Training and Placing People in Jobs

Participants are referred from homeless shelters to the program. They are then tested for literacy and other skills, enabling

the staff to determine the participants' capacity to complete the program's curriculum. The program consists of four weeks of classroom training in personal development skills, job interviewing, preparing resumes, and the basic tasks of hotel jobs, such as housekeeping and front office reception. This is followed by two weeks of on-the-job training at the Marriott Hotel in Santa Clara, including one-to-one supervision and training. Because these are ongoing trainings already provided by the hotel, it only needed to expand the pool of its trainees to include homeless individuals participating in the educational options program.

Over the four years this training and placement partnership has operated, more than 212 homeless individuals enrolled in a total of 26 program cycles, and 113 completed the training. Of those who completed the training, 72% were subsequently employed—55 within the hotel or related industry and 26 in other industries. Since the start of the program, only five students have left their place of employment. All others have maintained stable employment.

The students graduating from the Santa Clara Unified School District's Educational Options Program have been more successful than the average shelter resident in finding permanent employment and housing. Program staff attribute this success to the well-rounded training the program provides, which includes not only the kind of concrete skills needed for the hospitality industry, but also tools to solve problems and develop skills for becoming successful job seekers. Students have also reported an increase in their self-esteem and a more encouraging outlook on life.

The appeal of this successful and elegant program approach has not gone unnoticed in the local hotel industry. Over nine local hotels have hired the program's students. In addition to the Santa Clara Marriott Hotel, which was involved in training since the beginning, One LeBaron Hotel in San Jose has also participated in two job training cycles, and other hotels have expressed interest in participating.

The costs for this project have been

shared by a number of different parties. The first is The Roberts Foundation's Homeless Economic Development Fund, which provided a total of \$60,000 to support start-up efforts, instructor salaries, other support services such as transportation, lunches, child care, and appropriate work attire for the homeless students. The Santa Clara Unified School District picked up the rest of the operating costs for the

program, both through in-kind and direct financial support. The hotels themselves conducted the training. The program continued to grow and become more solid, and in 1994 it was opened to GAIN and vocational education students in order to help cover costs of instructional hours. Overall, the shared costs for this program have been very modest especially given its success.

Lessons Learned

JOBS ALONE ARE NOT ENOUGH TO STIMULATE SUSTAINABLE CHANGES IN THE LIVES OF HOMELESS PEOPLE. The education and training were essential elements to preparing homeless individuals for the job market. In addition, the program discovered quite early on that even the education and training components were not enough and there were other obstacles to participation such as childcare, transportation, and basic sundries and sanitary supplies. Once these needs were identified, The Roberts Foundation was able to make a grant to cover those program costs.

THE FINANCIAL INVESTMENT IN A JOB TRAINING AND PLACEMENT PROGRAM DOES NOT HAVE TO BE LARGE TO HAVE A SIGNIFICANT IMPACT UPON AND RATE OF SUCCESS WITH HOMELESS PEOPLE.

This program was relatively inexpensive compared to many other projects and the costs were effectively shared by a number of public and private sources. The project capitalized on the relative strengths of each party, building on the credibility of the school system, The Roberts Foundation, and the Marriott Hotel. Together, they formed a very successful partnership.

TRADITIONAL SOCIAL SERVICE PROVIDERS ARE NOT NECESSARILY THE BEST PURVEYORS OF JOB OPPORTUNITIES TO THEIR HOMELESS CLIENTS. When this program was starting up, it experienced considerable difficulty in receiving referrals from the

local homeless shelter network. The shelters did not view this training and placement program as a credible service and did not understand that job opportunities within the hotel industry existed for their clients. Instead, they seemed to take a more paternalistic view of their clients and wanted to shield them from unrealistic hopes and expectations for employment. It was a while before trust developed between the SCUSD Educational Options Program and the local shelter network; only when the program had established its integrity and built a track record did the shelters begin to recognize its value. Now, the shelters regularly refer clients to the program and there are very solid working relationships between the shelters and the school district.

ASIAN NEIGHBORHOOD DESIGN

Background

Asian Neighborhood Design (A.N.D.) is a non-profit housing and community development corporation with a 23-year history of service to low-income and homeless people in San Francisco, California. A.N.D.'s mission extends beyond housing development to include a broad array of services and programs designed to address the root causes of poverty and disenfranchisement.

With an annual budget of \$4 million, A.N.D. operates many diverse programs and enterprises focusing on building the skills necessary to enable both individuals and communities to move out of poverty. These programs include:

BAY AREA BUILDING TECHNOLOGIES

ACADEMY—offers employment training (especially for high-risk youth) in construction and cabinet making, computer literacy, computer-aided drafting and design (CADD), and computer-aided manufacturing. The BABTA also houses the agency's Architecture and Planning Department which offers internships and training in architectural drafting, community design, project management, and neighborhood safety and revitalization.

FAMILY & YOUTH SUPPORT CENTER—operates A.N.D.'s Self Sufficiency Program. FYSC provides case management, counseling, and other support services to youth and families.

Specialty Mill Products—a revenue-generating business enterprise providing basic construction and cabinet making services and products that currently employs 35 youth and adults involved in A.N.D.'s other programs.

JOB SUPPORT CENTER—provides technical and operational support to A.N.D.'s business enterprises. The center conducts ongoing market research, supervises product development, designs operating procedures, and trains new staff for employment with the business.

HOUSING AND COMMUNITY DEVELOPMENT—a housing development corporation devoted to the creation of low-income housing and other community-based initiatives.

Economic Development Strategies Supported by The Roberts Foundation

In 1992, A.N.D. completed construction of the Connecticut Street Court (CSC), a 10-unit housing complex for low-income families in San Francisco. The project was the first low-income tax credit, affordable housing development built in the state of California using "live/work" design and zoning rules. These units were designed with the intent of providing income-enhancement opportunities for families living in the complex. The CSC was envisioned as an experiment to test the feasibility of micro-business development for newcomer and homeless individuals and expand the economic opportunities available to them. While funding for the housing was secured through foundation and tax credit support,

funding for micro-business development was provided by The Roberts Foundation's Homeless Economic Development Fund (HEDF).

Since the original intent of the CSC project was to provide financial and managerial resources for families interested in developing their own small businesses, A.N.D. sought to select residents interested in entrepreneurial activities. State regulations dictated, however, that residents for the CSC units be selected based on a lottery system and that no other criteria could be considered. Despite the randomness of such a selection process, A.N.D. staff were surprised to discover that nine of the 10 families moving into CSC expressed interest in small business enterprise. The degree to which residents had considered such a venture, however, varied widely and, for the most part, business ideas were in a very preliminary stage. Since all CSC residents already had some source of income, if only government assistance, most of the business ventures considered during this period would serve more to provide supplemental than primary income for CSC families.

As staff began to work more closely with residents in developing economic strategies for attaining self-sufficiency, it became increasingly clear that no single method was going to meet the needs of all families. Formerly homeless families were struggling with the intense demands associated with rebuilding their lives and attaining a level of stability. The level of personal as well as economic resources required to start a new business was at times beyond the reach of CSC families. Management recognized the need to be flexible and allow individuals to identify their own strengths and assets in

developing a self-sufficiency plan.

As an example of the ways in which families identify these strengths, A.N.D. began working with a Cambodian family interested in opening a donut shop. Staff helped the family develop a savings plan to leverage funds to buy a business. In working with this family, it became clear family members had other skills and interests that could be developed. Because the father had been employed previously in the construction industry and had enjoyed the work, A.N.D. connected him with its trades training program. He successfully completed the course and subsequently found employment as an apprentice acoustical tile installer. The mother was also assisted in finding a part-time job. The family now expects that in three years, when the father becomes a journeyman, their combined income will enable them to attain economic self-sufficiency and move out of CSC. While this process did not result in a small business start-up, A.N.D.'s flexibility in their support of this family allowed them to enhance the strengths and interest of the family and still fulfill their ultimate mission of moving individuals out of poverty.

At the end of CSC's first year of program operation, the agency completed an evaluation of the micro-business enterprise development project. It was decided that, although resources would continue to be made available for families interested in pursuing small business enterprise, the focus of CSC's economic development strategy would shift to a more comprehensive approach in assisting families to define individual strengths and interests that would guide development of an individualized self-sufficiency plan.

Lessons Learned

A FOCUS ON ENTERPRISE DEVELOPMENT AND SELF-EMPLOYMENT HELPED CLIENTS IDENTIFY STRENGTHS AND RESOURCES THAT COULD BE USED TO ACHIEVE SELF-SUFFICIENCY, BUT SELF-EMPLOYMENT PROVED TO BE JUST ONE OF SEVERAL OPTIONS FOR PURSUING AND ATTAINING ECONOMIC SELF-SUFFICIENCY. Exposure to an environment that prioritized economic development strategies encouraged residents to begin assessing personal resources and envision economic possibilities beyond a

life of poverty. However, while nine out of 10 resident families initially stated a serious interest in creating their own family-owned enterprise, only one actually attempted to launch a business. Most decided to pursue other strategies, such as education or training, which could meet their personal and financial needs. A.N.D. used this experience to develop the conceptual framework for understanding individual change presented in the chapter entitled “Considerations for Individual Development.”

THE RESTRICTIONS PLACED BY THE STATE ON A “LIVE/WORK” RESIDENTIAL HOUSING COMPLEX PROHIBITED THE SELECTION OF FAMILIES WITH A STRONG INTEREST IN SMALL BUSINESS DEVELOPMENT. Had CSC not been required to fill its housing units through a lottery system, and been allowed to screen families according to an expressed interest in business development, the outcome of the CSC project may have been more likely to produce micro-business enterprises.

BERKELEY ECUMENICAL CHAPLAINCY TO THE HOMELESS

Background

In early 1988, 12 churches and a synagogue in the Berkeley area founded Berkeley Ecumenical Chaplaincy to the Homeless (BECH) as an effort to move beyond emergency shelter programs and toward the development of longer-term housing and employment opportunities for

homeless East Bay residents. By early 1990, BECH's only full time employee was its Chaplain/Executive Director, though it had an extensive volunteer and homeless community network consisting of over 30 peer chaplains and 50 volunteers.

The core of the BECH approach was a commitment to the creation of

“...a community of homeless and non-homeless people working together. Their key instrument for building that community is the homeless peer chaplaincy. Every three months, they select a group of homeless people to undergo an intensive training program. At the end of their training, they graduate and become peer chaplains. Peer chaplains have the following tasks:

- To identify and pursue their personal goals;
- To support one another;
- To seek inspiration;

- To provide information and referral, emotional support and advocacy to other homeless people;
- To help educate the larger community about homelessness;
- To develop and operate programs for the homeless in our area.”¹

Starting Up Small-Scale Businesses

In August of 1988, BECH graduated its first group of “homeless peer chaplains” from its training program. When these peer chaplains met to discuss what projects they wanted to pursue, the idea of a “homeless press” was raised. The press would involve homeless people in the design and production of holiday greeting cards. A small grant from the City of Berkeley was received and in 1989 a total of 5,500 cards were sold. While this initial experience was positive, it was also viewed as limited. Discussions were held regarding other enterprises which could be initiated to offer full-time employment to a larger number of homeless people.

BECH had informally supported a variety of arts and handcraft activities on the part of its participants and one of the peer chaplains had the idea of opening a homeless handcraft tool and trade center. The plan was to create a center which would maintain power tools, woodworking equipment, and other light production support for homeless individuals producing craft items for sale to the public. The center would not only be used by homeless people, but its materials would also be available for rental by neighborhood residents. The center would provide systematic marketing support for the products developed by homeless participants, as well as opportunities for volunteers with particular expertise in craft and woodworking to provide training to program participants. In addition to serving as a crafts center, the

center would organize work crews of program participants who would be hired on a contract basis for house painting, light construction, and other residential maintenance work.

By June of 1990 the project had designed and constructed a multi-use workshop in the garage attached to their transitional living house. It was equipped for production of crafts and repair of household items. In conjunction with the program director, two formerly homeless program participants were appointed to manage the enterprise. These individuals developed policies and procedures for administering the effort. Furthermore, a homeless crew of eight had been formed that brought a variety of skills in residential painting, yard maintenance, light construction, and janitorial services. The crew was advertised through flyers directed at area businesses, schools, and churches.

As of early summer 1990, the project had developed a variety of objectives for the following 12-month period, including:

- securing the services of a business consultant to assist in the assessment of marketing efforts, accounting and personnel systems, organizational structure, and other issues related to start-up;
- establishing a consistent promotional effort to recruit 70 area merchants to contribute \$6,000 for the Center;
- hiring an additional homeless staff member on a full-time basis to manage the marketing effort;
- recruiting 20 additional homeless individuals to utilize the workshop to produce crafts for the 1990 holiday season;
- developing a network of marketing outlets (churches, flea markets, etc.) adequate for selling the majority of the products created;
- establishing a loan program to provide support of up to \$200 per applicant to cover material costs of goods sold;

¹ Quoted from a 1990 Grant Request to the HEDF.

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Program leaders developed a list of over 16 objectives—too extensive to document here—that were to be attained by early summer of 1991. Needless to say, this was an ambitious and far-reaching project with a very short planning and implementation time frame.

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➔ and, finally, by June of 1991, to have a formally operating enterprise with a minimum of five full-time employees, 25 work crew members, an operating loan pool, adequate resources for expansion of equipment needs of the Center, and a new 20-seminar training program for participants.

Program leaders developed a list of over 16 objectives—too extensive to document here—that were to be attained by early summer of 1991. Needless to say, this was an ambitious and far-reaching project with a very short planning and implementation time frame.

While the organization had a high level of commitment to the project, its lack of specific expertise in the area of enterprise and organizational development was a limitation it sought to address through the use of a small business consultant. After interviewing several candidates, the group settled on a firm that had experience working with non-profit organizations. It became apparent over the coming months, however, that the program director was unclear on how to best use the consultant's services. While the consultant had submitted a scope of work to the organization and had conducted a comprehensive assessment of the organization and its needs, it was her understanding that project staff would play the lead role in gathering information and developing an analysis of the center. The project staff, on the other hand, felt it was the consultant's role to engage in research and develop a presentation of the analysis which would be submitted to their board and staff. Following almost six months of inactivity and poor communication between the consultant and BECH, the HEDF director finally intervened. A meeting was convened and the expectations of all parties were reviewed, responsibilities reassigned, and timelines reconfirmed. The consultant's work, however, was suspended until the agency could resolve other, more pressing issues discussed below.

In the course of the meeting at the HEDF office, it became clear the peer chaplain in charge of the project had come to identify the center as "his" and had reached

the conclusion that BECH's program director was not sufficiently committed to his vision. This situation was made possible due to the peer chaplain's drive and significant personal investment in the center, and also because the program director had focused primary energies on responding to the core organizational needs of the still-young agency, including basic board development, fundraising and ongoing supervision of the peer chaplains. To further complicate the situation, after having spent two years working in these areas, the founding director accepted another position and left BECH.

A new chaplaincy executive director was brought on board in the Fall of 1991. The peer chaplain managing the center was energetic and able to articulate what he wanted to achieve. While he was, in fact, actually not meeting goals he had set for himself in the start-up of the Center, he was nevertheless able to project the image that the start-up process was on track and well-managed. The new director, coming into an organization with many basic needs still unaddressed, acquiesced to the peer chaplain, allowing him to operate independently.

This "independence" had, in fact, the reverse effect of leading the peer chaplain to believe that BECH had "given up" on the center and was no longer fully committed to its implementation. Furthermore, it allowed the peer chaplain to confirm his sense of personal ownership of the center to the point where he attempted to file articles of incorporation to establish the center as his own non-profit separate from the parent organization. Needless to say, this was not viewed favorably by BECH's other program participants, board or staff.

Following several additional months of indecision, the board of BECH finally acted to suspend the center's operations. It was felt that while the basic idea was good, it had not been effectively implemented. The peer chaplain left the program and is no longer in contact with the staff. The second program director served for another two years before herself resigning and turning the position over to the board president on an interim basis.

The project is now on its third full-time chaplaincy executive director in six years. BECH, which started with the simple idea of operating a small print shop to produce handmade greeting cards, has now returned to where it began. In the fall of 1995, the project continues to operate a residential program and will produce and sell its holiday greeting cards. BECH is also

working toward operating a small arts program for area homeless people. The board president, having been with the agency since its founding, resigned as of November 1995, and, while still working on specific agency activities and fundraising, is no longer involved in the day to day management of BECH.

Lessons Learned

BECH'S ORGANIZATIONAL CAPACITY WAS SIGNIFICANTLY BENEATH THAT REQUIRED FOR A PROJECT OF THIS SCOPE. While it is not unrealistic to expect a small organization to manage the development of a large-scale project (see Network Ministries), BECH was simply too undeveloped to support such a broadly conceived effort. Its founding director, while visionary, did not have the operational skills necessary to support such rapid organizational growth and at the same time manage the start-up of a community enterprise. The board of directors, made up of local representatives of area religious communities, appears to have assumed the director would be up to the task and play the necessary role of providing oversight of the center's start-up. The peer chaplains did not have enough time to coalesce as a group in order to assist in the management of the program and center as originally envisioned by the founders. (Please see Community Housing Partnership for an example of a

more successful experience with this approach.)

THERE WERE TOO MANY GOALS FOR THE PROJECT AND MOST WERE TOO GENERAL TO BE REALISTICALLY PURSUED.

As stated above, the center was supposed to achieve over 16 goals in its first year of operation, ranging from revenue generation to job creation to a variety of social outcomes. Non-profits approaching the creation of such enterprises need to be extremely focused upon a limited number of general goals and achievable specific objectives. A great many conversations between the HEDF director and enthusiastic non-profit managers have been held over the years to trim the start-up goal statements like an onion, finally getting to the core goals of profitability and effective enterprise management. Without those primary goals, all other hopes for job creation, the provision of meaningful transitional employment, or the generation of revenue for the non-profit are beyond reach.

THE HEDF DIRECTOR DID NOT ADEQUATELY MONITOR THE PROGRESS OF THE PLANNING PROCESS. Following

the award of a \$9,000 planning grant and word that a consultant had been identified, the Fund director was not in regular contact with either BECH's director or the consultant. The assumption made by the Fund director was that the project, with a specific work plan, experienced consultant, and energetic program director, did not require regular monitoring. This was one of the first grants made by the HEDF. What was not adequately appreciated by the Fund director was that while some non-profits with more seasoned staff and program participants could execute an effective planning process without the Fund's involvement, many homeless organizations currently active in our communities have emerged since the advent of "modern" homelessness and are still in the early stages of organizational development. While it would not have been appropriate for the director to steer the process, frequent and more in-depth involvement would have identified problems earlier, when targeted intervention might have contributed to a better outcome for the Center.

THE VISION OF “EMPOWERING” THE HOMELESS THROUGH A PEER-BASED ECONOMIC DEVELOPMENT EFFORT WAS SOUND. THE IMPLEMENTATION WAS NOT. While tasks were shared among board, staff and program participants, the responsibility for any organization must ultimately rest with its board of directors. The board’s vision of creating a consumer-driven and managed organization was realis-

tic and appropriate. However, in order to work, such a program must have clear job descriptions, a list of process outcomes to which to hold staff/participants accountable, and necessary management skills on the board of directors to effectively oversee staff implementation of the program. The idea of participant self-determination is sound, but it can only be realized if the roles

and responsibilities of program participants are appropriate and well-supported by the organization as a whole. BECH, as a start-up with an incredible amount of enthusiasm but little specific experience in the management of such an economic development effort, was not well positioned to succeed at the extremely ambitious task it had set for itself.

SOMa STEAM CLEAN

Background

The South of Market Foundation (SOMa Foundation) is a community development corporation serving the South of Market neighborhood of San Francisco, a moderate- to low-income community that hosts a large share of the City’s single-room occupancy (SRO) housing as well as a variety of community needs. SOMa Steam Clean (SSC) was established by the SOMa Foundation in July, 1992, as a pilot project designed to provide steam cleaning to businesses in the South of Market Earthquake Recovery Area (SOMERA) while providing

employment opportunities to homeless people. SSC’s original mission was to advance previously unemployed homeless persons into permanent employment positions by providing short-term employment opportunities combined with basic job training.

First-year pilot funding was provided by the San Francisco Redevelopment Agency. Organizational infrastructure and management support during business start-up was provided by the SOMa Foundation. As a basic enterprise goal, it was anticipated that SOMa Foundation would play a decreasing role as SSC developed greater operational autonomy.

By the end of the one-year pilot period, SSC had demonstrated sufficient potential for development into a self-sustaining business venture to capture the interest of funders. In 1993, SOMa Steam Clean sought and was awarded a \$40,000 capital investment grant from The Roberts Foundation’s Homeless Economic Development Fund (HEDF). These funds went toward the purchase of additional steam cleaning equipment and a computer for marketing and record-keeping purposes. The business development grant provided by the HEDF enabled the SOMa Steam Clean pilot project to begin functioning as a sales-generating enterprise.

Description of the Business Venture

SSC currently employs three full-time (over 30 hours per week) employees (two crew foremen and one litter removal worker) and four part-time (averaging 20 hours per week) workers (two steam cleaning employees, one litter removal worker, and one job counselor). All current work crew employees have been employed by SSC for over six months. Since its creation in 1992, SCC has employed a total of 16 individuals for varying durations. Among these individuals, six have advanced to secure employment positions outside of the agency. With the rapid growth in sales experienced over the last two years of business operations, and with several large contracts currently under negotiation, the number of full-time employment slots is projected to more than double within the next year. The initial investment made in employee training in years one and two has begun to be realized in greater productivity of the SSC work crews, demonstrated by a decrease in direct labor costs from 78% of total cost of sales in FY 1993-94 to 44% in FY 1994-95.

During the first two years of business operation, revenues generated through job sales were insufficient to cover job costs. For FY 1992-93, SOMa Steam Clean received the lion's share of its total revenues from grant subsidies and SOMa Foundation in-kind support. By FY 1993-94, the proportion of revenues from subsidies and in-kind support was reduced somewhat. And by its third year of program operations (FY 1994-95), SOMa Steam Clean generated sufficient revenues from job sales to reach break-even on job costs and reduce dependence on subsidy revenues to 26% of total revenues. This reflects greater productivity and better management on the part of the business venture.

In addition to low sales volume generated through start-up of business operations, management personnel encountered additional obstacles as SOMa Steam Clean attempted to evolve toward self-sufficiency:

- At start-up, SOMa Steam Clean lacked an automated business accounting system capable of identifying and tracking repeat customers, resulting in organizational inefficiency at pursuing and securing contract-driven sales. In addition, the lack of an business accounting system limited the venture's ability to project revenues and to conduct effective business planning.
- A high turnover rate among an inexperienced work crew led to lower productivity and higher training costs than originally projected.
- The lack of a business manager to supervise SOMa Steam Clean's daily operations and marketing activities resulted in a greater dependence on in-kind support from South of Market Foundation's management personnel and staff than had been originally anticipated. As a result, activities such as the implementation of an aggressive sales and marketing campaign, which could have been assigned to a business manager, were not adequately implemented during the business start-up phase.

As SOMa Steam Clean evolved from a job training pilot program to a revenue-generating business venture, strategies were developed to address obstacles to growth, identified during the business start-up phase. To increase SSC's capacity for identifying potential repeat customers and tracking sales, The SOMa Foundation provided in-kind support to develop a specialized business accounting system to support SSC operations. Once an accounting system was in place, accurate and up-to-date information was available for determining SSC's financial position, allowing for greater effectiveness in financial planning.

To address high turnover and low worker reliability, management identified two primary concerns; (1) a lack of control over the employee screening process, and (2) a program design which failed to grant sufficient time for building reliable work skills among workers hired. The loss of control

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over the screening process was in part due to the fact that a collaborating agency, the South of Market Merchants Association, was responsible for identifying and referring potential workers, while SOMa Foundation was responsible for implementing business operations. During year two, SOMa Foundation took over sole responsibility for employee screening. This allowed the Foundation to select homeless candidates who demonstrated the highest likelihood for success with SOMa Steam Clean.

In another move to build and maintain a reliable workforce, SOMa Foundation lengthened the employment period for SSC workers. As the venture was originally envisioned, workers were to complete temporary (six-month) training and employment periods before making the transition to permanent employment outside the agency. During business implementation, however, it became clear that worker turnover at six months prevented the development of experienced work crews while providing insufficient time for individual workers to gain the confidence and skills deemed necessary to secure and maintain outside employment. Based on this experience, management decided to extend the average employment period from six months to 12–18 months.

As SSC work crews gained experience and training, employees were able to accept greater management responsibility. The development of management capacity from within SOMa Steam Clean work crews had the additional benefit of decreasing the demand on staff time among SOMa Foundation staff and management personnel. As an example, a formerly homeless individual who had been with SOMa Steam Clean for two years was recently hired as crew manager and has adopted increasing responsibility for managing daily business operations.

Despite a reduction in the proportion of in-kind and subsidy revenues, the continued reliance on in-kind contributions of

SOMa Foundation's management and marketing personnel remains a significant obstacle to SSC's enterprise goal of self-sufficiency. According to management at SOMa Foundation, SSC has immediate plans to hire a part-time business manager. It is anticipated that funding for this position would be provided by an increase in sales generated by pending contracts with a number of local businesses.

Responsibilities of the business manager would include sales and marketing, record-keeping, personnel management, and financial tracking and analysis. The bulk of operational management responsibilities have been assigned to an SSC employee who was recently promoted from crew foreman.

Description of Program Services

While SSC has access to a wide array of social services in the area, it offers minimal in-house support services apart from job counseling through the part-time job counselor contracted to SSC. Once an employee has completed his or her SSC employment period, the job counselor assists in securing long-term employment for that individual. Once employed outside SSC, crew foremen and workers maintain contact with the former employee, offering an informal support network to assist in the transition to long-term employment. Plans for contracting case management services for SSC employees are currently under discussion. Management is committed to offering expanded support services to SSC employees and potential employees as long as such services can be supported by increased sales revenues. Naturally, SOMa Foundation is also exploring how to receive such support for its employees on an in-kind basis from existing human service organizations.

Lessons Learned:

AS PART OF START-UP FUNDING, RESOURCES SHOULD BE ALLOCATED FOR THE DEVELOPMENT OF AN INFRA-STRUCTURE, INCLUDING BUSINESS ACCOUNTING SYSTEMS AND MANAGEMENT PERSONNEL, THAT IS CAPABLE OF SUPPORTING BUSINESS OPERATIONS. SSC's over-reliance on in-kind donations of SOMa Foundation management and staff time placed a heavy strain on Foundation resources and provided little incentive or opportunity for SSC to develop internal management systems capable of guiding an autonomous enterprise. An experienced and committed business manager could have helped overcome early obstacles.

THE LACK OF RESOURCES ALLOCATED FOR AN AGGRESSIVE SALES AND MARKETING CAMPAIGN DURING BUSINESS

START-UP WILL RESULT IN SLUGGISH FIRST-YEAR SALES WHICH IN TURN EXTENDS THE PERIOD OF TIME A NON-PROFIT BUSINESS VENTURE IS DEPENDENT UPON GRANT SUBSIDIES. SOMa Foundation management believes that had sufficient management resources been allocated for marketing and sales during first year start-up, SSC could have generated sufficient sales to have reached self-sufficiency at an earlier stage. At the time funds were applied for, it was thought current staffing capacity was adequate to manage the enterprise and support its growth. This assumption proved wrong.

LONGER-TERM INVESTMENT IN A SMALL GROUP OF INDIVIDUALS MAY YIELD GREATER OPPORTUNITY FOR BOTH INDIVIDUAL AND BUSINESS SUCCESS, THAN SHORT-TERM INVESTMENT IN A GREATER NUMBER OF EMPLOYEES. SSC's initial design as a six-month

job training and placement program failed to account for the time required for homeless and formerly homeless individuals with a variety of needs to achieve and maintain employment stability. Based on observations made during the first year of program operations, SSC decided to invest organizational resources in developing longer-term (12-to- 18-month) employment positions. This adjustment to the program, which gives individuals adequate time in a supported environment to gain the confidence and skills necessary to transition to permanent employment, has resulted in lower worker training costs and higher productivity among SSC employees. The downside of this approach, however, is that fewer individuals benefit from the training provided. through employment opportunities.

COALITION ON HOMELESSNESS, SAN FRANCISCO

Background

The Coalition on Homelessness was incorporated in 1988 with the goal of providing research and advocacy programs to alleviate homelessness in San Francisco. The Coalition operates primarily through “working groups” which involve homeless people and homeless advocates in developing programs and policies regarding housing, economic development, and civil rights for homeless San Franciscans. The Coalition has 7.5 FTE staff, all but two of whom are formerly homeless.

The Coalition publishes the *Street Sheet*, a grassroots newspaper which covers issues related to homelessness. It is also an income-generating initiative for the benefit of the Coalition’s homeless constituency. Homeless people sell the paper for \$1 a copy and may earn up to \$1,000 per month through such sales.

Since 1990, the Coalition has received a number of grants from the HEDF, including:

- a \$14,800 grant in 1990 to expand the Coalition’s “Newsletter” to a newspaper, increase the distribution of the *Street Sheet*, and examine the feasibility of the newspaper becoming a self-sufficient enterprise;

- an additional \$4,000 was awarded in July of 1991 to support the Coalition’s plans to develop a base of underwriters; and
- a \$15,000 Program Grant was made in support of the Coalition’s Economic Development Working Group designing a vocational and enterprise development program that would involve homeless people as well as complement the work of the Community Housing Partnership, a local non-profit housing developer presented elsewhere in this report.

Development of the Street Sheet Enterprise

The *Street Sheet* was originally an internal newsletter distributed to the Coalition’s members and deposited in area shelters. About 1,500 copies were run-off every month with expenses covered through the Coalition’s general fund. In the spring of 1990, the publisher of *Poetry USA* began meeting with the Coalition to determine how his publication could be used to help homeless people. Those discussions resulted in an agreement to give the Coalition overruns of *Poetry USA* so homeless people could sell them to the public and keep the proceeds. At that time a pilot effort was undertaken and demand for the copies well exceeded supply.

In September of 1990, Phil Collins did a benefit concert for the Coalition at which copies of a one-time “Best of” the *Street Sheet* were distributed. The response was tremendous, which prompted the staff to begin maintaining records on newspaper sales and begin marketing more widely. Staff realized, too, that homeless vendors feel better about selling a product like the *Street Sheet*, than they do about panhandling, and that program participants were able to earn more selling *Street Sheet* than they did panhandling. It also became apparent that many people prefer to make a purchase

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The Street Sheet also helps publicize the work of the Coalition and issues related to homelessness. It serves as a key educational tool in promoting information and ideas related to homelessness and other public policy issues.
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from a homeless person rather than respond to appeals for hand-outs from individuals on the street.

The Coalition approached The Roberts Foundation's HEDF director for funds to increase the marketing and vending activities of the newspaper, and incorporate it as a regular part of its program. The grant in 1990 allowed the Coalition to hire part-time staff and pay for publishing 20,000 copies per month for six months. This was to be followed after four months with a smaller grant to assist in assessing the feasibility of *Street Sheet* as a self-supporting enterprise.

HEDF funds were used to hire a formerly homeless person to coordinate the program and document its impact. Staff also tracked information about the vendors who sell *Street Sheet* to determine how this work is affecting them, how much they are able to earn, and so forth. With a change in paper stock, the Coalition increased the number of copies they could afford to produce from 20,000 to 30,000. As of May, 1996, the Coalition produces 34,000 copies, of which 30,000 go to vendors, 1,000 to homeless shelters, 2,000 to subscribers and 1,000 for public relations and miscellaneous distribution.

Homeless vendors get a stack of 50 papers per day which they can sell. The Coalition's vending coordinator reports that, on average, vendors make \$750 per month. Demand continues to far exceed supply and the Coalition now maintains a waiting list of prospective vendors. Presently, 30 people a day are provided with papers. The *Street Sheet's* annual budget is \$41,035, which includes publication costs and a portion of two staff positions. In 1992 the *Street Sheet* generated \$19,719 for the Coalition and in 1995 it generated over \$51,500 — leaving a \$10,000 surplus.

Questions have been raised concerning the "wisdom" of providing homeless individuals with an opportunity to earn funds on the side which may be used to support drug habits or for other illicit activities. The Coalition maintains a strict policy against drug or alcohol use by its vendors. If an individual is found to have used funds earned from *Street Sheet* sales for the purchase of drugs/alcohol, that individual is

provided with names of treatment centers to which he/she may turn and is prohibited from representing the Coalition as a vendor. The *Street Sheet* is a newspaper which is the direct product of many homeless and formerly homeless people. They do not want their publication to get a reputation as a "scam" and for this reason take such problems as intoxicated vendors very seriously. While all programs encounter their share of problems, the Coalition addresses their problems in a prompt and serious manner.

The *Street Sheet* has also proven a good vehicle for promoting options available to homeless individuals. By serving as an initial contact point for many homeless people, the Coalition uses the *Street Sheet* to connect with what is in many ways an extremely marginalized population. The information included in issues of *Street Sheet*, together with the relationships which develop between staff and participants, serve as a bridge off the street to other support services and housing options. The *Street Sheet* also helps publicize the work of the Coalition and issues related to homelessness. It serves as a key educational tool in promoting information and ideas related to homelessness and other public policy issues. Furthermore, vendors often become active in the Coalition on Homelessness in advocacy and organizing opportunities as a result of their involvement with the *Street Sheet* effort.

In 1991, the Coalition brought in a business student who conducted a feasibility study on the *Street Sheet's* options for self-sufficiency. The options analyzed were: 1) advertising sales; 2) charging vendors for copies of the newspaper; and 3) developing a base of underwriters for the publication of the paper. The first was rejected on ideological grounds and because it was financially unsound during a period of overall decreasing revenues. The second was rejected because it would jeopardize the Coalition's relationship with vendors, and would be a practical challenge. The Coalition elected to develop a base of underwriters willing to support the paper at \$50 per month for six months. It was projected that 42 underwriters were necessary to cover costs; however, the *Street Sheet*

presently is self-supporting with approximately 20 underwriters.

By the end of 1992, fifteen underwriters had been recruited; at the close of 1995, 30 individuals were committed to underwriting the *Street Sheet*. There was a shortage of staff time available for the underwriting campaign, so the paper's full potential to generate income for the Coalition was untested. In addition, the Coalition has been hesitant to greatly increase circulation for fear of saturating its market and

having to "hold" additional copies at the Coalition's main office. Furthermore, the *Street Sheet* is not seen as a substitute for viable employment, but rather a way for homeless people to generate discretionary income on a short-term basis. Therefore, the staff are hesitant to significantly expand its operation which would take time away from work on other, more long-term strategies for addressing homelessness.

Lessons Learned:

ORGANIZATIONAL CULTURE MUST DRIVE THE CREATION OF AN APPROPRIATE NON-PROFIT ENTERPRISE. Each organization attempting to expand economic opportunity for homeless people must assure that the specific enterprise under consideration fits well with the culture and values of the sponsoring agency. Just as it may have been inappropriate for the Coalition to attempt the start-up of a restaurant, light manufacturing, or service business, the creation of the *Street Sheet* was a direct outgrowth of the organization's core competencies in community outreach and advocacy. This fact made the start-up, expansion and establishment of the venture much easier to pursue. The organizational culture supported this activity in a way it would not have supported other, more traditional job creation efforts.

THE CREATION OF DISCRETIONARY INCOME IS AN APPROPRIATE STEP IN THE CONTINUUM OF HOMELESS ECONOMIC DEVELOPMENT. When the project was initially developed, concerns were raised both within and without the organization concerning what the Coalition could accomplish by giving people a way to earn a few dollars while still living on the street. In fact, what was discovered was that some individuals selling the *Street Sheet* had access to shelter (though in most cases not permanent, affordable housing) and were simply at a point where they needed to earn additional income to pay for the costs of food, clothing and other necessities. While an ultimate goal is to provide housing for homeless people, thousands of people cannot access or choose to reject the system's offerings of shelter and programs. For them, the best intervention is offering a way to better provide for themselves while still on the street or in "at-risk" housing. This experience demonstrates that all homeless people are not striving for full-time employment and that the provision of opportunities for

generating discretionary income may be a meaningful step toward self-sufficiency.

THE FUNDER IS NOT ALWAYS RIGHT AND GRANTEEES MUST DETERMINE FOR THEMSELVES WHAT THE APPROPRIATE ENTERPRISE GOAL SHOULD BE. When first discussing this project with the Coalition, the Fund director was of the belief that the best route to pursue would be that of limited advertising. At the time it was felt an underwriting program amounted to nothing less than a form of traditional fundraising, while advertising would force the project to become more market-directed. While that may still be true in some ways, it is also clear that any effort to force the Coalition to pursue an advertising strategy would have been disastrous and inconsistent with the identity and values of the Coalition. In supporting the Coalition's efforts to create its enterprise as it saw fit, the Fund helped create what is now a mainstay of the San Francisco scene and participated in the establishment of a new vehicle to help break down the barriers between the housed and the house-less.

WOMEN AND THEIR CHILDREN'S HOUSING (WATCH)

Background

The WATCH Project offers two-year, safe, transitional housing and comprehensive support services for homeless, battered women and their children in Santa Clara County, California. The project's primary mission is to break the cycle of violence by assisting families who have experienced domestic battery to lead lives free of violence and attain economic self-sufficiency. Central to WATCH's goal of increasing women's self-esteem and empowerment is a client-centered focus which calls for active resident participation in all aspects of program planning and implementation. Another of the project's primary goals is to provide participants with the opportunity to develop the specialized skills and receive the employment training necessary to move from dependency to economic self-sufficiency and empowerment.

The commitment to providing economic development opportunities for WATCH residents stimulated organizational interest in the creation of a non-profit business enterprise that would give women training opportunities while providing a source of revenue to fund program activities. In keeping with a client-centered focus, project managers stressed the involvement of present and former WATCH residents in all stages of the business planning and development process.

History of Business Development Activities

WATCH initiated the process of business enterprise development by appointing an economic development committee to investigate residents and staff interest in and commitment to starting a for-profit business venture that would provide a vehicle for training clients while generating revenue for program operations. Once organizational commitment was established, the committee was charged with the task of identifying an appropriate business venture to pursue. After surveying past and present participants regarding their interests, skills, and past employment history, as well as staff and volunteers, the committee identified a potential business opportunity for WATCH and its clients: offering temporary office support services.

In 1991, with funding from The Roberts Foundation's Homeless Economic Development Fund (HEDF), WATCH conducted a study to examine the feasibility of starting a business that would provide temporary clerical and administrative support to local executive groups. Initial market research, however, revealed limited opportunities for such a venture. The feasibility study revealed three primary obstacles to growth. First, there were few executive groups within a geographic radius that would be easily accessible to WATCH residents. Second, among those executive groups identified, most reported existing service contracts with office support businesses. Third, with the rapid integration of personal computers into the workplace, the overall need for clerical support services was declining. Based on results of the feasibility study, the idea of a clerical support business was abandoned.

Instead, WATCH opted to pursue an alternative business venture that would train residents in medical transcription. Once a pool of residents had completed the training program, WATCH would provide medical transcription services to local medical groups. It was envisioned that such a business would allow clients to develop high-level skills in a field that would pro-

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Women described feeling conflict while attempting to balance the competing demands of parenting, meeting WATCH program requirements, and successfully completing the training program.

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vide long-term employment opportunities while generating revenue to help support the cost of program operations. To assess the appropriateness of WATCH clients for training in medical transcription, an employment specialist conducted in-depth skills testing among residents and discovered that most of the women demonstrated a base skill level sufficient for the training.

Project management decided to pilot-test the training program first with a small number of women before investing significant organizational resources toward business development. Five women began the medical transcription training program provided through a local community college in 1992. Within the first three months of the training program, WATCH participants reported significant difficulties in meeting its high demands. Women were expected to attend classes four to five days per week in addition to completing homework and training exercises which consumed a substantial amount of time outside the classroom. As a result of the time demanded by the training, residents found they were missing important program activities. Women described feeling conflict while attempting to balance the competing demands of parenting, meeting WATCH program requirements, and successfully completing the training program. In addition, several women reported that the medical transcription work was excessively tedious with long hours at a computer terminal and little variation in work-related tasks.

Of the five women who began the medical transcription program, two residents

felt it necessary to drop the training within the first two months; a third woman dropped in the third month. The two women who completed the full year and graduated from the medical transcription training have both secured full-time jobs in the medical transcription field.

As a result of the high dropout rate for women enrolled in the medical transcription training, and based on feedback from training participants, WATCH management decided not to pursue medical transcription services as a business enterprise. Pilot testing of the medical transcription training program revealed that any business venture undertaken by the agency must first meet the criteria of providing appropriate and successful training opportunities for WATCH clients. Such a training opportunity would need to hold broad-based appeal for residents and provide an opportunity for success for women with diverse skills, backgrounds, and needs.

Although neither the office support business nor the medical transcription business has proven to be a feasible training or revenue-generating enterprise for WATCH residents, the organization remains interested in exploring economic development opportunities for its clients. In 1995, the idea for the development of a for-profit business venture was revisited by WATCH's long-range planning committee, composed of board members, staff, volunteers, and clients. Business ventures currently under consideration include a child care business, a thrift store, and a catering business focusing on lunch delivery to local businesses.

Lessons Learned

THE FEASIBILITY STUDY IS A CRITICAL FIRST STEP IN PLANNING FOR ANY NEW NON-PROFIT BUSINESS VENTURE.

Market research conducted as part of the feasibility study informed WATCH's decision not to pursue a temporary office support business. Had a feasibility study not been completed, organizational resources would have been invested in an enterprise that allowed

little opportunity for success, thus dampening staff and client enthusiasm for and confidence in non-profit business enterprise development.

PILOT-TESTING A TRAINING PROGRAM WITH A SMALL NUMBER OF CLIENTS REPRESENTS AN ADDITIONAL OPPORTUNITY TO ABANDON PURSUIT OF INAPPROPRIATE BUSINESS VENTURES BEFORE INVESTING SIGNIFICANT CLIENT, STAFF, OR ORGANIZATIONAL RESOURCES. Although aptitude testing conducted by the employment specialist demonstrated

that WATCH clients had sufficient base skills to meet the requirements of medical transcription, it was only through feedback from the women involved in pilot-testing that project management learned of the significant obstacles inherent to such a training program. Pilot testing revealed that the high demands of the training made it difficult for many of the women to balance program requirements with training requirements.

GOODWILL INDUSTRIES' CAREER CHOICE PROGRAM

Background

In 1994, the director of The Roberts Foundation's Homeless Economic Development Fund (HEDF) attended a meeting at the Koret Foundation with a group of private foundation trustees, directors and staff to discuss innovative approaches to moving homeless individuals toward independence and economic self-sufficiency. The general consensus was that many traditional entitlement programs failed to invest sufficient resources in the education and job training necessary to

promote long-term, meaningful change in the lives of the individuals they were created to assist. At this meeting, the HEDF director presented a new concept in homeless economic development strategies: Individual Development Accounts (IDAs).

Individual Development Accounts have been discussed by many, but have been pioneered at the national level by Bob Friedman and the staff of the Corporation for Enterprise Development. Similar to Individual Retirement Accounts, IDAs allow individuals to save funds for investment in personal development in areas such as education or training. While creating IDAs for homeless individuals is difficult, it was thought to be possible by using redirected job training and placement funds available through the Job Training Partnership Act (JTPA). In the initial vision, this money would accrue in an account and could later be used by the individual to purchase the educational or training program of her or his choice.

The central premise behind the IDA was to provide an additional mechanism for funding educational and job training programs while giving the individual the freedom to choose from diverse job training

opportunities. It was also hoped that the IDA's shift from the traditional social service model to a "consumer-driven" approach would lead to greater accountability and an improved level of service quality among traditional job training and placement programs. Those agencies offering high quality training programs would attract and retain the largest number of consumers, while those programs that failed to meet the needs of their target population would not be supported by service customers. And, finally, by coming into the training program with their own funding it was hoped that IDA participants could be freed from the strict limitations of JIPA requirements which have historically served as barriers to formerly homeless people entering JIPA programs.

The concept of IDAs garnered a diverse base of interest and support among funders and practitioners. An inter-agency coalition was formed to further develop the IDA model and included representatives from the SF Council on Homelessness, The Roberts Foundation's Homeless Economic Development Fund (HEDF), and the Northern California Grantmakers' Taskforce on Homelessness. The group sent out a Request For Proposals to local service providers. In September 1994, Goodwill Industries responded and was awarded funding to manage and administer a unique consumer-driven educational and training placement program—the Career Choice Program (CCP). As program implementation began, however, several barriers arose to implementing the IDA model as originally envisioned.

To match grant dollars and secure sufficient funding for the Career Choice Program, Goodwill applied for and was awarded federal JTPA funds. Although practitioners had long believed the JTPA program was not responsive or flexible enough to meet the needs of homeless individuals, it was hoped partnership with the CCP would promote improved service delivery. As an example of bureaucratic impediments, under standard JTPA regulations a job training and placement agency is granted 90 days in which to place an individual in a permanent employment position. If

the agency is unable to secure a job placement within this period, funding for that individual is discontinued. Of almost greater significance than the loss of funding, placements made after the 90-day period are still viewed as "failed placements." This creates a disincentive for community programs receiving JTPA funding to provide services to populations with greater job training and placement hurdles. As a result, we now have a system that serves only those most likely to be placed within the limited "window" permitted by the federal regulations.

Also during implementation, the CCP group learned that no JTPA moneys could be used to fund support services following placement of the program participant, despite the fact that job training for formerly homeless people can often take more than 90 days and requires the key provision of support services following the placement. While it may sound odd, in some ways getting a formerly homeless person a job is more easily accomplished than helping him or her keep their job. Transitional support for individuals in their first few months of employment can often make the difference between a successful and an unsuccessful job placement. Such regulatory rigidity on the part of JTPA imposed obvious barriers to successful transition of multi-need homeless populations from homelessness and poverty to economic self-sufficiency.

Unfortunately, efforts by the coalition and CCP management to facilitate change in the traditional job training and placement system were not as successful as originally hoped. Locally, the JTPA program was administered by the San Francisco Private Industry Council (PIC). The CCP was presented to the PIC as an innovative, consumer-driven job training and placement program in which a two-party check would be granted to a client for the purchase of the educational or training contract of his or her choice. While PIC line staff supported this model as a creative approach to leveraging additional clients into the JTPA-funded system, senior PIC administrators refused to support it, claiming it would not allow sufficient monitoring or oversight of

JTPA funds. With the arrival of a new PIC director within the last 12 months, homeless organizations are looking forward to a new and more supportive working relationship with the local PIC; short of a modification of regulations or the provision of waivers at the federal level, however, any desire to innovate at the local level may continue to be hampered, despite the good intentions of PIC staff and administrators.

As the CCP developed, despite the significant limitations imposed by a rigid bureaucratic system, Goodwill Industries continued to maintain its commitment to the original mission of client empowerment by establishing a consumer-driven program of vocational training, education, and job placement services linked to appropriate housing and support services for homeless job seekers. The description below presents Goodwill's experience despite PIC's partial support. Now, however, with the local PIC under new (and more visionary!) leadership, discussions are underway regarding the future of the program and ability of the PIC to work more creatively with homeless service providers such as Goodwill.

Description of the Career Choice Program (CCP)

CCP facilitates the placement of homeless individuals in educational and training programs. Upon entry in the CCP, clients receive intensive vocational counseling including information on a wide range of pre-approved job-training and educational programs in the Bay Area. Participants are allowed to choose the program which most closely matches their experience, interests, and career goals. Once an individual has selected a program, the director of CCP acts as a "broker" to develop a contract between the school or training program serving the client and the training program receiving JTPA funding. Invoices for the training come directly to

the director of CCP who in turn submits them to the PIC for payment.

During the first program year (1994-95), 12 participants were enrolled in various schools and training programs in the Bay Area. Clients choose among vocational training opportunities including hospitality management, electronic equipment repair, desktop publishing, graphic design, truck driving, business accounting, and medical technician certification. Throughout the program year, CCP staff maintain ongoing contact with the referring agencies and training school representatives to ensure that an effective continuum of support remains in place for each participant. Once a client has completed their training program, he or she is eligible for job placement assistance from CCP, including further career counseling and job search classes.

Support Services for CCP Participants

In addition to providing job training and placement services, CCP ensures the provision of needed support services for program participants. CCP maintains service agreements with local homeless shelters, transitional housing agencies, and social service providers that specify the number of service units to be provided by each agency. In exchange for obtaining vocational training positions for their clients, these organizations provide stabilized housing, case management, and other supportive services to CCP participants throughout the training period. While no money is exchanged as part of these service agreements, CCP reports success in providing a comprehensive network of services through the development of formalized relationships between CCP and local support service providers. As an additional bonus, CCP receives the majority of its referrals from collaborating homeless shelters and social service providers.

Maintaining a Client-Centered Focus

Although unable to provide individual accounts as originally proposed in the IDA model, CCP strives to maintain a client-centered focus in all program activities. In addition to the client's complete autonomy and diverse options when choosing an educational or job training program, CCP seeks

client input in the development and implementation of all program activities. CCP places an especially high priority on client participation in the evaluation process. The agency has developed a number of client surveys which provide feedback on the effectiveness of CCP's various activities in meeting the needs of its target population. This evaluation system is currently gathering information for use in assessing the program's long-term effectiveness.

Lessons Learned

WHILE PERSISTENT ADVOCACY IS NEEDED FOR THE MAINSTREAM JOB TRAINING AND PLACEMENT SYSTEM TO BECOME MORE RESPONSIVE TO THE NEEDS OF HOMELESS CLIENTS, IT IS PRESENTLY NECESSARY FOR PROGRAMS TO SHAPE THEMSELVES AROUND THE EXISTING BUREAUCRACY RATHER THAN TO EXPECT THE REVERSE. In the face of great bureaucratic resistance from the JTPA system, CCP demonstrated creativity and flexibility in attempting to maintain the original mission of a client-centered focus in the development and implementation of their job training and placement program. However, current trends at national and state levels may provide local programs with greater flexibility in implementation and design. Obviously, these opportunities should be exploited.

THE PROVISION OF FUNDS FOR AFTER PLACEMENT CLIENT SUPPORT SERVICE NEEDS IS CRITICAL TO CLIENT RETENTION AND SUCCESSFUL PROGRAM COMPLETION. While support services such as mental health counseling and drug or alcohol treatment are often considered when designing a job training and placement program for homeless individuals, CCP discovered that often the lack of funds for more personalized, often unanticipated, needs—such as a pair of eyeglasses, a new dental bridge, or an afternoon of child care—was most closely tied to an individual's ability to start and successfully complete a job training and placement program.

ESTABLISHING FORMALIZED RELATIONSHIPS WITH OTHER HOMELESS SERVICE PROVIDERS (SHELTERS, TRANSITIONAL HOUSING AGENCIES AND SOCIAL SERVICE PROVIDERS) ALLOWS FOR THE PROVISION OF A CONTINUUM OF CARE/SUPPORT MOST LIKELY TO ENSURE LONG-TERM SUCCESS FOR HOMELESS CLIENTS. Before CCP began establishing collaborative relationships with local homeless service providers, there were few direct linkages between these agencies and mainstream job training and placement programs. The network of support provided by CCP's service agreements helped ensure fewer individuals "slipped through the cracks" in the transition from homelessness to permanent employment.

OAKLAND WORKERS PAINTING COOPERATIVE CONTRACTING BUSINESS

Background

The Oakland Workers Painting Cooperative/Contracting Business (OWPC) was born of a collaborative relationship between the Worker Ownership Consortium (WOC), a group of business consultants specializing in the development of worker-owned businesses; the Oakland Private Industry Council (PIC); and Oakland Neighborhood Housing Services (ONHS). In 1992 the partnership, with funding from The Roberts Foundation and PIC, hired a consultant to identify and develop a cooperative business in the Oakland, California, area that would train and employ unemployed or displaced workers while providing useful, high quality services to the local community.

A painting and contracting business was chosen as the enterprise development project best suited to an urban job creation venture. A business plan was developed for a non-profit business offering painting services for interior and exterior work on single-family dwellings, churches, non-profits, and small businesses. The plan projected job creation for up to 14 full-time employees and the opportunity for break-even within three years of start-up. Initially, employee candidates were referred into the OWPC primarily through two Bay Area job

training and placement agencies, the PIC and the Oakland Housing Authority (OHA).

ONHS was to serve as fiscal agent to the OWPC and would provide the organizational infrastructure needed to support OWPC's business operations. Oversight would be coordinated by an ONHS employee who was to devote quarter-time to the OWPC project. Responsibilities included book-keeping, accounting, and providing technical assistance related to business development and marketing.

Following the receipt of a \$35,000 grant from The Roberts Foundation, a business manager was hired to begin operations. During the first 18 months, the following obstacles to implementation arose:

- During the first year of OWPC's business operations, it became apparent that the fiscal agent, ONHS, would be unable to supply the organizational structure and technical oversight originally envisioned. Responsibilities originally assigned to the fiscal agent either fell to the OWPC business manager or were not completed. One of the most serious consequences of this lack of support was that an accounting system that could coordinate and organize information on the business's existing accounts, as well as provide feedback on OWPC's financial position, was never put in place. The lack of timely and accurate account information negatively impacted OWPC's business and financial planning.
- A high worker turnover rate presented challenges to building a reliable, steady work force, resulting in training costs that were significantly higher than anticipated. According to OWPC's manager, worker turnover was high for two reasons: first, the individual was not personally ready to participate in regular work, or, second, OWPC was not able to offer compensation that was competitive with local industry standards and encourage the skilled workers it had trained to stay on long enough for the enterprise to achieve break-even. Often a worker trained through OWPC would

be immediately hired by a local business or public utility company once the employee had gained the stability and skills needed to consistently produce for the company.

Description of the Business Venture

After two years of operation, OWPC has employed over 20 individuals on a part- or full-time basis. The business currently employs four to six steady, full-time employees in addition to the business manager. Despite experiencing a significantly greater increase in sales revenues between years one and two, the business is still struggling to reach break-even due to higher operating costs than had been projected. Sales revenues are now sufficient to cover job costs, but OWPC must still depend on grant subsidies to cover administrative overhead and attain break-even.

As the enterprise has evolved over its three-year history, a number of the barriers to growth experienced during the start-up of business operations have been successfully resolved. Over the first two years of program operations, OWPC succeeded in building a core crew of skilled, committed workers. High worker turnover, discussed in the previous section, was at least partially resolved through a switch in OWPC's primary referral source from the Oakland PIC to the California Conservation Corps (CCC). The CCC filters out those candidates who are not yet ready for a full-time employment commitment by requiring participants to complete a six-month training period before they qualify for job placement. In addition, CCC participants are often younger, are entering the job market for the first time, and are eager to gain skills in a specific trade or profession.

By increasing marketing efforts during year two, OWPC is benefiting from increased recognition as a reliable contractor in the residential painting market. Customer satisfaction is reportedly very

high, with an increasingly large proportion of new contracts originating from previous customers. As OWPC's reputation grows, their marketing strategy will focus on securing larger contracts, such as with the Oakland Housing Authority (OHA) for the painting of public housing projects.

Although OWPC has overcome significant challenges during its first three years of operations, the lack of organizational and administrative support continues to be a barrier to growth for this business venture. An adequate business accounting system was identified by the business manager as one of the most critical unmet needs for OWPC's long-term growth and success. At present, OWPC is considering forming a collaborative business relationship with Berkeley Oakland Support Services (BOSS), a social service organization serving homeless people in the East Bay that is looking to expand their business enterprise development activities. The two organizations are negotiating a contractual agreement wherein BOSS would accept organizational oversight and technical supervision for the OWPC. This would provide BOSS an opportunity to invest organizational resources in a business that has demonstrated revenue potential; in turn, OWPC would benefit from additional organizational support, which would allow the venture to focus on the expansion and growth of business operations.

As OWPC stabilizes its business operations and financial position, the former cooperative is looking toward future growth. One possible area of business expansion is in the residential lead abatement market. OWPC has considered a grant from the Alameda County Lead Prevention Program to provide the training and equipment necessary to enter the residential lead abatement services market. Although this venture is still being explored by OWPC's manager, a number of concerns have been raised regarding the appropriateness of lead abatement work, which requires intensive training of workers, all of whom must have some level of skill training which is presently beyond the OWPC's capacity to provide. Additionally, the capital needs for purchasing specialized lead removal equip-

ment are great. OWPC has yet to decide whether to pursue this market.

Unlike most of the other organizations described in this document, OWPC offers no support or program services. After they are referred by other programs, workers are screened for demonstrated employment

readiness. Candidates are expected to be employment eligible following OWPC's training period. As of yet, an effective system for moving current employees into the mainstream labor market without decreasing OWPC's operating capacity has yet to be created.

Lessons Learned

IF A NON-PROFIT BUSINESS VENTURE DOES NOT INCLUDE IN-HOUSE PROGRAMMATIC SUPPORT SERVICES, IT SHOULD ESTABLISH A COLLABORATIVE/COOPERATIVE RELATIONSHIP WITH AN EXPERIENCED CLIENT-SERVICE ORGANIZATION TO ENSURE THE PRESENCE OF A WORK-READY LABOR FORCE. The goal of any non-profit business venture is to create new economic opportunity for individuals who have, for complex and varied reasons, fallen outside the mainstream labor market. By design, the population served by and engaged in non-profit business enterprise requires support services aimed at assisting the individual to become eligible for employment. A business enterprise that does not adequately anticipate the needs of the population served, either through the direct provision of support ser-

vices or a formalized collaboration with existing service agencies, may experience significant difficulty in building and maintaining a reliable workforce, as well as in assisting them in the transition to mainstream employment.

NON-PROFIT BUSINESS VENTURES MUST STRIKE A BALANCE BETWEEN THE NEED TO AGGRESSIVELY MARKET SERVICES AND THE START-UP TIME REQUIRED TO GAIN OPERATIONAL STABILITY IN A FOR-PROFIT ENTERPRISE. Often non-profit business managers believe that before they can initiate an aggressive marketing campaign, the enterprise must be running at full capacity. While a certain level of organizational and operational stability must be attained before the business starts serving customers, problems can be solve as the business grows and as the customer base is expanded. In addition, allocation

of staff and/or management resources to the design and implementation of a marketing plan must be reasonable, sufficient, and planned for in advance.

A NON-PROFIT BUSINESS ENTERPRISE'S ORGANIZATIONAL STRUCTURE MUST INCLUDE AN ADEQUATE AND APPROPRIATE ACCOUNTING SYSTEM TO PROVIDE TIMELY FINANCIAL ANALYSIS NECESSARY TO COORDINATE ACCOUNTS, PROVIDE FOR BUSINESS PLANNING, AND GIVE FEEDBACK ON FINANCIAL PERFORMANCE. OWPC's business manager reported that because the enterprise lacked a business accounting system, either in-house or as provided by the fiscal agent, project management could not access timely and accurate information on job costs, cash flow, and financial position. Without financial feedback, OWPC's effective planning for business growth and development was severely hindered.

The Numbers

“TRUE COST” ACCOUNTING: A FINANCIAL ANALYSIS OF THE NON-PROFIT ENTERPRISE EXPERIENCE

The Rationale for a New Approach

Since launching its initiative in non-profit business development six years ago, the HEDF office has received a large number of reports and evaluations of non-profit enterprise creation taking place across the country. Most of the reports have used the traditional program evaluation technique of case studies or organizational summaries to present and describe the work of those non-profits creating small businesses. The reader will find that approach in this evaluation document as well.

Invariably, however, these nationally distributed reports have frequently lacked one key element of any other small business evaluation: financial statements. While report narratives contained claims of total revenue generated and profits made, these claims were never supported by actual financial data that the reader might use to determine for him or herself what the figures reveal (for example, the real level of subsidy or how much the organization invested in paid-in-capital to earn its revenue dollars).

Furthermore, the director of the HEDF has found some practitioners claim to be engaged in market-directed enterprise creation or a “profitable” operation. Yet upon visiting their organizations, he would find that the “business” was either completely or primarily subsidized by foundation, government, or in-kind organizational support which the practitioner did not account for in his or her assessment of profitability. Needless to say, this type of accounting is misleading and counter-productive and, we believe, contributes to the poor reputation and track record of non-profit enterprise creation efforts. We do not claim to have the definitive solution to the question of how best to present enterprise revenue versus non-profit subsidies received by the enterprise, but include this section in our evaluation report in an effort to move the national discussion beyond the generally shared desire for expanding economic opportunity and toward a more specific discussion of the true cost of such efforts.

A financial evaluation of non-profit enterprise development is also critical because of the potential public policy and

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It is our contention that non-profits should be subsidized to create social enterprises and allowed to compete in the marketplace by virtue of the greater cost to society of maintaining unemployable human capital on our economy's margins.
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legislative implications of non-profit enterprise creation. Most non-profit practitioners seem unaware that there is increasing opposition to non-profit enterprise creation from the for-profit, small business community. Such opposition is based in part on actual experience and in part upon hearsay and misconception.

It is our position that, as the following financial statements clearly indicate, the employment of marginalized workers entails costs far greater than those incurred by any mainstream business enterprise. And yet, these costs are gladly borne by the non-profit entrepreneur due to her commitment to serve as a bridge to mainstream employment for program participants.

It is precisely because the private sector market will not employ our folks that non-profit entrepreneurs have endeavored to do so. By providing transitional employment we incur significant training and support costs not borne by small business, and meet a valuable social need by later referring our employees to the for-profit employer as stable, well-qualified candidates. The non-profit entrepreneur, by operating businesses which provide transitional employment, fills a critical void between the mainstream labor market supported by small, for-profit business and the marginalized, non-labor market made up of homeless and unskilled individuals. Regardless, it remains difficult to talk with individuals in the business community about the need served by social entrepreneurs and the actual cost of those services.

Without an honest financial evaluation of the cost of this social mission to both the non-profit entrepreneur and society at large, we will never be in a position to discuss how best to address those costs. It is our contention that non-profits should be subsidized to create social enterprises and allowed to compete in the marketplace by virtue of the greater cost to society of maintaining unemployable human capital on our economy's margins. As presented in the following financial analysis, the broad social and specific programmatic cost of our non-profit mission makes the provision of transitional employment by for-profit businesses sufficiently unprofitable that

they will be unable provide such employment in the future, just as they have been unable to do so in the past. For this reason, non-profit organizations should be allowed to move into this niche and be enthusiastically supported in their efforts. The chapter entitled "The Competitive (Dis)Advantage of Non-Profit Enterprise" discusses this question at greater length. The present chapter provides the financial documentation which supports our argument and sheds, we believe, a more honest light on the general evaluation of non-profit enterprise activities.

In addition to the true cost of engaging in social entrepreneurship, the New Social Entrepreneur must also acknowledge that their market place competitor will care less about costs incurred than prices charged for the product and/or services offered by a non-profit enterprise. This issue is addressed at length in the chapter regarding competition between for- and non-profit enterprise. Briefly, the businesses presented in this book do not make use of their non-profit status to undercut the market pricing structure. The added costs of engaging in social enterprise activity (as opposed to a strictly for-profit oriented business) often serve to increase wage levels above the market average and entail higher training costs which force the non-profit to maintain pricing in line with the larger market. This is not to say non-profit businesses do not engage in the same competitive positioning with regard to price, service and quality as any other business. However, the cost structures supported by most social enterprises are such that they prohibit any possibility of using price as a long-term tool to gain definitive competitive advantage in any given market.

And, finally, the title of this chapter may be "True Cost" Accounting, however it should be acknowledged that cost issues are but one factor in determining the profitability of any given enterprise. Yes, the social mission of a non-profit enterprise may impact upon one's ability to become profitable, however other issues such as pricing in the market, poor business decisions or a host of other items may also serve to keep the business from achieving

profitability. Those issues are discussed, at least in part, in the case statements presented in this book. For this chapter, we will focus most of our analysis on the financial performance of the enterprises.

“True Cost” Accounting: A New Approach

In the pages of this chapter the reader will find seven sets of financial statements from seven different non-profit organizations representing 14 different small business ventures supported by The Roberts Foundation between 1990 and 1995. A cursory review will indicate that these statements are neither strictly non-profit nor for-profit in design. They are not difficult to read, even though they attempt the difficult task of isolating

the appropriate costs of the social mission and weighing those costs against the normal costs of operating a small business enterprise. For lack of a better term, we refer to this practice and the design of the financial statements which follow as “True Cost” Accounting.

Cost Accounting (which supplanted management accounting at the turn of the century) is the standard accounting method currently used by both non-profit and for-

profit enterprises.¹ The purpose of cost accounting is not to “trace each product’s consumption of resources for cost management purposes; instead, it values inventory for financial reporting purposes.”

Therefore, as an approach to non-profit cost assignment, it sheds some light on how resources are allocated within a corporation, but is not completely effective as a tool for the non-profit manager attempting to ascertain the “true cost” of engaging in non-profit enterprise. Increasingly, the challenge for many social entrepreneurs will be the development of accounting approaches with greater characteristics of managerial rather than cost accounting in order to more effectively measure the actual costs of engaging in social enterprise.

Specifically, under the rules of cost accounting as practiced in the traditional non-profit arena, grants, government support, and other revenue are found at the top of the Income Statement. Beneath the income entries would normally follow vari-

¹ The entire question of how to appropriately “charge” costs within a social enterprise is a fascinating one, for those so inclined. A full discussion of cost accounting versus management accounting and the implications of each for non-profit enterprise managers is beyond the scope of this chapter. An excellent resource for understanding how the present system evolved and, thus, how we might design systems which more effectively meet our own needs, is presented by H. Thomas Johnson and Robert Kaplan in their book, *Relevance Lost: The Rise and Fall of Management Accounting* (Cambridge: Harvard Business School Press, 1987).

AN OUTLINE OF THE TRUE COST ACCOUNTING FRAMEWORK

BUSINESS(ES):	SALES REVENUE Minus: Cost of Goods Sold <i>Equals:</i> Gross Profits Minus: Operating Expense <i>Equals:</i> Total All Enterprise Income
↓	
PROGRAM COSTS:	Minus: Program Expenses Add: All Enterprise Income <i>Equals:</i> Net Income Before Subsidy
↓	
SUBSIDIES:	Add: Government Support Foundation Support <i>Equals:</i> Sub-Total Non-Profit Subsidy
↓	
BOTTOM LINE POSITION:	Add: Sub-Total Non-Profit Subsidy Net Income Before Subsidy <i>Equals:</i> Total Net Income

.....
One of our goals is to successfully support program costs through revenue generated from social purpose ventures; ... The first goal is to achieve break-even—after that comes the ability to generate “dividends.”
.....

ous program expenses which are then subtracted from total revenue to calculate an ending financial position for the non-profit entity. Many non-profit managers use a similar system when tracking the revenue and expense activities of their social purpose enterprise. It is all too common a practice for non-profits to mix grant and other support with revenue generated through service and manufacturing sales. These figures are traditionally included at the top of the Income Statement and then operational and program expenses (which, again, are blended together) are deducted to create a net income position at the close of the statement. It is our position that such an approach makes it possible to hide the non-profit subsidy in the overall enterprise financial statements, prohibits any serious evaluation of the enterprise as a traditional business venture, and makes it virtually impossible to assess the true cost of the social enterprise.

A “True Cost” Accounting approach represents a blend of accounting systems. It begins with an Income Statement, which presents enterprise revenue and cost. Revenues included are strictly those received through the sales efforts of the business. Cost of Goods Sold is then deducted in order to achieve a Gross Profit. Next, operating expenses for the business are itemized. Personnel costs include some percentage of agency administration, enterprise management, and enterprise line salaries as appropriate for the particular effort. (The process by which these percentages are identified is discussed below.)

Following the personnel section are other basic operating costs for the business. The enterprise section concludes with a line titled “Sub-Total Net Income.” The same revenue/expense assignments are made for each enterprise operated by the organization. These figures are then brought together in the “Total All Enterprise Income” line. This total shows the actual financial position of the enterprise before any social or human service costs are subtracted or before any subsidies are received by the non-profit from foundation or government sources due to its status as a 501(c)(3) organization.

The next section of the financial statement is entitled “Organizational/Program Expense.” This section includes all costs incurred as a result of the social mission of the enterprise and is divided into the traditional non-profit cost categories of Personnel, General Support and Administration, and Fundraising. These costs include personnel costs not included in prior sections, but more importantly also include Organizational Program salaries for such positions as case managers, job developers, after-care support and so forth. The section concludes with “Total Program Expenses” which is then subtracted from “Total All Enterprise Income” in order to reach a figure for “Net Income Before Subsidy.” *For most social purpose enterprises in the start-up phase, this figure will be negative, demonstrating that in practice the social cost of providing support services is not usually covered by those net revenues generated by the business enterprise.* One of our goals, of course, is to successfully support program costs through revenue generated from social purpose ventures; however, for businesses with less than a five year lifespan, that goal is not realistic. The first goal is to achieve break-even—after that comes the ability to generate “dividends.”

Therefore, it is at this point in the “True Cost” accounting process, we include “Foundation, Government and other Non-Profit Support.” This category represents all those subsidies received by the non-profit. This revenue should be divided into two categories: Enterprise Operations and Program Expense. Many private and public funders target their support to either of these two categories and do not allow the non-profit to commingle the funds. For example, if the non-profit is receiving training contract dollars for its work with marginalized employees, those contracts would be reflected in this category. This section then totals out to “Sub-Total Non-Profit Subsidy.” Finally, “Sub-Total Non-Profit Subsidy” is added to “Net Income Before Subsidy” to arrive at the final figure for “Total Net Income.” This figure represents the final financial position of the enterprise at the close of the quarter, year or other timeframe.

Assigning Staff Time and Compiling Balance Sheets

The appropriate assignment of personnel costs to either the enterprise or the program component is a critical part of this exercise. The reader will find at the end of the Income Statement a section titled, “Base Salary Calculations.” In this section the following general categories of salary costs are presented:

- general administrative
- enterprise management
- enterprise line
- agency program

In the seven financial statements presented, each category covers a number of positions ranging from executive director to production workers, and is then assigned on a percentage basis to the appropriate cost center. For example, an executive director might spend 20% of her time with the actual enterprise and 80% managing the larger program. For the purpose of this document these salaries are consolidated due to confidentiality issues.² If the salary schedules are to be made public, the non-profit enterprise manager might also want to consolidate these figures; however, in the course of its internal analysis the non-profit should assign costs on a per position, rather than consolidated, basis in order to achieve the most accurate cost assignments possible. For this presentation, executive directors and accounting staff estimated specific percentage assignments. In a more formal, internal evaluation, the organization might consider time studies or other means of achieving more accurate readings of actual time spent in various business and human services departments.

Following the Income Statement, the reader will find a presentation of balance sheets and financial ratios. The balance sheet statements are fairly standard and conform to traditional accounting practice.

However, one area of particular challenge is the development of balance sheets for individual enterprises, separate from the consolidated, agency-wide balance sheet maintained by virtually every non-profit as part of standard accounting practice. We strongly advocate the use of enterprise specific balance sheets to isolate true enterprise assets and liabilities. Currently, however, most managers produce a single, consolidated balance sheet statement for the organization as a whole and then attempt to “reconstruct” an enterprise balance sheet. In many cases, to produce the balance sheets presented in this chapter, we had to follow this course and reconstruct balance sheet estimates from the actual financial statements. While this effort is time-consuming, it was necessary to enable us to present an effective ratio analysis of the financial statements that can help determine both the overall health of the business and its relative position in the larger competitive market.

Please note that while all the numbers reported in the accompanying statements are based on the reporting organizations’ actual operating figures, *these are unaudited statements* and are not intended for direct comparison to 990s or other IRS reports. This approach to accounting is intended as a management tool to assist non-profit entrepreneurs in overseeing their budgets and assessing the true cost of social enterprise operations. Those involved in preparing these numbers have made a good faith effort to present the financial statements and ratios relevant to those who debate the relative merits and drawbacks of a social enterprise approach to addressing our nation’s lack of economic opportunity for homeless and other Americans. Please receive this analysis in the spirit intended.

It should also be acknowledged that in some cases the Cost of Goods Sold category may be “inflated” relative to the market as a result of the non-profit enterprise’s social mission. For example, if a for-profit business pays \$5 per hour, and a non-profit business pays workers \$6 per hour, the non-profit enterprise will incur a \$1 per hour “charge” as a result of its commitment to paying a “better” wage. While we have not

²There are obvious privacy concerns regarding the publication of salaries by position as opposed to consolidating those figures into the four categories presented above.

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The reader will note that while in some areas our enterprises are actually quite competitive, in others the financial structuring of a start-up enterprise limits the business' ability to truly "compete" with another enterprise which has been in operation for five, ten or, in some cases, twenty years.
.....

presently implemented this approach, one strategy for allowing for this added cost is to establish "contra accounts" whereby the market wage may be charged to one account and the excess, added cost (in this case, \$1) is debited to a contra account. In this way, the non-profit could more effectively track the "true cost" of the social mission, at least with regard to wage scales. This amount could then be added to an evaluation of market profitability.

Financial Ratio Analysis and the Non-Profit Enterprise

Financial ratio analysis is one part of the New Social Entrepreneur's approach which may seem the most foreign to non-profit managers. This kind of analysis, however, can be critical in evaluating not simply one's performance in the market, but also in weighing the competitive disadvantage created by one's social mission. Discussed more fully below, ratio analysis allows one to "level the playing field" by using percentages to compare financial performance and position relative to other enterprises in the target market. While this approach is obviously limited within the non-profit context, it allows the non-profit manager and venture committee to measure performance against industry benchmarks. The use of financial ratio analysis is the best means of doing this, providing a "real world" grounding by which to set enterprise goals and objectives.

While the ultimate measure of the market is industry ratio analysis, most of the businesses presented in this chapter have been operating for less than five years and are still considered to be in the "start-up" stage of business development. The reader will note that while in some areas our enterprises are actually quite competitive, in others the financial structuring of a start-up enterprise limits the business' ability to truly "compete" with another enterprise

which has been in operation for five, ten or, in some cases, twenty years. We include this emphasis on financial ratio analysis, however, to reflect our commitment to operate and measure our ventures against the yardstick of success used by our peers in the for-profit business community.

While some ratios were found in Robert Morris and Associates' "Annual Statement of Studies," most of the ratios used in our analysis were taken from the *Almanac of Business and Industrial Financial Ratios*.³ The reader should be aware that finding appropriate industry references for some of our enterprises was especially difficult. For example, a sidewalk steam cleaning business is referenced to "Other Special Trade Contractors" and our San Francisco City Store is referenced to "Apparel and Accessory Stores." We hope to identify more immediately relevant industrial ratios in the future; however, for this Progress Report, we felt these categories would suffice. The point here is less to find a perfect match (though that would be nice) than to identify relevant industrial benchmarks and then return to those benchmarks at regular, future intervals to evaluate progress and overall competitiveness of the social enterprise.

It should be acknowledged that the ratios are not significantly useful in and of themselves, but really take on their power when used as a jumping off point for additional analysis, as a tool to begin getting behind the numbers to understand what is actually taking place in the business. A complete analysis should also include comparison of both numbers and ratios over time in order to assess changes and trends. While we have included income and expense information over as many years as possible, we have not included multi-year ratio analysis since this book is already long enough. However, individual practitioners should consider engaging in such long-term evaluations of their own work in order to fully understand their business and its position in the market.

The practitioner is also encouraged to develop ratios tailored to her particular enterprise and situation. For example, we have included ratios evaluating Percentage

³Leo Troy, *Almanac of Business and Industrial Financial Ratios* (New Jersey: Prentice Hall, 1995).

of Enterprise Subsidy, and a Wage to Subsidy ratio, among others. Any advanced spreadsheet program can be used to calculate ratios once the basic financial statements have been designed.⁴

The ratios used in our analysis represent a mix of both standard business and non-profit ratios. In circulating this chapter for comment and review, we were struck by the variety of interpretations analysts bring to financial ratios. While most readers used the same standard ratios, many individuals inject additional factors in order to create their own “spin” to analyzing what should be included in a given ratio and what the implication of the resulting information is for operations or assessment. We include the following definitions in order to be clear with regard to how we calculated the figures presented later in this chapter. The reader is free to engage in his own analysis based upon the actual numbers presented in the income and balance sheet statements. The ratios and basic definitions⁵ are as follows:

► **CURRENT RATIO.** The current ratio is a measure of an enterprise’s liquidity should it be necessary for it to liquidate assets to meet its short-term financial obligations. It is calculated by dividing current assets by current liabilities. A certain amount of liquidity (usually a ratio of one or better) is good; however too much liquidity might indicate the enterprise has cash or other asset surplus which could be more wisely invested elsewhere in the business or market. This is usually not a problem for non-profit business! A high Current Ratio can also mean potential problems collecting receivables, obsolete inventory or that the business isn’t taking advantage of vendor terms as a way to manage cash.

► **QUICK RATIO.** The quick ratio (also known as the “acid test ratio”) is similar to the current ratio, but only on-hand inventory is deducted from total assets and often only cash, marketable securities and receivables are included as assets. This is because it may be more difficult, if not impossible, to liquidate

inventory immediately or for the dollar value for which it is carried on the books. Therefore, a quick ratio is a more stringent test of liquidity and is calculated by dividing the current assets minus inventory by current liabilities.

► **INVENTORY TURNOVER RATIO.** Inventory turnover “measures the liquidity of the inventory and is measured by dividing the cost of goods sold by the average inventory. It shows the number of times that average inventory is converted into receivables or cash...typically, the higher the rate, the greater the likelihood that profits would be larger and less working capital bound up in inventory.”⁶ The higher the ratio, the less time that inventory is sitting in storage, tying up cash.

► **DEBT RATIO.** The debt ratio is total liabilities divided by total assets and indicates the firm’s ability to pay all current debt. As this ratio approaches 1 or 100%, repayment of outstanding debt becomes more difficult. This ratio shows what proportion of assets are financed by debt; therefore, a high ratio is “bad” for lenders since it allows little cushion for tough times, but a high ratio is “good” for managers since it shows one is getting the biggest bang for what assets are available.

► **RETURN ON TOTAL ASSETS.** ROA is net income before income taxes divided by total assets. This figure shows the productivity of assets, or, in other words, how much income is earned for each dollar of asset. We use this formula in our calculation since it provides an even measure between the taxable and non-taxable organizations in the market place.

► **RETURN ON EQUITY.** This ratio shows the profitability of the company’s operations to owners, after income taxes. CPAs rank this profitability measure highest as the most important overall measure of business performance. In calculating both ROE and ROA, one

⁴Caution should be taken in entering the formulas and cell references when structuring ratios, however, or you will risk the ecstasy of a 450097% profit margin being turned into a marginally acceptable 4.5% profit margin as the result of an omitted parenthesis!

⁵Definitions are taken from “Financial Statement Analysis: A Practitioner’s Guide,” (The complete citation may be found in the “Recommended Readings” section), the Leo Troy book cited above and “Financial Ratio Analysis of Micro-Finance Institutions,” Small Enterprise Education and Promotion Network, NYC, NY.

⁶Troy, p. xvii.

should be clear on what net income figure is being used: enterprise or consolidated. The reader will find both presented in the particular ratio tables.

- **PROFIT MARGIN ON SALES.** “This ratio, net income before income tax, divided by net sales, indicates the amount of net income generated by a dollar of sales.”⁷
- **PROFIT MARGIN ON SALES (MINUS SUBSIDY).** The same as above, we include this ratio minus the subsidy in order to compare the position of the enterprise before and after allowance for non-profit subsidies. By comparing these two related ratios, one can assess whether the enterprise is profitable, in general terms, with or without subsidy. This indicator informs our discussion of the relative “marketability” of employing formerly homeless people in small businesses.
- **GROSS MARGIN.** Sales minus cost of goods sold divided by sales. Both Gross and Operating Margins are ratios which help assess overall profitability of the enterprise. High margins mean more cash moving through the enterprise, thus better overall liquidity, which for small businesses is especially important. Lower gross margin than the industry average may indicate the enterprise is going for a “low-price/high volume” strategy. In addition to being relevant to the individual enterprise, gross margin is important as a measure of the industry’s ability to weather price fluctuations and downturns in the market. Organizations assessing entry into new industries should include gross margin analysis in their review of the market since higher gross margins mean greater operating cushions and, thus, potentially greater ability to use those dollars to support program costs of the social enterprise.
- **SUBSIDY TO WAGE RATIO.** This “non-profit” ratio allows us to assess the return for the amount of wages generated per dollar of subsidy. While the infusion of

new subsidy in a coming year will obviously change the ratio, an “investor” is able to measure the historic relative impact of subsidies in terms of the amount of wages generated by the non-profit enterprise over the course of the prior year as an indication of how “well” the organization leverages its subsidy to create added income for its employees.

- **PERCENTAGE ENTERPRISE SUBSIDY.** This ratio is a total organization ratio and measures the percentage of the total organization which is subsidized relative to the amount of revenue it generates through enterprise sales. The ratio is calculated by dividing the subsidy by the sum of the subsidy plus net sales. While the goal of some non-profit enterprises is to be totally self-sufficient, the goal of others is simply to diversify their revenue base. The lower the percentage, the more fully independent a given non-profit enterprise is in covering all its costs (both business and programmatic) of operations.

With these explanations of both financial ratio analysis and “True Cost” Accounting in mind, we may now turn our attention to a discussion of the relative strengths and weaknesses of the financial statements provided us by seven non-profit organizations in the greater San Francisco Bay Area.

The financial statements presented in the following section are intended as a framework for understanding and analyzing the cost of employing formerly homeless individuals in non-profit enterprises for the purpose of providing supported employment and training. These statements are in no way intended to replace each organization’s own financial accounting or reporting systems. This format should not be used to assess relative taxable and non-taxable income as such calculations must be based upon a variety of factors which differ between organizations and enterprise activities. Independent legal, accounting and tax advice should be sought with regard to your organization’s particular activities.

⁷Troy, p. xviii.

THE ENTERPRISE: SOUTH OF MARKET FOUNDATION (SOMA) STEAM CLEAN

SOMA Steam Clean Services is operated by the South of Market Foundation as a supported employment project. SOMA Steam Clean employs formerly homeless individuals in sidewalk steam cleaning and litter pick-up.

The Numbers:

SOMA Steam Clean ended 1995 with Net Sales of \$94,407. After allowing for Cost Of Goods Sold, SOMA Steam Clean had a Gross Profit of \$38,496. Core Operating Expenses totaled \$42,439, leaving Steam Clean with a negative net income position of (\$3,943). This figure, while a deficit, represents a marked improvement over the prior two years, which registered losses of (\$20,926) and (\$30,639). Sales increased significantly in each year, moving from \$66,826 to \$75,724 to \$94,407. With its operating systems in place and work crew fully operational, Steam Clean will now need to focus on expanding its Private Business Contracts base to other parts of the City and on additional job creation.

It should also be noted that during this three year period, SOMA transitioned from

almost total reliance on government contracts to almost total private business contracts, an impressive movement in the right direction. While this is to be commended, SOMA could still benefit from conducting a pricing survey to compare its offerings to others in the industry in order to assure that it is charging adequate fees.

Program costs for Steam Clean totaled only \$13,683, which, together with the deficit, left SOMA Foundation with a deficit Net Income Before Subsidy of (\$17,625). SOMA Foundation received \$19,541 in grant support for its enterprise operations and an additional \$16,937 for its general program activities, giving it a Sub-total Non-Profit Subsidy of \$36,478 and leaving SOMA with a Total Net Income of \$18,853.

The Ratios:

The Current and Quick Ratios for SOMA Steam Clean and SOMA Foundation are both 66.38. This high level of liquidity is reflected in the fact that Steam Clean is carrying current assets of \$61,603 against current liabilities of only \$928, while its parent corporation reports \$94,272 in assets against only \$13,027 in liabilities. This means that SOMA Steam Clean may be in a good position to assume debt. That fact is also reflected in the Debt Ratio for the industry, which is 63%, compared to that of the SOMA Foundation (9.67%) and the Steam Clean Service (only 1.14%).

The overall financial health of the organization is relatively stable and the business itself is moving toward increasing profitability. The profit margin for the industry, before income tax, is a thin 1.8%, while for SOMA Steam Clean it is a weak -4%, reflected in Steam Clean's loss of

\$3,943 in 1995. One "problem" which jumps off the charts, is the lengthy period (102 days) which Steam Clean appears to be carrying its accounts receivable. This is interesting in that it may be that following its transition from government to private contracts, Steam Clean has yet to master the art of aggressively managing its accounts receivables. Furthermore, Steam Clean's Return On Equity was -5%, while the industry average was 6%. It is only after the support program and non-profit subsidy provided through the South of Market Foundation are added in that the enterprise as a whole comes into the black, showing a

Return On Equity of 15.5% and a profit margin on sales of 20%.

The enterprise has strong potential to expand sales in the coming year and cover total operating costs of SOMA Steam Clean. It will have to increase sales by nearly 5% and keep costs at their current year levels in order to begin to generate adequate funds to break even, and turn a profit to support the additional services or training that such an expansion would entail. Regardless, SOMA Steam Clean has clearly made significant strides in each of the past three years and has succeeded in creating a solid foundation for future growth.

SOMA FOUNDATION

Income Statement, Balance Sheet and Ratio Analysis for Calendar Years 1990 – 1995

	FY 94-95	FY 93-94	FY92-93
<u>Steam Clean Services:</u>			
Net Sales: Private Business Contracts	\$ 94,407	\$ 48,055	\$ 6,968
Net Sales: Government Contracts	\$ -	\$ 27,669	\$ 59,858
COGS: Includes Personnel and Mat. Exp.	55,911	56,788	68,048
Gross Profit	\$ 38,496	\$ 18,936	\$ (1,222)
 <u>Operating Expenses:</u>			
Agency Admin. Salaries (50%)	6,669	6,669	4,567
Enter. Mngrl. Salaries (100%)	10,123	15,721	-
Rent	-	-	-
Utilities	-	-	227
Insurance	9,214	9,158	7,777
Bookkeeping	452	3,163	1,415
Office Expenses	5,043	4,289	1,601
Bad Debt	1,348	406	-
Equipment	9,590	10,169	4,117
Sub-Total Operating Expenses:	\$ 42,439	\$ 49,575	\$ 19,704
 <u>Sub-Total Net Income:</u>	 \$ (3,943)	 \$ (30,639)	 \$ (20,926)
 Total All Enterprise Income:	 \$ (3,943)	 \$ (30,639)	 \$ (20,926)

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Organizational/Program Expenses:			
<u>Personnel:</u>			
Org. Admin. Salaries (50%)	\$ 6,669	\$ 6,669	\$ 4,567
Org. Program Salaries (100%)	3,414	3,320	4,208
<u>General Support, Administration:</u>			
Bookkeeping Services	-	-	-
Office Rent	3,600	3,600	3,600
<u>Fundraising Costs</u>			
	-	-	-
Total Program Expenses:	\$ 13,683	\$ 13,589	\$ 12,375
Total All Enterprise Income:	\$ (3,943)	\$ (30,639)	\$ (20,926)
Net Income Before Subsidy:	\$ (17,625)	\$ (44,227)	\$ (33,300)
<u>Foundation, Government and other non-profit support:</u>			
Enterprise Operations	\$ 19,541	\$ 39,422	\$ 50,339
Program Expenses	16,937	16,937	12,733
Sub-Total Non-Profit Subsidy:	\$ 36,478	\$ 56,359	\$ 63,072
Total Net Income:	\$ 18,853	\$ 12,132	\$ 29,772

Base Salary Calculations:				
		<u>FY94/95</u>	<u>FY93/94</u>	<u>FY92/93</u>
Admin. Salaries	(Incls Exec.Dir., Controller, A.A.)	\$ 13,337	\$ 13,337	\$ 9,133
Enter. Mgmt.	(Incls 50% Operations Manager)	10,123	15,721	-
Line Crew Salaries	(Incls Steam Clean Crew)	36,630	34,627	43,790
Org. Program Staff	(Incls Part-time Job Counselor)	3,414	3,320	4,208

SOMA Steam Clean Balance Sheet As Of December 31, 1995:			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 28,435	Accounts Payable	\$ 5
Accounts Receivable	26,769	Wages and Salaries Payable	923
Inventory	-	Accrued expenses Payable	-
Prepaid Gen. Exp.	6,399	Current Liabilities	\$ 928
Current Assets	\$ 61,603	FICA/Worker's Comp. Payable	-
Fixed Assets, net	20,037	Retained Earnings	80,712
Total:	\$ 81,640	Total:	\$ 81,640

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Consolidated Organizational Balance Sheet As Of December 31, 1995:

<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 49,529	Accounts Payable	\$ 1,293
Accounts Receivable	30,726	Wages and Salaries Payable	3,590
Employee Rec.	73	Accrued expenses Payable	2,554
Grants Receivable	3,927	Grant Advance	5,590
Inventory	-	Current Liabilities	\$ 13,027
Prepaid Gen. Exp.	10,017	FICA/Worker's Comp. Payable	-
Current Assets	\$ 94,272	Retained Earnings	121,649
Fixed Assets, net	40,404	Total:	\$ 134,676
Total:	\$ 134,676		

SOMA Steam Clean Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	66.38
Quick Ratio (Curr. Asts - Invent./Curr. Liab.):	66.38
Inventory Turnover (Sales/Inventory):	N/A
Days Sales Outstanding (Rec/Avg Daily Sales):	102.08
Debt Ratio (Total Debt/Total Assets):	1.14%
ROA (Net Income/Assets):	-4.83%
ROE (Net Income/RE):	-4.88%
PM On Sales (Net Income/Sales):	-4.18%
GM (Gross Profit/Sales)	40.78%

Consolidated SOMA Fdtn. Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	7.24
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	7.23
Inventory Turnover (Sales/Inventory):	N/A
Days Sales Outstand. (Rec./Avr. Daily Sales):	132.42
Debt Ratio (Total Debt/Total Assets):	9.67%
ROA (Net Income/Assets):	14.00%
ROE (Net Income/RE):	15.50%
PMOnSales(NetInc.+Subsdy/Sales):	19.97%
PMOnSales(NetInc.-Subsdy/Sales):	-18.67%
Gross Margin (Gross Profit/Sales):	40.78%
Percentage Enterprise Subsidy:	27.87%
Subsidy to Wage Ratio:	55%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Soma Foundation ... Continued

Summary for 1995	Steam Clean	Program	Combo
Income/Sales	\$ 94,407	\$ 36,478	\$ 130,885
Expenses	42,439	13,683	56,121
Net	\$ 51,969	\$ 22,796	\$ 74,764
Sales	72.13%	27.87%	100.00%
Expenses	75.62%	24.38%	100.00%
Net	69.51%	30.49%	100.00%

Profit Margins (Net/Total Revenue)	FY 94-95	FY 93-94	FY92-93
Steam Clean	-4.18%	-63.76%	-300.31%
Program	62.49%	75.89%	80.38%
Combination	14.40%	11.62%	42.51%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

THE ENTERPRISE: OAK STREET HOUSE

Oak Street House operates two ventures. Ashbury Images is a custom-order silk-screen T-shirt enterprise and the San Francisco City Store is a retail store located on Pier 39 in the city's Fisherman's Wharf tourist area. The City Store sells surplus memorabilia and other items donated by the city or purchased by Oak Street House for re-sale.

The Numbers

The San Francisco City Store opened in late 1995 and only reports 2.5 months of operations, but even with this short time frame, it looks like a promising enterprise. More recent financial figures not available for this report, indicate the SF-City Store continues to be profitable. During the brief reporting period for which numbers are available at the close of 1995, SFCS booked \$69,056 in Sales against Cost Of Goods Sold of \$33,805, leaving a Gross Profit of \$35,251. Operating Expenses came to \$31,198, leaving a positive Net Income of \$4,053 for the period.

Ashbury Images earned \$268,778 in Net Sales against \$242,633 in Cost Of Goods Sold, leaving a Gross Profit of \$26,144.

Operating Expenses of \$86,593 left a Net Income of (\$60,449). While that may seem a significant deficit, sales increased by more than 90% over the prior year, resulting in increased variable costs, but overall progress. According to AI's projections and actual sales booked in early 1996, the enterprise should go into the black in the first quarter of 1997.

Total All Enterprise Income was a negative (\$56,396). Program and Administrative costs totaled \$310,240, leaving a Net Income Before Subsidy for the year at negative (\$366,636). Covered by \$187,479 in Enterprise Grants and \$184,271 in Program Grants, Total Net Income was \$5,114 for 1995.

The Ratios

Ratio analysis of Oak Street House is very interesting because it directly shows how the three sets of figures for Ashbury Images, the San Francisco City Store and Oak Street House interrelate. Ashbury Images, with a high asset to liability ratio, has a Current Ratio of 3.92 and a Quick Ratio of 2.98. These figures compare favorably with the industry standard of 3.5. Its Inventory Turnover ratio is a relatively high 50 compared to the industry norm of just under 25. This could indicate an opportunity to evaluate AI's stock, ordering, and inventory systems for ways to reduce the amount of time cash is tied up in inventory holdings. A Gross Margin of 9.73% indicates how high its Cost Of Goods Sold is as a percentage of Net Sales. Clearly, anything that can be done to purchase T-shirts in bulk would help boost the Gross Margin and provide additional cash for operations. In the past,

AI has tried to purchase in bulk to the greatest degree possible, but space limitations prevent them from advance purchasing of inventory. Expansion of both production and storage capacity is slated for late 1996 and should significantly help in this regard.

AI should not stop there, since inventory and COGS is only one aspect of profitability. Other areas worth investigating have to do with the price of AI's product (which has been on the lower end of the market) and labor/productivity costs. Adjustments in all these areas could make a significant contribution to improving AI's position.

AI's debt ratio is a modest 10%, which could indicate the potential for the enterprise to carry additional debt. However, given that the ROE is a high negative figure, and the enterprise's Profit Margin on Sales is a negative 22%, it is clear that no debt should be supported until the operation's operating margins are brought down and cashflow is adequate to service any such debt load.

By contrast, the San Francisco City Store has very weak liquidity, but a positive profit for its reporting period. The Current Ratio is .75 and SFCS has an almost non-existent Quick Ratio of .16. This reflects that as a start-up with significant on-hand inventory, most of the SFCS's assets are illiquid and that the Store's outstanding Accounts Payable is a significant percentage of its Liabilities. This is appropriate for a business at this stage of development, but in future periods these ratios should

improve significantly as cashflow and sales increase and Accounts Payable declines in relation to growing cashflow and assets.

It's also interesting to note that with a Gross Margin of 51%, the SFCS starts off in a very favorable position. This is due to the high percentage of product donations to the store through its relationship with the City and County of San Francisco.

Oak Street House's Consolidated Statement reflects both the current situation of the businesses and the support they receive from the sponsoring organization. Current and Quick Ratios approach 1, but are still not at a healthy level. The organization's Debt Ratio climbs to 92% primarily as a result of outstanding mortgages on housing used for formerly homeless employees and clients. Return on Assets is under 1% and Return on Equity almost 8%—modest figures, but positive nevertheless.

Of particular note is the fact that the Profit Margin On Sales for the organization as a whole is barely 2% with the Non-Profit Subsidy. When the subsidy dollars are taken away and the Margin moves down to -108%, the state of the enterprises is truly reflected.

Overall, the potentially bright future of the City Store notwithstanding, the subsidies are clearly supporting the ongoing losses that Ashbury Images has carried over the years. The board, management, and employees of AI (together with The Roberts Foundation) are pursuing strategies to assure AI enters the black early next year and future reports will document this effort.

OAK STREET HOUSE ENTERPRISES

Income Statement, Balance Sheet and Ratio Analysis for Calendar Years 1990 – 1995

	1995	1994	1993	1992	1991
<u>Ashbury Images:</u>					
Net Sales	\$ 268,778	\$ 139,304	\$ 80,356	\$ 52,066	\$ 24,001
Cost of Goods Sold: Materials	162,035	98,709	59,201	35,517	3,152
COGS: Enter. Line Salaries (100%)	80,599	27,400	6,905	23,193	16,340
COGS: Combined	242,633	126,109	66,106	58,711	19,492
Gross Profit	\$ 26,144	\$ 13,195	\$ 14,250	\$ (6,644)	\$ 4,510
<u>Operating Expenses:</u>					
Admin. Salaries (10%)	\$ 7,058	\$ 6,343	\$ 7,672	\$ 6,521	\$ 5,934
Enter.Mngrl.Salaries (75%)	48,634	26,044	17,869	18,695	17,854
Postage & Shipping	1,816	955	465	161	18
Printing & Copying	863	2,407	57	-	52
Telephone	2,867	2,112	821	665	538
Office Supplies	2,482	2,285	153	263	744
Office Equipment & Repair	1,342	1,389	485	-	-
Insurance	1,056	666	1,687	1,100	-
Occupancy	9,900	7,425	11,100	2,599	300
Utilities	4,687	2,925	199	-	-
Accounting	649	1,380	3,988	408	89
Equipment	2,807	1,593	1,789	-	128
Transportation	2,089	3,243	581	1,100	2,772
Maintenance	346	60	505	-	35
Sub-Total Op. Expenses:	\$ 86,593	\$ 58,828	\$ 47,371	\$ 31,513	\$ 28,465
Sub-Total Net Income:	\$ (60,449)	\$ (45,633)	\$ (33,120)	\$ (38,158)	\$ (23,955)
<u>San Francisco City Store:</u> (2.5 Months)					
Net Sales	\$ 69,056	-	-	-	-
Cost of Goods Sold: Materials	21,108	-	-	-	-
COGS: Enter. Line Salaries (100%)	12,696	-	-	-	-
COGS: Combined	33,805	-	-	-	-
Gross Profit	\$ 35,251	-	-	-	-
<u>Operating Expenses:</u>					
Admin. Salaries (10%)	\$ 7,058	-	-	-	-
Enter.Mngrl.Salaries (100%)	6,458	-	-	-	-
Telephone	1,002	-	-	-	-
Postage & Shipping	555	-	-	-	-
	---	-	-	-	-

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Oak Street House Enterprises ... Continued

Supplies	764	-	-	-	-
Transportation	80				
Occupancy	11,256				
Bank & Payroll Processing	1,035				
Insurance	960				
Advertising	2,030				
Sub-Total Op. Expenses:	\$ 31,198	\$ -	\$ -	\$ -	\$ -
Sub-Total Net Income:	\$ 4,053	\$ -	\$ -	\$ -	\$ -
Total All Enter. Income:	\$ (56,396)	\$ (45,633)	\$ (33,120)	\$ (38,158)	\$ (23,955)
Program Expenses:					
<u>Personnel:</u>					
Admin. Salaries (80%)	\$ 56,460	\$ 50,741	\$ 61,376	\$ 52,170	\$ 47,474
Ent. Mgmt. Sal. (AI: 50%)	32,422	17,363	11,912	12,464	11,903
Ent. Mgmt. Sal. (SFCS: 00%)	-	-	-	-	-
Ent. Line Sal. (Both @ 00%)	-	-	-	-	-
Org. Prog. Salaries (100%)	109,979	97,154	109,994	107,997	105,972
<u>General Support, Administration:</u>					
Telephone	1,730	1,135	2,033	1,602	1,632
Postage & Shipping	113	134	412	255	219
Printing & Copying	437	199	149	203	261
Office Supplies	496	431	356	404	427
Office Equipment & Repairs	2,488	977	1,244	1,263	1,569
Occupancy	19,921	17,940	17,283	16,976	16,735
Accounting	1,698	1,696	1,013	968	957
Legal	-	-	273	-	326
Insurance	886	666	1,687	936	736
Capital Start-up Costs	68,012	-	-	-	12,021
Capitalized Start-up Costs	(35,533)	-	-	-	(12,021)
<u>Fundraising Costs</u>	51,132	49,770	2,879	1,857	1,134
Total Program Expenses:	\$ 310,240	\$ 238,205	\$ 210,612	\$ 197,094	\$ 189,345
Total All Enterprise Income:	(56,396)	(45,633)	(33,120)	(38,158)	(23,955)
Net Income Before Subsidy:	\$ (366,636)	\$ (283,838)	\$ (243,732)	\$ (235,252)	\$ (213,300)
Foundation, Government and other non-profit support:					
Enterprise Operations	\$ 187,479	\$ 75,000	\$ 115,469	\$ 82,940	\$ 58,945
Program Expenses	184,271	140,354	109,299	157,962	175,654
Sub-Total NP Subsidy:	\$ 371,750	\$ 215,354	\$ 224,768	\$ 240,902	\$ 234,599
Total Net Income:	\$ 5,114	\$ (68,483)	\$ (18,964)	\$ 5,650	\$ 21,299

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Oak Street House Enterprises ... Continued

<u>Base Salary Calculations:</u>	1995	1994	1993	1992	1991
Admin. Salaries:	\$ 70,575	\$ 63,426	\$ 76,720	\$ 65,212	\$ 59,343
Enter. Mgmt. (AI):	64,845	34,726	23,825	24,927	23,805
Enter. Mgmt. (SFCS):	6,458	-	-	-	-
Enterprise Line (AI):	80,599	27,400	6,905	23,193	16,340
Enterprise Line (SFCS):	12,696	-	-	-	-
Agency Program Staff:	109,979	97,154	109,994	107,997	105,972

<u>Ashbury Images Balance Sheet As Of December 31, 1995:</u>			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 2,437	Accounts Payable	\$ 5,700
Accounts Receivable	14,529	Wages and Salaries Payable	-
Inventory	5,400	Accrued expenses Payable	-
Prepaid Gen. Exp.	-	Current Liabilities	\$ 5,700
Current Assets	\$ 22,366	FICA/Worker's Comp. Payable	835
Fixed Assets, net	44,618	Retained Earnings	60,449
Total:	\$ 66,984	Total:	\$ 66,984

<u>San Francisco City Store Balance Sheet As Of December 31, 1995:</u>			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 3,825	Accounts Payable	\$ 23,383
Accounts Receivable	-	Wages and Salaries Payable	-
Inventory	13,711	Accrued expenses Payable	-
Prepaid Gen. Exp.	-	Current Liabilities	\$ 23,383
Current Assets	\$ 17,536	FICA/Worker's Comp. Payable	-
Fixed Assets, net	9,900	Retained Earnings	4,053
Total:	\$ 27,436	Total:	\$ 27,436

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Oak Street House Enterprises ... Continued

Consolidated Organizational Balance Sheet As Of December 31, 1995:

Assets:

Cash	\$ 51,466
Accounts Receivable	14,529
Inventory	19,111
Prepaid Gen. Exp.	-
Current Assets	<u>\$ 85,106</u>
Fixed Assets, net	714,357
Total:	<u><u>\$ 799,463</u></u>

Liabilities:

Accounts Payable	\$ 92,432
Wages and Salaries Payable	4,500
Accrued expenses Payable	2,710
Current Liabilities	<u>\$ 99,642</u>
FICA/Worker's Comp. Payable	2,208
Long-Term Loans	633,111
Retained Earnings	64,502
Total:	<u><u>\$ 799,463</u></u>

Ashbury Images Financial Ratio Analysis:

Current Ratio (Curr.Asst/CurrLiabties):	3.92
Quick Ratio(Curr.Assts-Invent./Curr.Liab.):	2.98
Inventory Turnover (Sales/Inventory):	49.77
Sales to Accounts Receivable:	18.50
Debt Ratio (Total Debt/Total Assets):	9.76%
Sales to Assets:	4.01%
ROE (Net Income/RE):	-100.00%
PM On Sales (Net Income/Sales):	-22.49%
Gross Margin (Gross Profit/Sales)	9.73%

Industry

3.5
N/A
24.4
16.1
57.9%
3.6
N/A
17%
23%

San Francisco City Store Financial Ratio Analysis:

Current Ratio (Curr.Asst/CurrLiabties):	0.75
Quick Ratio(Cur.Assts-Invent./Cur.Liab.):	0.16
Inventory Turnover (Sales/Inventory):	5.04
DaysSalesOutstand.(Rec./Avr.DailySlS):	0.00
Debt Ratio (Total Debt/Total Assets):	85.23%
ROA (Net Income/Assets):	14.77%
ROE (Net Income/RE):	100.00%
PM On Sales (Net Income/Sales):	5.87%
Gross Margin (Gross Profit/Sales)	51.05%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Oak Street House Enterprises ... Continued

Consolidated Organ. Financial Ratio Analysis:

Current Ratio (Curr.Asst/CurrLiabties):	0.85
Quick Ratio(Curr.Assts-Invent./Curr.Liab.)	0.66
Inventory Turnover (Sales/Inventory):	17.68
DaysSalesOutstand.(Rec./Avr.DailySlis):	15.48
Debt Ratio (Total Debt/Total Assets):	91.93%
ROA (Net Income/Assets):	0.64%
ROE (Net Income/RE):	7.93%
PMOnSales(NetInc.+Sub./Sales):	1.51%
PMOnSales(NetInc.-Sub./Sales):	-108.53%
Gross Margin (Gross Profit/Sales):	18.17%
Percentage Enterprise Subsidy:	52.39%
Wage To Subsidy Ratio:	44%

Summary for 1995

	Ashburv	SF Store	Program	Combo
Income/Sales	\$ 268,778	\$ 69,056	\$ 371,750	\$ 709,583
Expenses	248,628	52,306	310,240	\$ 611,174
Net	\$ 20,150	\$ 16,749	\$ 61,510	\$ 98,409
Sales	37.88%	9.73%	52.39%	100.00%
Expenses	40.68%	8.56%	50.76%	100.00%
Net	20.48%	17.02%	62.50%	100.00%

Profit Margins (Net/Total Revenue)

	1995	1994	1993	1992	1991
Ashbury Images	-22.49%	-32.76%	-41.22%	-73.29%	-99.81%
SF City Store	5.87%	0.00%	0.00%	0.00%	0.00%
Program	183.45%	210.61%	193.70%	181.82%	180.71%
Combination	0.72%	-19.31%	-6.22%	1.93%	8.24%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

THE ENTERPRISE: RUBICON PROGRAMS

Rubicon Programs, a community mental health agency located in Richmond, CA, operates a building and grounds maintenance business, as well as a bakery producing high-end desserts for restaurants and cafes in the greater San Francisco Bay Area.

The Numbers

In 1995, the bakery had sales of \$224,691 against Cost Of Goods Sold of \$204,000, leaving a Gross Profit of \$20,691. Operating Expenses for the bakery were \$164,991, leaving a negative Sub-Total Net Income of (\$144,300).

The building and grounds business booked \$2,313,336 in sales against COGS of \$1,048,885, leaving a Gross Profit of \$1,264,451. Operating Expenses for the building and grounds enterprise totaled \$1,038,859, yielding a positive Sub-Total Net Income of \$225,592.

Total All Enterprise Income for Rubicon was \$267,956. Total Program Expenses were \$369,214, leaving a negative Net Income Before Subsidy of (\$101,258) for the year. Rubicon received \$165,803 in enterprise grants and an additional \$360,000 in pro-

gram grants, for a Sub-Total Non-Profit Subsidy of \$525,803. This left a Total Net Income of \$424,545.

The Ratios

Rubicon Bakeries ended the year with a Current Ratio of 4.55 and Quick Ratio of 3.86, significantly greater than the industry average of 0.4 and 0.2. However, due to its significant loss in net income, the bakery incurred a Return On Assets of -43% and a Return On Equity of -49%. With a Gross Margin of 9.21%, its Profit Margin on Sales was -56%. The size of these negative performance percentages shows a significant distance between the current state of the business and eventual profitability. The bakery also had a Debt Ratio of 12% versus an industry average of 46%, which shows capacity to support a greater level of debt in the future.

To understand the true position of the bakery, however, it must be noted that sales have doubled in each of the past three years. The firm is clearly on an aggressive growth path and, with a new enterprise manager guiding this growth, the bakery is presently on course for achieving profitability in late 1996.

Rubicon Building and Grounds has also had significant sales growth, evidenced by its ratios. Its Current Ratio of 5.5 beats the industry average of 1.95, showing excellent liquidity as a result of virtually no current debts in relation to assets. Return On Assets is a robust 35%, with Return On Equity logging in at almost 70%, a healthy 40% above the industry average. It is also interesting to note that Profit Margin On Sales is 17%, which compares favorably

with an industry standard of 6.6%. Finally, Building and Grounds' Debt Ratio is 49%, while the industry norm is 87%.

The Consolidated Organizational Ratios, combining the enterprise activities with related costs of the sponsoring organization, bring Rubicon into good standing. Its Return On Assets, while modest, is a positive 11%. Return On Equity goes to a

solid 40.2%. Without a subsidy to cover support and program costs higher than those of a mainstream enterprise, the organization has a Profit on Sales of -3.9%, while with the subsidy, Profit on Sales increases to a respectable 16.7%. The Debt Ratio also rises from 12% for the Bakery and 49% for the Building and Grounds to a fairly well leveraged 72% for the agency as a whole.

RUBICON PROGRAMS, INC.

Income Statement, Balance Sheet and Ratio Analysis for Calendar Years 1991 – 1995

	Projected 1996	1995	1994	1993	1992	1991
Rubicon Bakery:						
Net Sales	\$ 523,496	\$ 224,691	\$ 115,072	\$ 79,824	\$ 83,836	\$ 115,662
COGS: Material	157,049	89,445	55,247	29,563	40,017	58,270
COGS: Line Sal. (100%)	140,000	114,555	53,497	34,214	41,267	53,798
COGS: Combined	297,049	204,000	108,744	63,777	81,284	112,068
Gross Profit	\$ 226,447	\$ 20,691	\$ 6,328	\$ 16,047	\$ 2,552	\$ 3,594
Operating Expenses:						
Admin. Salaries (5%)	\$ 37,968	\$ 16,589	\$ 30,472	\$ 27,507	\$ 22,506	\$ 4,093
Enter.Mngr.Sal. (80%)	40,800	36,800	25,600	15,036	15,036	3,036
Rent	13,794	13,794	5,257	2,827	3,996	3,046
Utilities	25,000	16,246	7,352	3,265	8,483	1,857
Benefits	36,160	28,333	22,789	28,895	13,474	23,619
Equipment	12,000	10,786	2,859	3,791	1,736	3,523
Depreciation expense	23,000	23,153	22,900	22,992	23,526	-
Uniforms	750	359	-	-	-	-
Marketing	15,000	2,248	1,944	-	685	191
Sub-Total Op. Exp.:	\$ 204,472	\$ 148,308	\$ 119,173	\$ 104,313	\$ 89,442	\$ 39,365
Sub-Total Net Income:	\$ 21,975	\$ (127,617)	\$ (112,845)	\$ (88,266)	\$ (86,890)	\$ (35,771)
Rubicon Building & Grounds:						
Net Sales	\$3,251,028	\$2,313,336	\$1,973,906	\$1,928,134	\$1,196,851	\$611,622
Cost of Goods Sold: Mat.	227,572	111,178	89,109	52,844	85,986	55,345
COGS: Enter. Line Sal. (100%)	1,571,728	937,707	905,548	836,355	538,352	242,563
COGS: Combined	1,799,300	1,048,885	994,657	889,199	624,338	297,908
Gross Profit	\$1,451,728	\$1,264,451	\$979,249	\$1,038,935	\$572,513	\$313,714

UNAUDITED FINANCIALS.

SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Rubicon Programs, Inc. ... Continued

<u>Operating Expenses:</u>						
Admin. Salaries (54%)	\$ 330,063	\$ 169,020	\$ 330,000	\$ 255,763	\$ 190,000	\$ 65,000
Enter.Mgr.Sal. (87%)	56,800	61,770	56,800	56,800	56,800	56,800
Rent	20,619	20,619	15,671	19,287	8,419	131
Utilities	72,138	64,843	61,509	56,022	30,877	22,122
Benefits	392,932	241,820	263,554	218,972	140,653	36,104
Equipment	28,000	16,229	9,354	11,275	9,291	9,832
Depreciation expense	83,198	74,785	58,883	73,836	42,673	1,150
Subcontract	118,473	106,493	47,107	66,741	27,720	13,246
Marketing	3,000	3,299	4,840	4,206	3,999	-
Other Op. Exp.	120,000	110,000	115,000	80,000	55,000	15,000
Sub-Total Op. Exp.:	\$1,225,224	\$ 868,878	\$ 962,718	\$ 842,902	\$ 565,432	\$ 219,385
Sub-Total Net Income:	\$ 226,504	\$ 395,573	\$ 16,531	\$ 196,033	\$ 7,081	\$ 94,329
Total All Enter. Income:	\$ 248,480	\$ 267,956	\$ (96,314)	\$ 107,767	\$ (79,809)	\$ 58,558
<u>Organizational/Program Expenses:</u>						
<u>Personnel:</u>						
Org./Admin. Salaries (22%)	\$ 68,860	\$ 68,860	\$ 58,993	\$ 39,895	\$ 31,597	\$ 18,401
Ent.Mgmt.Sal.(Food: 20%)	10,200	9,200	6,400	3,759	3,759	759
Ent.Mgmt.Sal.(B&G: 13%)	15,600	9,230	13,721	13,721	13,721	13,721
Ent. Line Sal. (All @ 00%)	-	-	-	-	-	-
Org. Prog. Salaries (100%)	300,000	250,000	250,000	250,000	200,000	150,000
<u>Gen. Support/Admin.:</u>						
Office Rent	4,813	4,628	3,702	2,899	1,793	1,095
Office Expenses	14,853	14,282	20,762	18,183	12,902	12,201
Debt Payments	3,135	3,014	3,014	3,014	3,014	3,014
1X Extra-Ordinary Expense	55,000					
Fundraising Costs	10,000	10,000	9,000	2,929	5,330	12,320
Total Program Expenses:	\$ 482,461	\$ 369,214	\$ 365,592	\$ 334,400	\$ 272,116	\$ 211,511
Total All Enterprise Income:	\$ 248,480	\$ 267,956	\$ (96,314)	\$ 107,767	\$ (79,809)	\$ 58,558
Net Inc. Before Subsidy	\$ (233,981)	\$ (101,258)	\$ (461,906)	\$ (226,633)	\$ (351,925)	\$ (152,953)

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Rubicon Programs, Inc. ... Continued

Foundation, Government and other non-profit support:							
Enterprise Operations	\$ 170,000	\$ 165,803	\$ 141,090	\$ 160,107	\$ 106,906	\$ 168,968	
Program Expenses	415,000	360,000	350,000	315,000	250,000	200,000	
Sub-Total NPSubsidy:	\$ 585,000	\$ 525,803	\$ 491,090	\$ 475,107	\$ 356,906	\$ 368,968	
Total Net Income:	\$ 351,019	\$ 424,545	\$ 29,184	\$ 248,474	\$ 4,981	\$ 216,015	

Base Salary Calculations: 1995 Figures:

Admin. Expense:	\$ 313,000	(Includes Administrative Salaries and Assigned Agency Overhead)
Enter. Mgmt. (Food):	46,000	(Includes Shop Manager and 20% Line Supervisor)
Enter. Mgmt. (B & G):	71,000	(Includes Shop Manager and 20% Line Supervisor)
Enterprise Line (Food):	114,555	(Includes Production worker salaries and 80% Line Supervisor)
Enterprise Line (B & G):	937,707	(Includes Production worker salaries and 80% Line Supervisor)
Agency Program Staff:	250,000	(Includes Job Counselor, Casemanagement, Training)

Rubicon Bakery Balance Sheet As Of December 31, 1995:

Assets:		Liabilities:	
Cash	\$ 863	Accounts Payable	\$ 6,475
Accounts Receivable	64,616	Wages and Salaries Payable	11,643
Inventory	12,632	Current Liabilities	\$ 18,118
Prepaid Gen. Exp.	4,366	FICA/Worker's Comp. Payable	891
Current Assets	\$ 82,477	Long-term debt	16,583
Fixed Assets, net	212,995	Retained Earn.s (Contributed Capital)	259,880
Total:	\$ 295,472	Total:	\$ 295,472

Rubicon Building & Grounds Balance Sheet As Of December 31, 1995:

Assets:		Liabilities:	
Cash	\$ 5,421	Accounts Payable	\$ 45,389
Accounts Receivable	507,093	Wages and Salaries Payable	47,492
Inventory	-	Current Liabilities	\$ 92,881
Prepaid Gen. Exp.	6,475	FICA/Worker's Comp. Payable	3,633
Current Assets	\$ 518,989	Long-term debt	458,154
Fixed Assets, net	606,753	Retained Earnings	571,074
Total:	\$1,125,742	Total:	\$1,125,742

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Consolidated Organizational Balance Sheet As Of December 31, 1995:

Assets:		Liabilities:	
Cash	\$ 45,003	Accounts Payable	\$ 262,672
Accounts Receivable	828,976	Wages and Salaries Payable	127,134
Inventory	12,632	Other current liabilities	461,842
Prepaid Gen. Exp.	21,480	Current Liabilities	\$ 851,648
Current Assets	\$ 908,091	FICA/Worker's Comp. Payable	15,456
Fixed Assets, net	2,775,557	Long-term debt	1,910,956
Other assets	150,485	Retained Earnings	1,056,073
Total:	<u>\$3,834,133</u>	Total:	<u>\$ 3,834,133</u>

Rubicon Bakery Financial Ratio Analysis:

Current Ratio (Curr.Asts/Curr.Liab.):	4.55
Quick Ratio (Curr.Asts-Invent./Curr.Liab.):	3.86
Inventory Turnover (Sales/Inventory):	17.79
Days Sales Outstand. (Rec./Avr.DlySl):	103.53
Debt Ratio (Total Debt/Total Assets):	12.05%
ROA (Net Income/Assets):	-43.19%
ROE (Net Income/RE):	-49.11%
PM On Sales (Net Income/Sales):	-56.80%
Gross Margin (Gross Profit/Sales):	9.21%

Industry

0.40
0.20
N/A
N/A
46.00%
9.30%
N/A
0.50%
2.20%

Rubicon Building & Grounds Finan. Ratio Analysis:

	Industry
Current Ratio (Curr.Asts/Curr.Liab.):	5.59
Quick Ratio (Curr.Asts-Invent./Curr.Liab.):	5.59
Inventory Turnover (Sales/Inventory):	N/A
Days Sales Outstand. (Rec./Avr.DlySl):	78.91
Debt Ratio (Total Debt/Total Assets):	49.27%
ROA (Net Income/Assets):	35.14%
ROE (Net Income/RE):	69.27%
PM On Sales (Net Income/Sales):	17.10%
Gross Margin (Gross Profit/Sales):	54.66%

Industry Ratios for this section taken from "Landscape, Lawn and Garden Services: Business and Industry Profile," published by the Illinois Department of Commerce and Community Affairs. This document, and a variety of other profiles, is available on the Internet.

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Consolidated Organ. Financial Ratio Analysis:

Current Ratio (Curr.Asts/Curr.Liab.):	1.07
Quick Ratio (Curr.Asts-Invent./Curr.Liab.):	1.05
Inventory Turnover (Sales/Inventory):	200.92
Days Sales Outstand. (Rec./Avr.DlySlis):	117.58
Debt Ratio (Total Debt/Total Assets):	72.46%
ROA (Net Income/Assets):	11.07%
ROE (Net Income/RE):	40.20%
PMOnSales(Net Inc.+Subsidy/Sales):	16.73%
PMOnSales(Net Inc.-Sub./Sales):	-3.99%
Gross Margin (Gross Profit/Sales):	50.64%
Percentage Enterprise Subsidy:	17.16%
Wage to Subsidy Ratio	2.22

Summary for 1995

	Bakery	Bld&Grnd	Program	Combo
Income/Sales	\$ 224,691	\$ 2,313,336	\$ 525,803	\$ 3,063,830
Expenses	237,753	980,056	369,214	\$ 1,587,023
Net	\$ (13,062)	\$ 1,333,280	\$ 156,589	\$ 1,476,807
Sales	7.33%	75.50%	17.16%	100.00%
Expenses	14.98%	61.75%	23.26%	100.00%
Net	-0.88%	90.28%	10.60%	100.00%

Profit Margins

(Net/Total Revenue)	1996	1995	1994	1993	1992	1991
Bakery	4.20%	-56.80%	-98.06%	-110.58%	-103.64%	-30.93%
Bld&Grnd	6.97%	17.10%	0.84%	10.17%	0.59%	15.42%
Program	17.53%	29.78%	25.55%	29.62%	23.76%	42.67%
Combination	8.05%	13.86%	1.13%	10.01%	0.30%	19.70%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

THE ENTERPRISE: CONARD HOUSE (ESPRESSO THYSELF CAFE/CONARD HOUSE JANITORIAL SERVICES)

Conard House is a social service organization providing housing and support services to mentally disabled individuals, many of whom are formerly homeless. Conard House also provides transitional employment through Espresso Thymself Cafe/Catering and Conard House Janitorial Services.

The Numbers

In 1995, Espresso Thymself had \$254,201 in Net Sales and Cost Of Goods Sold of \$192,575, leaving a Gross Profit of \$61,626. Operating Expenses came to \$66,649, resulting in a negative Sub-Total Net Income of (\$4,843).

A loss of \$5,000 against \$250,000 in sales is not bad, given the year Espresso Thymself had in 1995. As described in the narrative section of this report, Espresso Thymself faced significant competition in the

middle of the year from a bagel shop which opened up immediately next door. This resulted in a significant decrease in sales following the opening of the competitor's shop. An aggressive strategy by the staff of Espresso Thymself saved the firm from incurring even greater losses. In the first quarter of 1996 sales have stabilized and, if the cafe continues on course, Espresso Thymself will end the year in the black.

Janitorial Services had Sales of \$100,015, Cost Of Goods Sold of \$67,663 and a Gross Profit of \$32,352. Operating Expenses totaled \$32,065, which left the janitorial enterprise with a Net Income of \$286.

Total All Enterprise Income for both enterprises was negative (\$4,557) for 1995. Total Program and Organizational Expenses came to \$133,101, which included nearly \$50,000 in support staff working with client employees of the enterprise. Therefore, the Net Income Before Subsidy for Conard House's businesses came to negative (\$137,657). This deficit was made up through \$30,000 in enterprise operation grants and \$155,000 in government and other program grants. This subsidy left Conard House with a Total Net Income of \$47,343.

The Ratios

Espresso Thymself does not fare well in comparison with industry standards given its deficit position for 1995. While its liquidity levels of a Current Ratio at 2.11 and a Quick Ratio of 1.7 are strong when compared to the industry standard of 0.9 and 0.6, its Return On Assets of -4% and Return On Equity of -5% reflect its negative net income position

for the year. Finally, its profit margin of -2% also reflects the greater competition and weaker performance of this past year.

The Janitorial Service has a Current Ratio of 4.29. This figure compares favorably with the industry equivalent of 1.4. A Debt Ratio of 24% also compares well with the industry standard of 63%. Conard House Janitorial's Return On Assets of 1.27% and a Return On Equity of 1.67%, compared with the industry ratios of 5.8% and 6% respectively, show that Conard House has a little ways to go before approaching the industry norms. Furthermore, Profit Margin on Sales for Conard Janitorial is 0.29% (given its just break even income position), versus an industry rate of 1.8%.

For both non-profit enterprises, it is the

sponsorship of Conard House which moves them into the black after support and program costs are included. Conard House presents a Current Ratio of 2.39 and a Quick Ratio of 2.03. Return On Assets rises to almost 32%, while Return On Equity exceeds 41%. Profit Margin on sales is a modest 13% without subsidy, but rises to over 50% when subsidies are included. While the subsidy levels help move the overall social enterprise into the black, the percentage enterprise subsidy is a respectable 34%. For the consolidated enterprise, there has been a healthy growth in profit margin, from -50% in 1992 to almost 13.37% in 1995. However, it is clear that the subsidies have smoothed over the volatility of the business operations over the years.

CONARD HOUSE, INC.

Income Statement, Balance Sheet and Ratio Analysis for Calendar Years 1991 – 1995

	1995	1994	1993	1992
<u>Espresso Thysself & Catering:</u>				
Net Sales	\$ 254,201	\$ 219,832	\$ 172,696	\$ 69,857
Cost of Goods Sold: Material	111,041	94,308	71,421	23,463
COGS: Enter. Line Salaries (100%)	81,534	55,000	35,000	25,000
COGS: Combined	192,575	149,308	106,421	48,463
Gross Profit	\$ 61,626	\$ 70,524	\$ 66,274	\$ 21,394
<u>Operating Expenses:</u>				
Agency Admin. Salaries (30%)	\$ 14,556	\$ 4,852	\$ 4,852	\$ 4,852
Enter. Mngrl. Salaries (60%)	24,592	32,506	25,725	12,116
Administrative Overhead	9,750	9,000	8,731	4,231
Rent	5,600	-	-	-
Utilities/Phone	1,940	-	-	-
Equipment	11	1,111	1,206	106
Supplies	6,510	4,275	4,550	2,624

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Conard House, Inc. ... Continued

Repair & Maintenance	3,226	2,706	1,504	180
Advertising	283	71	238	167
Sub-Total Operating Expenses:	\$ 66,469	\$ 54,521	\$ 46,807	\$ 24,276
Sub-Total Net Income:	\$ (4,843)	\$ 16,004	\$ 19,468	\$ (2,882)
<u>Janitorial Services:</u>				
Net Sales	\$ 100,015	\$ 85,717	\$ 72,633	\$ 32,184
Cost of Goods Sold: Materials	8,893	6,013	6,269	3,295
COGS: Enter. Line Salaries (100%)	58,770	35,000	30,000	20,000
COGS: Combined	67,663	41,013	36,269	23,295
Gross Margin	\$ 32,352	\$ 44,704	\$ 36,365	\$ 8,889
<u>Operating Expenses:</u>				
Agency Admin. Salaries (30%)	\$ 14,556	\$ 4,852	\$ 4,852	\$ 4,852
Enter. Mngrl. Salaries (50%)	13,549	22,000	21,000	20,689
Administrative Overhead	900	1,800	1,800	900
Rent	2,000	2,000	2,000	2,000
Utilities	1,060	-	-	-
Sub-Total Operating Expenses:	\$ 32,065	\$ 30,652	\$ 29,652	\$ 28,441
Sub-Total Net Income:	\$ 286	\$ 14,051	\$ 6,712	\$ (19,553)
Total All Enterprise Income:	\$ (4,557)	\$ 30,055	\$ 26,180	\$ (22,435)

<u>Program Expenses:</u>				
	FY1995	FY1994	FY1993	FY1992
Admin. Salaries (40%)	\$ 19,409	\$ 38,817	\$ 38,817	\$ 38,817
Ent. Mgmt. Salaries (Cafe: 40%)	16,395	32,506	25,725	12,116
Ent. Mgmt. Sal. (Janitorial: 50%)	13,549	22,000	21,000	20,689
Ent. Line Sal. (Cafe @00%)	-	-	-	-
Ent. Line Sal. (Janitorial: 00%)	-	-	-	-
Program Staff	46,000	30,000	25,000	25,000
Bookkeeping Services	1,500	1,500	1,000	1,000
Office Rent	16,000	15,000	11,000	9,800
Office Expenses	6,248	8,651	4,255	2,366
Utilities/Phone	14,000	-	-	-

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Conard House, Inc. ... Continued

Total Program Expenses:	\$ 133,101	\$ 148,474	\$ 126,798	\$ 109,788
Total All Enterprise Income:	\$ (4,557)	\$ 30,055	\$ 26,180	\$ (22,435)
Net Income Before Subsidy:	\$ (137,657)	\$ (118,419)	\$ (100,617)	\$ (132,223)
Foundation, Government and other non-profit support:				
Enterprise Operations	\$ 30,000	\$ 1,600	\$ 1,200	\$ 1,000
Prog. Exp. (Training, etc.)	155,000	125,000	75,000	50,000
Sub-Total Non-Profit Subsidy:	\$ 185,000	\$ 126,600	\$ 76,200	\$ 51,000
Total Net Income:	\$ 47,343	\$ 8,181	\$ (24,417)	\$ (81,223)

<u>Base Salary Calculations:</u>			
Admin. Salaries:	\$ 48,522	(Includes Exec. Dir. and Admin. Asst.)	
Enter. Mgmt. (Cafe):	40,987	(Includes Shop Manager and Kitchen Supervisor)	
Enter. Mgmt. (Janitorial):	27,098	(Includes Shop Manager)	
Enterprise Line (Cafe):	81,534	(Includes line worker salaries)	
Enter. Line (Janitorial):	58,770	(Includes line worker salaries)	
Program Staff:	46,000	(Includes Vocational Counselors)	

<u>Espresso Thyself & Catering Balance Sheet As Of December 31, 1995:</u>			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 15,678	Accounts Payable	\$ 20,632
Accounts Receivable	7,943	Wages and Salaries Payable	3,041
Inventory	9,687	Accrued expenses Payable	-
Prepaid Gen. Exp.	16,589	Current Liabilities	\$ 23,673
Current Assets	\$ 49,897	FICA/Worker's Comp. Payable	4,227
Fixed Assets, net	75,623	Retained Earnings	97,620
Total:	\$ 125,520	Total:	\$ 125,520

<u>Janitorial Balance Sheet As Of December 31, 1995:</u>			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 7,563	Accounts Payable	\$ 1,567
Accounts Receivable	7,560	Wages and Salaries Payable	1,956
Inventory	-	Accrued expenses Payable	-
Prepaid Gen. Exp.	-	Current Liabilities	\$ 3,523
Current Assets	\$ 15,123	FICA/Worker's Comp. Payable	2,000
Fixed Assets, net	7,500	Retained Earnings	17,100
Total:	\$ 22,623	Total:	\$ 22,623

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Consolidated Organizational Balance Sheet As Of December 31, 1995:

Assets:		Liabilities:	
Cash	\$ 23,241	Accounts Payable	\$ 22,199
Accounts Receivable	15,503	Wages and Salaries Payable	4,997
Inventory	9,687	Accrued expenses Payable	-
Prepaid Gen. Exp.	<u>16,589</u>	Current Liabilities	<u>\$ 27,196</u>
Current Assets	\$ 65,020	FICA/Worker's Comp. Payable	6,227
Fixed Assets, net	<u>83,123</u>	Retained Earnings	<u>114,720</u>
Total:	<u>\$ 148,143</u>	Total:	<u>\$ 148,143</u>

Espresso Thyself Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	2.11
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	1.70
Inventory Turnover (Sales/Inventory):	26.24
Days Sales Outstanding (Rec./Avr. Daily Sales):	11
Debt Ratio (Total Debt/Total Assets):	22.23%
ROA (Net Income/Assets):	-3.86%
ROE (Net Income/RE):	-4.96%
PM On Sales (Net Income/Sales):	-1.91%
Gross Margin (GrossProfit/Sales):	24.24%

<u>Industry</u>
0.90
0.60
N/A
N/A
N/A
2.40%
13.20%
N/A
N/A

Janitorial Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	4.29
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	4.29
Inventory Turnover (Sales/Inventory):	N/A
Days Sales Outstanding (Rec./Avr. Daily Sales):	27.21
Debt Ratio (Total Debt/Total Assets):	24.41%
ROA (Net Income/Assets):	1.27%
ROE (Net Income/RE):	1.67%
PM On Sales (Net Income/Sales):	0.29%
Gross Margin (GrossProfit/Sales):	32.35%

<u>Industry</u>
1.40
1.10
N/A
N/A
63.00%
5.80%
6.00%
1.80%
N/A

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Consolidated Organizational Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	2.39
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	2.03
Inventory Turnover (Sales/Inventory): *	26.24
Days Sales Outstanding (Rec./Avr. Daily Sales):	15.76
Debt Ratio (Total Debt/Total Assets):	22.56%
ROA (Net Income/Assets):	31.96%
ROE (Net Income/RE):	41.27%
PMOnSales(Net Inc+Sub/Sales):	50.94%
PMOnSales(Net Inc-Sub/Sales):	13.37%
Gross Margin (Gross Profit/Sales):	26.53%
Percentage Enterprise Subsidy:	34.31%
Subsidy to Wage Ratio:	0.89

*Same as the Espresso Thyself Inventory Turnover Ratio

Summary for 1995

	Espresso	Janitorial	Program	Combo
Sales	\$ 254,201	\$ 100,015	\$ 185,000	\$ 539,216
Expenses	177,510	40,959	133,101	351,569
Net	\$ 76,691	\$ 59,056	\$ 51,899	\$ 187,647
Sales	47.14%	18.55%	34.31%	100.00%
Expenses	50.49%	11.65%	37.86%	100.00%
Net	40.87%	31.47%	27.66%	100.00%

Profit Margins (Net/Total Revenue)

	1995	1994	1993	1992
Espresso Thyself	-1.91%	7.28%	11.27%	-4.13%
Janitorial	0.29%	16.39%	9.24%	-60.75%
Program	171.95%	217.28%	266.40%	315.27%
Combination	8.78%	1.89%	-7.59%	-53.07%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

THE ENTERPRISE: ARTSTART (CENTRAL CITY HOSPITALITY HOUSE)

ArtStart, an enterprise of Central City Hospitality House, operates a Studio Arts & Cards venture as well as a Retail Shop and Art Gallery. Its performance reflects, in part, an extremely tight market. In addition, management of the enterprise and its sponsoring organization changed hands during a very difficult period wherein the agency was almost forced to shut its doors. These issues, while not excuses, have made for a tough environment in which to operate a business. The reader is encouraged to review the case summary on Hospitality House in order to learn from their experience.

The Numbers

The numbers reported for ArtStart are for Fiscal Year 1995/96 and show significant shortfalls. Gross Sales for the Studio Arts & Cards came to only \$100,000. With Cost Of Goods Sold at \$89,780, the enterprise had only \$10,220 remaining to pay basic operat-

ing costs, much less the cost of support services. Operating Expenses totaled \$91,290 and the enterprise was left with a negative Net Income of (\$84,170).

Operation of the Shop and Gallery Retail store also resulted in losses. Gross Sales of \$40,000 supported Cost Of Goods Sold of \$45,470, leaving a thin Gross Profit of (\$5,470). Operating Expenses, which did not even include the true cost of rent (the store operates in space donated by the Crocker Galleria in downtown San Francisco), totaled \$43,258, leaving a negative Net Income of (\$48,728).

Total All Enterprise Income was a negative (\$132,898). Program expenses totaled a relatively modest \$54,100, which, when combined with All Enterprise Income, left ArtStart with a Net Income Before Subsidy of negative (\$186,998). ArtStart received Enterprise Operation grants of \$79,700 and Program Grants of \$80,300 for a Total Non-Profit Subsidy level of \$160,000. This still left the enterprise with a shortfall of \$26,998 which had to be met from agency general funds.

The Ratios

The ratios for both enterprises and the consolidated statement clearly reflect the losses for the year. The Arts and Cards enterprise had a Current Ratio of .80 and a Quick Ratio of .41, reflecting its low level of liquidity. Return on Assets was -133%, with Profit Margin on Sales of -84%. A significant problem was the large Cost Of Goods Sold relative to overall sales, which gave the Arts and Cards unit a slim 10.22% Gross Margin to cover equally large operating costs.

The Shop Gallery did not fare much better. A Current Ratio of 1.0 gave it a marginal level of liquidity; however, a Return On Assets of -975% was the last place showing for all seven organizations presented in this document, and approaches a rate of return one might have expected from Chile in the 1970s... At -122%, Profit Margin on Sales was also poor. The Gross Margin of only -13.68% does not give the enterprise managers any room to move in attempts to bring the enterprise to greater profitability.

Even when we consolidate these figures with those of the parent organization, we find a shaky situation. This is due in large part to the fact that the organization as a whole underwent profound reorganization of its financial position in 1995 and continues to carry a large debt. The Consolidated

statement shows a Current Ratio of .81 and a Quick Ratio of .80, reflecting poor liquidity. Return on Assets is -.80%. Profit Margin on Sales without the subsidy is -133%, but with the subsidy is only -19%. Gross Margin for the consolidated organization is only 3.39%. The Wage to Subsidy Ratio for the organization is a large 71%, while the Percentage Enterprise Subsidy is also a relatively healthy 53%.

Clearly, Hospitality House has its work cut out for it in the coming months. While the board, staff, and program participants remain committed to the original vision, the organization's ability to subsidize the enterprise may be reaching its limit. If sales over the coming year do not hit the projected aggressive goals, the enterprise will have to reconsider its alternatives.

CENTRAL CITY HOSPITALITY HOUSE

Income Statement, Balance Sheet and Ratio Analysis for Calendar Years 1991 – 1995

	FY95/96	FY94/95	FY93/94	FY92/93	FY91/92	FY90/91
<u>Studio Arts & Cards:</u>						
Gross Sales	\$ 100,000	\$ 85,348	\$ 117,994	\$ 126,186	\$ 50,500	\$ 49,881
Cost of Goods Sold: Materials	63,000	89,725	116,451	133,666	56,024	58,473
COGS: Enter. Line Salaries (100%)	26,780	26,000	15,000	13,000	13,000	5,000
COGS: Combined	89,780	115,725	131,451	146,666	69,024	63,473
Gross Profit	\$ 10,220	\$ (30,377)	\$ (13,457)	\$ (20,480)	\$ (18,524)	\$ (13,592)
<u>Operating Expenses:</u>						
Agency Admin. Salaries (10%)	\$ 3,090	\$ 3,000	\$ 2,500	\$ 2,000	\$ 1,500	\$ 1,000
Enter. Mngrl. Salaries (80%)	41,200	40,000	42,800	143,039	122,668	95,754
Rent	6,000	7,782	300	6,596	5,443	5,244
Office Expense	1,100	2,933	298	1,812	1,904	2,431
Utilities	1,400	7,295	460	9,798	8,442	5,527
Telephone	3,200	4,650	114	6,201	3,348	1,610
Postage	4,200	3,921	1,295	6,463	0	5,009
Special Events	2,900	455	0	5,155	7,787	6,081
Payroll Taxes	5,400	8,844	5,177	16,235	12,606	9,934
Insurance	5,400	4,287	1,067	7,615	3,747	2,636

UNAUDITED FINANCIALS.

SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Hospitality House ... Continued

Advertising	800	894	69	1,962	1,500	869
Legal & Professional Fees	1,200	11,720	22,369	11,043	11,764	16,587
Repairs & Maintenance	2,700	3,166	90	5,767	7,608	7,342
Supplies	1,500	785	1,018	10,169	14,800	5,573
Employee Benefits	7,000	4,499	4,115	14,502	14,611	9,646
Staff Transportation	100	340	0	321	0	388
Miscellaneous	4,100	1,889	116	2,367	5,216	2,988
Sub-Total Operating Expenses:	\$ 91,290	\$ 106,460	\$ 81,788	\$ 251,045	\$ 222,944	\$ 178,619
Less Depreciation	3,100	3,100	3,100	3,100	3,100	0
Subtotal Net Income:	\$ (84,170)	\$ (139,937)	\$ (98,345)	\$ (274,625)	\$ (244,568)	\$ (192,211)
<u>Shop & Gallery Retail</u>						
Gross Sales	\$ 40,000	\$ 45,686	\$ 1,251	\$ -	\$ -	\$ -
Cost of Goods Sold: Materials	25,900	21,339	781	-	-	-
COGS: Enter. Line Salaries	19,570	19,000	9,500	-	-	-
COGS: Combined	45,470	40,339	10,281	-	-	-
Gross Profit	\$ (5,470)	\$ 5,347	\$ (9,030)	\$ -	\$ -	\$ -
<u>Operating Expenses:</u>						
Agency Admin. Salaries (10%)	\$ 3,090	\$ 3,000	\$ 2,500	\$ -	\$ -	\$ -
Enter. Mngrl. Salaries	26,368	25,600	5,000	-	-	-
Rent	-	-	-	-	-	-
Office Expense	200	549	29	-	-	-
Utilities	2,200	2,070	2,214	-	-	-
Telephone	400	300	99	-	-	-
Postage	100	706	494	-	-	-
Special Events	600	30	-	-	-	-
Payroll Taxes	3,700	2,143	775	-	-	-
Insurance	1,000	542	550	-	-	-
Advertising	200	576	-	-	-	-
Legal & Professional Fees	-	35	135	-	-	-
Repairs & Maintenance	300	427	-	-	-	-
Supplies	500	-	-	-	-	-
Employee Benefits	4,000	610	393	-	-	-
Staff Transportation	300	76	-	-	-	-
Miscellaneous	300	217	-	-	-	-
Sub-Total Operating Expenses:	\$ 43,258	\$ 36,881	\$ 12,189	\$ -	\$ -	\$ -
Sub-Total Net Income:	\$ (48,728)	\$ (31,534)	\$ (21,219)	\$ -	\$ -	\$ -
Total All Enterprise Income:	\$ (132,898)	\$ (171,471)	\$ (119,564)	\$ (274,625)	\$ (244,568)	\$ (192,211)

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Hospitality House ... Continued

Organizational/Program Expenses						
	Projected					
<u>Personnel:</u>	FY95/96	FY94/95	FY93/94	FY92/93	FY91/92	FY90/91
Org. Admin. Salaries (80%)	\$ 37,600	\$ 28,000	\$ 19,582	\$ 36,377	\$ 14,000	\$ 5,641
Ent. Mgmt. Salaries - Studio Arts	8,000	-	-	-	-	-
Ent. Mgmt. Salaries - Store	4,500	-	-	-	-	-
Org. Program Salaries (100%)	-	-	-	-	-	-
<u>General Support, Admin.</u>						
Office Rent	500	500	500	500	500	500
Office Expenses	500	500	500	500	500	500
<u>Fundraising Costs:</u>	3,000	2,500	2,000	1,500	1,000	500
Total Program Expenses:	\$ 54,100	\$ 31,500	\$ 22,582	\$ 38,877	\$ 16,000	\$ 7,141
Total Enterprise Income:	\$ (132,898)	\$ (171,471)	\$ (119,564)	\$ (274,625)	\$ (244,568)	\$ (192,211)
Net Income Before Subsidy:	\$ (186,998)	\$ (202,971)	\$ (142,146)	\$ (313,502)	\$ (260,568)	\$ (199,352)

<u>Foundation, Government, CCHH & other non-profit support for:</u>						
Enterprise Operations	\$ 79,700	\$ 115,037	\$ 99,913	\$ 99,025	\$ 58,400	\$ 53,308
Program Exp (incl CCHH)	80,300	64,006	35,528	195,917	200,100	146,044
Sub-Total Non-Profit Subsidy:	\$ 160,000	\$ 179,043	\$ 135,441	\$ 294,942	\$ 258,500	\$ 199,352
Total Net Income:	\$ (26,998)	\$ (23,928)	\$ (6,705)	\$ (18,560)	\$ (2,068)	\$ -

Base Salary Calculations:	
Administrative Salaries	\$ 30,000 (Includes Ex. Dir., Controller,)
Ent. Mgmt. Salaries: Studio Arts	50,000 (Includes Bus. Mgr.)
Ent. Mgmt. Salaries: Shop/Retail	32,000 (Includes Bus. Mgr.)
Ent. Line Salaries: Studio Arts	26,000 (Includes Production Workers)
Ent. Line Salaries: Shop/Retail	19,000 (Includes Sales Associates)
Org. Program Salaries:	7,000 (Includes Job Developer and Art Instructor)

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Hospitality House ... Continued

Studio Arts & Cards Balance Sheet As Of Close of FY1995:

<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ 2,000	Accounts Payable	\$ -
Accounts Receivable	-	Interfund Payable	-
Inventory	25,000	Deferred Revenue	63,200
Interfund Receivable	23,850	Current Liabilities	\$ 63,200
Current Assets	\$ 50,850	FICA/Worker's Comp. Payable	-
Fixed Assets, net	12,350	Retained Earnings	-
Total:	<u>\$ 63,200</u>	Total:	<u>\$ 63,200</u>

Shop & Gallery Retail Balance Sheet As Of Close Of FY1995:

<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ -	Accounts Payable	\$ -
Accounts Receivable	-	Wages and Salaries Payable	-
Inventory	5,000	Accrued expenses Payable	5,000
Prepaid Gen. Exp.	-	Current Liabilities	\$ 5,000
Current Assets	\$ 5,000	FICA/Worker's Comp. Payable	-
Fixed Assets, net	-	Retained Earnings	-
Total:	<u>\$ 5,000</u>	Total:	<u>\$ 5,000</u>

Consolidated Central City Hospitality House Balance Sheet as of FY1995:

<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$ (74,152)	Accounts Payable	\$ 45,934
Accounts Receivable	1,105,686	Deferred Revenue	1,011,820
Inventory	15,856	Interfund Payable	71,097
Interfund Receivable	75,395	Notes Payable	225,000
Current Assets	\$ 1,122,785	Accrued Vacation	36,452
Fixed Assets, net	2,260,298	Current Liabilities	\$ 1,390,303
Total:	<u>\$ 3,383,083</u>	Long-Term Payables	564,091
		Retained Earnings	1,428,690
		Total:	<u>\$ 3,383,084</u>

Studio Arts & Cards Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	0.80
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	0.41
Inventory Turnover (Sales/Inventory):	4.00
Days Sales Outstanding (Rec./Avr. Daily Sales):	0.00
Debt Ratio (Total Debt/Total Assets):	100.00%
ROA (Net Income/Assets):	-133.18%
ROE (Net Income/RE):	N/A
Profit Margin (Net Inc./Sales):	-84.17%
Gross Margin (GrossProfit/Sales)	10.22%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT

Shop & Gallery Retail Financial Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	1.00
Quick Ratio (Curr. Asts - Invent./Curr. Liab.):	0.00
Inventory Turnover (Sales/Inventory):	8.00
Days Sales Outstanding (Rec./Avr. Daily Sales):	0.00
Debt Ratio (Total Debt/Total Assets):	100.00%
ROA (Net Income/Assets):	-974.56%
ROE (Net Income/RE):	N/A
Profit Margin (Net Inc./Sales):	-121.82%
Gross Margin (GrossProfit/Sales)	-13.68%

Consolidated Cen. City Hosp. House Finan. Ratio Analysis:

Current Ratio (Curr. Assets/Curr. Liabilities):	0.81
Quick Ratio (Curr. Assets - Invent./Curr. Liab.):	0.80
Inventory Turnover (Sales/Inventory):	8.83
Days Sales Outstanding (Rec./Avr. Daily Sales):	3037.07
Debt Ratio	57.77%
ROA (Net Income/Assets):	-0.80%
ROE (Net Income/RE):	-1.89%
PMOnSales(Net Inc+Sub/Sales):	-19.28%
PMOnSales(Net Inc-Sub/Sales):	-133.57%
Gross Margin (Gross Profit/Sales):	3.39%
Percentage Enterprise Subsidy:	53.33%
Wage To Subsidy Ratio:	0.71

Profit Margins (Net/Total Rev)	FY95/96	FY94/95	FY93/94	FY92/93	FY91/92
Studio Arts & Cards	-84.17%	-163.96%	-83.35%	-217.64%	-484.29%
Shop & Gallery Retail	-121.82%	-69.02%	-1696.16%	n/a	n/a
Program	66.19%	82.41%	83.33%	86.82%	93.81%
Combination	-9.00%	-7.72%	-2.63%	-4.41%	-0.67%

UNAUDITED FINANCIALS.
SOME FIGURES HAVE BEEN MODIFIED TO FIT THIS FORMAT