

Leading the Social Purpose Enterprise: An Examination of Organizational Culture

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Introduction

The challenges of leading a social purpose enterprise are numerous and varied. Throughout all levels of the organization, leaders are faced with unique management issues such as uncommon accounting situations, staffing challenges and new kinds of funder relationships. While all these challenges are important and must be

addressed, one of the biggest challenges for the leader of a social purpose enterprise is to create and manage one organizational culture that brings together both the nonprofit and for-profit cultures.

To successfully bring these two distinct cultures together under one organization requires the leader to understand the differences between a typical business culture and a

typical nonprofit culture. Once these differences are understood the leader needs to identify the reoccurring dilemmas and tensions that arise from putting these two sectors together within one organizational culture. The leader then must be able to create a high performance culture that embraces the recurring dilemmas and tensions.

Effective leaders understand the role of culture and its consequences in their organizations. While there are many factors that add to an organization's culture, leaders play a key role in the creation, management and at times

dismantling of a culture. This chapter addresses issues of leadership and the relationship of leadership to organizational culture. The ideas presented here can be useful with different leadership approaches.

In this chapter, we review the basic concept of organizational culture and identify key characteristics of business and nonprofit cultures. From the analysis of these cultural differences, two primary recurring dilemmas are put forth. Recommendations are then made for six leadership components of a high performance culture for the social purpose enterprise.

Social Purpose Enterprises

Social purpose enterprises are revenue-generating businesses that are owned and operated by nonprofit organizations with the express purpose of employing at-risk clients in the business ventures. Clients generally face barriers to obtaining employment elsewhere because of their various life circumstances such as: being

homeless in the past; coming from low-income communities with scarce opportunities; and having been involved in the criminal justice system. By virtue of employing these individuals with often multiple barriers, social purpose enterprises operate simultaneously in both the business and nonprofit social service sectors.

Organizational Culture

Organizational culture is one of the key determinants that leads to the success or failure of an organization. In the early 1980s the concept of culture, borrowed from social anthropology, became widespread in organizational studies literature.¹ While it was gaining widespread popularity with academics, most practitioners were also experimenting with this concept. Over the past two decades the understanding of culture's role in organizations has advanced through numerous research studies and professional practice. A recent study by Kotter & Heskett (1992) directly links the management of corporate culture to a company's long-term economic performance. Schein (1992), a leading organizational development expert, defines culture as:

A pattern of shared basic assumptions that the group learned as it solved its problems of

external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel, and in relation to those problems (p.12).

An organization's beliefs and assumptions over time become fixed behaviors for the group of individuals. As behavioral norms develop they help hold together groups of diverse individuals and give them a common direction, a way of working together while providing boundaries for appropriate behavior.

Culture helps us distinguish one organization from another because it is not unusual to have several organizations producing the exact same product or delivering the same service. It is often the identity or culture of the company that attracts its employees, customers and stakeholders.

Hampden-Turner (1990) in his work on culture takes the view that the main function of culture involves the managing of dilemmas and opposing forces. The very nature of organizations produces ongoing conflicts by bringing together diverse groups of people to achieve the mission of an organization. How the organization solves these dilemmas, based on its basic assumptions and beliefs becomes the “way we do things around here” or its culture. Culture also creates a safe, comfortable and predictable work environment to make sense of events and add continuity for its members. Culture helps individuals derive meaning from their work and connect to a larger purpose, while integrating and teaching new group members how to fit into the organization and behave appropriately.

Leaders create, manage and change cultures in an organization. Schein (1992) refers to culture and leadership as being two sides of the same coin. Leaders develop culture through their values and assumption of how the world works. If organizational culture is viewed as the vehicle that moves the values, philosophies and beliefs through the organization, then the

leader can be seen as the driver of this vehicle, the individual who acts as the catalyst to help the group reach its destination.

While leaders have a major role in the formation and development of culture so does the external environment in which the organization operates. Hampden-Turner (1990) is of the opinion that “all corporate cultures are partly the result of negotiations with the larger cultures in which these are located. It is not possible to start from scratch...” (p.34). As one examines an organization’s culture the larger macro environment must be kept in sight to fully understand the situation. The geographical location of the organization, the dominant ethnic background of the individual stakeholders and the industry the organization operates in all contribute to the development of the culture. Cultures do not develop in isolation rather they develop in relationship to their environment. This hypothesis of culture is of particular importance to the social purpose enterprise that aims to bring two different sectors together, each with their own unique attributes.

Characteristics of Typical Nonprofit Cultures and Business Cultures

It is necessary to understand the differences between nonprofit and business cultures before one can make sense of a social purpose enterprise culture. This section will examine the cultures of typical nonprofits and typical businesses through two analytical frameworks: the external and internal. The external analysis examines the context in which the organization operates while the internal examines the levels of culture that exist in an organization.

CONTEXT

The overall situation in which an organization operates influences the culture development of that organization. Nonprofit organizations generally operate in a different context than a typical business. However, there are contextual variances even within the nonprofit

and business sectors. For the purpose of this discussion, we will focus on a particular type of nonprofit organization committed to providing social services.

Hasenfeld and English (1974) propose five distinctive attributes of social service organizations that are beneficial to this discussion of context. By comparing these we can see some of the differences and similarities between nonprofits and businesses.

- (1) From a service perspective, most nonprofit social service organizations exist to change people. Social service organizations have human beings as the “raw materials” with which to work. The ability of the organization to reach its goal of change is largely in the hands of the client. No matter how well the organization does its work, the client must be willing to

change. People experience great ambivalence toward changing themselves and their circumstances. There is a level of complexity involved in taking a person and changing them that generally does not exist in most businesses. Businesses operate in a context whereby they create a product or service. The “raw materials” are less volatile. The success of a business usually does not rest on changing a person that might not want to change.

- (2) Goal setting in social service organizations is often ambiguous. The problems they seek to solve are complex with objectives that are difficult to measure. Alleviating poverty, putting an end to racism, helping a client achieve self-sufficiency, or assisting a young person to reach their highest potential are intangible attributes that operate on an abstract level. In a business context, setting goals is a more straightforward direct process. When it comes to goal setting businesses typically operate on a concrete level. Expanding product lines, increasing market share or decreasing expense are all easily quantifiable and measurable goals.
- (3) Social service organizations do not operate with precise technologies. Exact technologies of counseling, training or job placement do not exist. Social service organizations operate in a context that lacks precision and clarity. Businesses thrive on clarity and accuracy. Business technologies such as the manufacturing of products, or creation of services, accounting and sales generally require a high level of accuracy.
- (4) Operating in the context of social service organizations, the characteristics of the staff-client relationship bring about instability and uncertainty in these organizations. The core activity of a social service organization is the relationship between the staff and its clients. This phenomenon creates an operating environment that has multiple layers. For example, in counseling relationships the client and the counselor are both influenced by their interactions. Businesses operate with different relationships than social service organizations. Business relationships center on

customers, vendors and shareholders. The boundaries between people are much clearer in a business context.

- (5) Social service organizations lack reliable and valid measures of effectiveness. The intricacies make it difficult to produce a universal measurement. Organizations that operate in a social service context are in positions where they need to take action without precise measurements of their effectiveness. Businesses take action based on analyses of their effectiveness. Clear measurements exist to guide the course of action in a business. Good business practice relies on this analysis.

LEVELS OF CULTURE

Schein's (1992) Levels of Culture provides a very useful framework to identify the distinctive internal attributes associated with a typical business culture and a typical nonprofit culture. One of the complexities of examining culture in an organization involves the multiple levels at which this concept operates and Schein's methodology addresses this through the following three areas of analysis:

- (1) Artifacts, which describe visible organizational structures and processes;
- (2) Espoused Values, which include strategies, goals, philosophies and justifications; and
- (3) Basic Underlying Assumptions, which take into account unconscious, taken-for-granted beliefs, perceptions, thoughts and feelings (p.17).

Artifacts

Artifacts can include an organization's physical environment, technology, language, dress codes, stories and displays of emotion (Schein, 1992). Artifacts produced by a corporate organization with a business culture can look very different than one in a nonprofit culture. Generally speaking, many businesses have the latest technology and new office furniture. Whereas in the nonprofit sector the organizations frequently do not have the resources to acquire the latest technology and are expected to take donations of older used equipment. Physical artifacts such as office furniture, art work and interior design are generally donated, used and in marginal con-

dition. Many businesses can afford office space in prime real estate locations, dress codes that reflect their customer base and extravagant corporate rituals. Most nonprofit organizations are located close to their client base, near public transportation and in areas with affordable rents, which are often undesirable locations. Nonprofits are very careful to make sure their physical environments do not appear to be more of a priority than matters such as direct client services. Nonprofits need to manage their image with a different perspective than a business. Businesses that are not in prime locations and without latest equipment and high quality offices can be viewed negatively by customers, vendors and shareholders, and this perception can affect their position in the marketplace.

In most cases the visible artifacts in a business or in a nonprofit differ. These surface differences stem from deeper organizational beliefs that are illustrated in the next two levels of cultural analysis.

Espoused Values

According to Schein (1992), the second level of culture analysis is the organization's espoused values. Espoused values in an organization originate with the founder or leader who puts forth his or her ideas in order to determine what is right or wrong, or a particular approach to a given situation. Values are the belief that one mode of behavior or conduct is preferable to another. Some business values and nonprofit values are easily interchangeable. At this level of analysis it is difficult to make generalizations about differences between the two sectors. For example, either a nonprofit or a business can value:

- ◆ participatory management over authoritarian;
- ◆ quality over quantity; personal relationships over more distant relationships;
- ◆ entrepreneurial methods over bureaucratic methods; or
- ◆ creativity and innovation over stability and consistency.

The core differences between these sectors reside at the level of underlying assumptions. If espoused values are different between

the business and nonprofit, the root cause can be traced to an underlying assumption.

Basic Underlying Assumptions

The third level of culture, basic underlying assumptions, is defined by Schein (1992) as: "a set of basic assumptions [that] defines for us what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations (p. 22)." Underlying assumptions are the beliefs, moral codes, and philosophies that function at such a fundamental level that they are unconscious and rarely questioned by participants. At the level of Basic Underlying Assumptions there are six distinguishable differences between the nonprofit and business cultures.

Risk Taking

The first basic assumption involves risk taking. Business culture encourages and rewards risk taking. Business literature is full of "heroes" who had a vision, rallied people behind their goals and with tremendous effort took a leap of faith as they launched a new product, marketed an idea or even launched a new venture. The whole venture capitalist structure supports individuals who are prepared to risk everything for their new business idea. A common underlying assumption in the business community is that some level of risk is necessary in order to be successful. On the contrary, the nonprofit arena is set up to minimize risk. The structure of government and foundation financial support does not encourage leaders to take risks, but rather encourages them to use already entrenched methods. If an organization's idea is too innovative or risky, it will be difficult to secure financial support for it. More traditional foundations, which possess the most resources, generally back projects that already have a successful proven track record. Government funding, with all of its requirements, removes most opportunities for risk.

A condition of risk taking is the acceptance of both success and failure. Since they are risk tolerant, businesses are consequently more accepting of failure. Successful business people most always have a few failures under their belt before they have any major success. If an individual starts a business that fails they can still raise money for their next venture,

assuming they have a solid new business plan. In the nonprofit sector, failures are not common occurrences. When a nonprofit does fail, it can be very difficult to recover. The very nature of nonprofit organizations does not make them as resilient to failure as their business counterparts.

Time

Several basic assumptions about the notion of time differ between the two sectors. Businesses value and operate on a different dimension of time than nonprofit organizations. In the business world, things move quickly, in logical steps that often require management to make quick assessments, fast changes, and depending on the industry, to receive prompt feedback. If a business is losing money, time is of the essence. In a small business managers must be able to move quickly to tighten labor expenditures and costs of goods to make projected net profits. They can not sit around and process options but instead must act quickly to get the desired results.

On the other hand, nonprofits often make their biggest mistakes by acting too quickly. As outlined above, nonprofits are dealing with complex issues that are paradoxical, have multiple layers of meaning and involve multiple stakeholders. Careful and thoughtful analysis, which takes time, produces the desired outcomes. Quick changes can lead to gross oversights that in turn lead to even more problems for the organization. Additionally, feedback from the environment on how the organization is doing in the nonprofit sector takes much longer than in most business environments. Interventions that change a human being might not show outcomes for years.

Another condition of time that differs between the two sectors is management frequency. A business – particularly a small business – can fail if the manager does not watch it closely on a daily or weekly basis. If employees of an ice cream shop consistently over-scoop ice cream on a daily basis, and the manager waits to examine the problem until the end of the quarter, it most likely will be too late for him to fix the financial damage for the year. A nonprofit service organization does not measure on a daily or weekly basis to see if their clients changed. The change would be monitored and examined over larger seg-

ments of time. Nonprofits do not (and often cannot) monitor program effectiveness on a regular basis, so a bad program can operate longer than a bad business.

Human Relationships

The third basic underlying assumption that differs between businesses and nonprofit service organizations are the fundamental assumptions about human relationships. Generally speaking, members of a nonprofit social service organization often see people at their worst. The staff of these organizations has prolonged exposure to individuals that have been severely victimized or live in difficult circumstances. Over time, these interactions result in assumptions by the organization about human nature. This is particularly true in the case of the social purpose enterprise where the organization is hiring clients that bring an array of social problems into the workplace.

In a business culture the leaders and staff have exposure to people when they are consuming products or purchasing a service. The sales person or insurance broker does not know all the extenuating circumstances of the person's life. A limited amount of personal information is needed for them to make a business transaction. The boundaries of interactions between people in businesses are more distantly defined. Frequently businesses operate on abstract and theoretical information about people. In contrast, their nonprofit counterparts deal with raw and unprocessed information and interactions. All of these factors can lead to very different assumptions about human nature.

Existence

The fourth difference between the two sectors lies in the very essence of why the organizations exist in the first place. For businesses that are operating in a free-market capitalistic environment the fundamental reason for being is to maximize profits for the company's shareholders. Profit is a necessity, the life-blood and rationale for its existence. Business leaders do not sit around the table and talk about whether they want to be profitable or not – they talk about how and when. It is a given, unspoken assumption that profitability drives a business. Nonprofits are driven by a cause, rather than

by a desire to make a profit. In fact, the very legal structure of a nonprofit corporation does not permit a profit motive.

Nonprofits exist to respond to a need or a cause: a problem exists, an organization is created to examine the problem and develop solutions. The purpose of a nonprofit organization is not to go out and create problems to solve, or to build a market of problems that do not exist. On the other hand, businesses take a more proactive approach by anticipating and responding to trends and needs. Successful businesses are able to continue to build market share around the particular needs they are filling. These different reasons for existence manifest themselves in the culture of the organizations.

Individual or Collective Orientation

Businesses and nonprofits are built on different underlying assumptions about individualism or collectivism. This does not mean that all businesses are individualistic and all nonprofits value collectivism, but rather that different views and experiences exist. In the United States, the value of individualism, which supports free enterprise, drives the business sector and can be directly attributed to the success of entrepreneurial ventures.

Freedom and individualism are two of the most highly regarded values of Americans (Bellah, R. N., et al., 1985; Cavanagh, 1990). By contrast, in the nonprofit sector, there is often a higher value placed on cooperation and collective problem solving. Grassroots community organizers pull people together for the greater good of the community. At times there is an underlying assumption in nonprofits that social problems can only be solved collectively, not by individuals. Often the strengths of individualism are what drive the entrepreneurial spirit, while the strengths of collectivism drive effective social efforts.

Sector Value

Society attributes different value to individuals who work in the business sector and the nonprofit sector. People in the business sector are given greater economic value than individuals working in nonprofits. People who work in the nonprofit sector, while given less compensation, are often given greater social and spiritual value.

This notion of sector value becomes an issue in the social purpose enterprise where the leader must reconcile the differences of the two cultures.

Recurring Dilemmas

Bringing together nonprofit and business cultures under one organizational culture results in at least two dilemmas that are repeatedly played out in various forms in the social purpose enterprise:

- (1) the cultural differences between the two sectors will often oppose each other; and
- (2) there will always be a tension, originating in why these two sectors exist, between the profitability goals

of the business and the social goals of the program.

It is necessary to have a good understanding of the recurring dilemmas because they will appear again and again in different forms. Mediating dilemmas is not a negative situation but rather an opportunity for the leader to guide the creation of a strong culture. Culture develops based on *how* the dilemmas are solved. If these recurring dilemmas are managed in a perceptive manner the social purpose enterprise culture will begin to emerge.

Six Leadership Components of a High Performance Social Purpose Enterprise Culture

Much has been written about how to create, manage and change organizational cultures (Deal & Kennedy, 1982; Hampden-Turner, 1990; Kilmann, et. al, 1985; Kotter & Heskett, 1992; Miles, 1997; Schein, 1992;). This information provides leaders with practical guidance for developing culture in their organization. What is missing from all of the literature is direction on identifying characteristics of a preferred culture for the social purpose enterprise. A strong organizational culture will not guarantee success, rather the culture must fit the context in which the organization operates to be effective (Kotter & Heskett, 1992).

There is no one-size-fits-all culture for organizations. Each develops its own unique culture. But there are components of high performance cultures that are industry specific. Based on the authors' experience operating social purpose enterprises, the following six components are provided to support the leader in the creation, operation and growth of the social purpose enterprise.

- (1) You, the leader, must create an environment where both business and nonprofit values, experience, ways of thinking and definitions of success can equally coexist. This happens in an environment where both views are valued. Whether you are the leader or senior manager you must be comfortable in both sectors and not set up competitive situations between the business staff and the program staff. Manage with patience. Encourage diversity. Balance the tension between the sectors and watch closely so that it does not reach a breaking point. Carefully monitoring the tension can be a time consuming daily management task. Make conscientious decisions between conflicting demands that over time balance both the social and business objectives.
- (2) Create a vision for the social purpose enterprise that embraces both cultures. A strong vision will support hard decisions you will inevitably have to make. The vision will reinforce the dual objectives of the organization for all the stakeholders. A social purpose enterprise culture can be foreign to many people and needs constant communication over and over again to strengthen its position.
- (3) Find the synergy that exists between the two sectors. Leverage transferable skills and best practices. If both the business and program staff in the organization are communicating and sharing knowledge it only serves to strengthen each component. Operating a business takes skills that can be beneficial to the nonprofit sector and operating a nonprofit takes expertise that can enhance businesses.
- (4) Build a learning culture that promotes innovative solutions to the recurring dilemmas in the organization. Develop a culture that encourages and rewards employees to learn to think and act in new ways. Support the process of change one must go through to give up old and comfortable ways of operating. Encourage learning at all levels in the organization. The range of possibilities open to organizations operating social purpose enterprises can only be realized by organizations that have environments for ongoing learning.
- (5) Build an adaptive culture. An adaptive culture entails risk-taking, trusting, and a proactive approach to organizational as well as individual life. "Members actively support one another's efforts to identify all problems and implement workable solutions. There is a shared feeling of confidence; the members believe, without a doubt, that they can effectively manage whatever new problems and opportunities will come their way. There is widespread enthusiasm and a spirit of doing whatever it takes to achieve organizational success. The members are receptive to change and innovation." (Kilmann, 1986, p. 356). A culture that can embrace change and actually make the process enjoyable will sustain a social purpose enterprise. As a leader, developing an adaptive culture comes about through the resolution of the day-to-day

dilemmas created by the two cultures. If you resolve them in an “adaptive” manner, over time the culture will begin to take on this characteristic. Similarly, if the dilemmas are solved in a competitive, stressful and blaming way the culture will also take on these characteristics.

- (6) The efficacy of managing a social purpose enterprise is balance and equilibrium. This involves not combining, merging, blending, or integrating, but rather reaching a state of equilibrium where both the business and

the nonprofit social service cultures harmoniously exist within the social purpose enterprise culture. The responsibility lies with leadership and management to create a culture that promotes balance. Balance can mean that sometimes business profitability takes center stage over the social goals, and all members of the organization support the decision. Staff supports the decision because when a culture exists that embraces balance, members trust that in the end both competing needs will get equivalent attention.

Conclusion

While this chapter raises the struggles involved in leading a social purpose enterprise, it is also important to note the potential of this model. Successfully bringing together two distinct and opposing cultures, reasons for existence and ultimate goals under one organization results in a powerful vehicle to solve social problems and to operate profitable businesses. It is in the opposing

forces and recurring dilemmas that a culture arises that supports an environment where people coming from disadvantaged backgrounds can thrive and reach their highest potential. We are living in a historical moment in time where it is possible to bridge the gap between these two distinct worlds and create a new way of operating nonprofit organizations and businesses.

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- 1 Deal and Kennedy, 1982; Hofstede, 1980; Ouchi, 1981; Peters and Waterman, 1982

Managing the Social Purpose Enterprise

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Introduction

In concept, the social purpose enterprise makes sense: it provides an innovative way to solve social problems while allowing clients to enter or stay in the economic mainstream. Clients earn money and gain work experience while they improve their given situations. The combination of real work experience with a closely aligned social program provides a powerful model for change. Additionally, the nonprofit organization through earned income creates an additional stream of revenue for the parent organization. At the same time, the operation of the social purpose enterprise provides managers with a complex challenge of bringing together seemingly competitive business goals with a mission of providing jobs and work experience to disadvantaged individuals.

Based on years of experience operating four social purpose enterprises, the authors have identified three management challenges specific to the operation of these ventures:

(1) operating competitively with an unskilled and disadvantaged labor pool; (2) achieving a level of efficiency while balancing social and business goals; and (3) finding and retaining management staff.

This chapter reviews these operational challenges and illustrates them with several examples from the four business ventures. Management strategies that have been developed to address the operational challenges are proposed in order to share the learning that has taken place in operating these ventures.

The management challenges examined in this paper are illustrated by real business situations that occurred in various social purpose enterprises. At the end of the document outcomes to these scenarios are reviewed. It is important to note that all the examples are taken from well managed and profitable ventures whose management acted quickly when issues arose in order to effectively address the situations.

The Three Leading Management Challenges

Unskilled and Disadvantaged Labor Pool

The most difficult management challenge involves operating competitive businesses with an unskilled and disadvantaged labor pool. Social purpose enterprises hire people that other businesses would not hire, due to the level of their skills and their life circumstances.

The labor pools managers choose from when operating social purpose enterprises consist of individuals who confront significant barriers to employment such as: are or have been homeless, poor, abused, involved with crime, or victimized by domestic violence. There are two sets of issues a disadvantaged workforce brings to the social purpose enterprise that must be managed effectively: (1) poor skill levels; and (2) varying degrees of social problems.

Poor Skill Levels

In the workplace, employees are usually evaluated according to two sets of skills: hard skills and soft skills. Hard skills include an employee's proficiency in reading and math, operating equipment such as a telephone, calculator, fax machine or cash register, and his or her ability to understand directions, problem solve and exercise good judgment.

Soft skills, referred to as emotional intelligence or social skills, are harder to describe and measure, and tend to be the most difficult for employees to master. Soft skills include an employee's attitude, ability to handle frustration, manage anger, delay gratification and his or her ability to develop appropriate relationships.

Business managers rely on their employees to possess a certain level of both hard skills and soft skills in order to meet business goals. Frequently, many employees of the social purpose enterprise are seriously lacking in both sets of skills and do not possess basic hard and soft skills that employers can take for granted when they hire from the general working population.

The following example demonstrates how a group of employees that were lacking in a particular hard skill negatively impacted the operations of a business.

Opening Day

This situation took place in a ballpark concession business. At an opening day baseball game where the seats had been sold out, a new group of employees that were trained for one month prior to the beginning of the season were excited and ready to work the game. Minutes before the gates opened and the crowds started coming in, the manager, after giving her employees money to count, realized that several of her employees could not count money. It never occurred to the manager or trainers that this was a hard skill that 16, 17 and 18 year olds would be lacking. As a result, every adult supervisor had to stop what they were doing, and handle the money for over four different locations. Their level of customer service was seriously compromised because the employees could not keep up with the volume of customers and these youth employees ended up having a stressful experience. This lack of a very basic hard skill cost the business their sales for that particular day, and took managers away from their duties. In addition, the business experienced an increase in cash shortages from too many counting errors by the employees.

The next example also takes place at the ballpark concession and illustrates the challenge of hiring employees with underdeveloped soft skills.

Jami

A young woman, Jami, had been working at the ballpark for over a year and a half. She was an excellent employee and one of the top-selling vendors. On a busy Saturday, she took the freight elevator to get downstairs. Using the freight elevator during game times to transport employees was against the ballpark rules. Jami was caught and reprimanded by the concessionaire manager. Jami then blew up at the concession manager, arguing, yelling, and using inappropriate language. She then went to her manager and continued her tirade, in front of other youth employees. The manager sent her home and put her on suspension.

Jami's inability to manage her anger had many negative consequences. First, the relationship with the concessionaire manager was damaged. Because the concessionaire controlled much of the power at the ballpark, this incident posed potential problems for the business as a whole. Second, viewing such inappropriate behavior upset the employees who had witnessed the explosion. They were concerned for their fellow worker and knew what she did was inappropriate. Third, sales for the business were lost because of the dismissal of Jami, one of its best employees. Fourth, Jami herself lost wages and her job for a period of time. Finally, it took an enormous amount of the manager's time to resolve the incident, taking her and others away from their main business duties.

Social Problems

In addition to poor hard and soft skills, these employees also bring the problems associated with living in disadvantaged communities. Often their life circumstances lead to situations that impact their ability to work successfully. In our experience, many of our employees live on the edge, where one small event can send their lives cascading down. Just because disadvantaged workers become employed does not mean their "social" problems go away. In fact, the workers bring their problems into the workplace.

The following example from a retail shop describes a situation where an employee experienced a family problem that affected his job.

Antoine

Antoine, an employee for one year, had been promoted from a sales position to a supervisor. Antoine wanted to better his earning potential for his girlfriend, child and himself so he was attending City College. However, Antoine's girlfriend's mother died one evening from a drug-related incident. Antoine, his girlfriend and child were permanently living with her mother and the girlfriend's two siblings.

The impact of this incident on Antoine and his job were tremendous. First, Antoine had to use \$2,000 of money he had saved for school to pay for the funeral. Second, Antoine had to find a new

place to live because after her death they were not eligible for her subsidized housing. Third, he felt compelled to help his girlfriend get custody of her two younger siblings. In sum, Antoine found himself responsible for himself, a girlfriend, a son and two children who had just lost their mother.

Because of the challenges in his family life, Antoine was unable to work as much in the business. Consequently, problems arose in getting his supervisor shifts covered. In addition, Antoine's work performance plummeted. Moreover, the business manager and program support staff spent numerous hours helping Antoine through such a difficult time.

Hiring employees with poor skills and complicated life circumstances results in operational dilemmas for the manager. Employees with poor skills make more mistakes and are not as productive. Employees from disadvantaged living situations miss more work due to circumstances outside of their control. They experience more unsettling life events that directly affect their job performance than their more advantaged peers do.

In the case of Antoine, while it can appear to be an extreme situation, it is not uncommon at all to have overwhelming life circumstances such as his present themselves on an ongoing basis in these business ventures.

Operating a competitive business with an aggressive social mission, a manager must find ways to compensate for these deficiencies. Antoine's manager had to cover some of his shifts herself, quickly promote another employee into a supervisor position and deal with the unexpected loss of one of her best employees during the high season of her business. Additionally, there were psychological repercussions among staff and other youth employees. They wanted to support Antoine through his situation and help as much as possible.

Balancing Goals

The second fundamental challenge for the manager is to achieve a certain level of effi-

ciency while balancing the social and business goals. Producing business results requires a manager to take a different course of action from one that produces social program results. A manager must be aware of these differences and maintain a balance that results in efficient operation of the business and social program. Balancing the dual goals sets up a situation whereby the manager often works in an environment with a high degree of uncertainty, contradiction and possible stress.

The following example illustrates a dilemma between a social goal and a business goal.

Job Creation vs. Controlling Costs?

A particular retail business operates in an industry that has seasonal fluctuations in sales. Thomas, who was hired from a local training program, had spent time in jail. As a condition of his parole he was to be employed in this particular social purpose enterprise. Thomas took his job seriously and made many improvements in both his work and his personal life. He attended counseling and met all the conditions of his parole. He secured subsidized housing and started to take classes at a local community college. His supervisors were pleased with his work and he had recently received a promotion to be a supervisor in training.

As the winter season approached and the weather (which affects sales) turned particularly bad, sales dropped to an even lower level than projected. The manager had a dilemma. She had to control her labor costs over the winter months in order to reach her business' financial goals. The only way to efficiently operate her business was to cut back on all the employees' hours, including Thomas.'

While the manager's solution of cutting costs was the right course of action for the business problem, this resolution caused a downward spiral for Thomas. He needed a certain number of hours to pay his bills and meet his parole obligations. Thomas quickly tried to find another part-time job to augment his hours for the winter months, but with a felony on his record he was unable to secure another job. He could not pay his electric bill and was late

in paying his rent and his frustration level was quickly mounting.

In the case of Thomas, to increase his chances of building a stable life for himself, maintaining his hours in the shop would be the course of action the manager would take. The worst thing would be to reduce his hours and lose ground on stabilizing his situation. However, as stated above, to reach her business goals the manager had to quickly reduce expenses, and labor was the only area in which to make the changes.

The next example provides another view of the dilemma between the social and business goals a manager faces operating her business venture. This example is not about a specific employee, but rather about the contradicting environment in which the social purpose enterprise operates.

A Living Wage

A social purpose enterprise operates in a community that has an active merchants association. The association, made up of local small businesses, is very concerned about recent debates centered upon whether or not the city should require businesses to pay a "living wage (\$9-13 per hour)." Members of the association want all small businesses to rally together against this issue. The manager of the social purpose enterprise completely understands and shares the views of the small business owners, many of whom could not operate their businesses if they paid higher wages. She goes back and looks at her labor budget. She cannot make the numbers work with higher wages. Higher wages would put such a burden on her business that she would not be able to operate.

On the other hand, the manager recognizes the problems that low wages cause her employees. It is extremely difficult to assist a person that makes minimum wage in creating a healthy living situation for themselves and their families. A living wage can make an enormous difference in improving the quality of their life. The dilemma for the manager consists of how can she publicly work with the small business owners to oppose higher wages when she works so closely

with her employees who are struggling to make ends meet on their existing minimum wage.

In operating social purpose enterprises, managers frequently find themselves in situations where the social goals directly oppose the business goals. The living wage example does not have a simple, clear solution and may never. The manager must balance the two opposing viewpoints and continue to operate her business without an immediate resolution to the issue.

Finding a balance between profit and people is a common management challenge to any business operation. The quandary for the social purpose enterprise encompasses the dual goals of these ventures. The fact that both the business and social goals are equally important and are housed under the same business structure result in the decisions being more complicated for managers to make.

Finding and Retaining Competent Management Staff

The third challenge of successfully managing a social purpose enterprise is to find and retain management staff. Having the right manager in place is the central ingredient for the success of the venture. The manager occupies the position that orchestrates the connections among the business staff, the program staff, the clients and the parent organization. The business manager operates on the front-line and must possess the disposition necessary to hire people no one else will hire and operate a competitive profitable business with these same people as their primary labor force.

Recruiting and Hiring

When recruiting and hiring management staff it is important that they have: (1) sound business skills; (2) the ability and skill to handle a marginalized population as their workforce; and (3) the capacity and energy to work in an environment with dual goals and courses of action. Employers can avoid many business

problems by making careful hiring decisions based on examining qualifications in these three areas.

Retaining Managers

There are several ways the parent organization that hires the business manager can position him or her for success and ease some of the tension associated with this job. First, traditional nonprofit service organizations develop structures and procedures to act as buffers between the "social worker" and the client population. Constant exposure to individuals with overwhelming life situations takes its toll on the workers. In the social purpose enterprise, one of the strengths of the model lies in the constant exposure of the client to real work environments. Consequently, this also means constant exposure for the front-line management staff to serious social problems. Business managers also need buffers and support in handling some of the difficult social mission situations they will inevitably encounter.

Second, working in the dual environment of the social purpose enterprise requires more energy, skill and responsibility than a single purpose environment. It is important that the parent organization be aware of the complexities involved with the manager position and set realistic expectations.

Third, financial compensation can be an issue because individuals with the skill set required to operate these ventures can easily make more money in the private sector. While working in the nonprofit sector will never be as lucrative as private industry, steps can be taken to address this issue. Creating bonus structures based on sales goals is one solution. Added benefits from the parent organization such as training, more vacation time than private industry standards and health insurance coverage are all ways to add to the compensation package for the business manager. If a nonprofit social purpose enterprise decides to incorporate a bonus structure it is important to research the legality of this approach. Traditional bonus plans are considered a violation of IRS statutes and these plans need to be developed accordingly.

Management Strategies

Managers who operate social purpose enterprises will benefit from two types of management strategies designed to deal with the dual goals of the business. First, the parent organization must develop a structure to support the manager in his or her work. Second, the manager needs to develop methods that bolster the operations of the business in order to compensate for the problems the workforce presents.

Structural Strategies

There are five strategies a parent organization can use to create a sound structure for operating the social purpose enterprise.

Training and Counseling Program

The venture needs to be closely connected with a training and counseling program in order to deal with the social problems employees bring to the workplace. We have found the program to be most effective if it works with employees on their social problems outside of the immediate business environment. For example, a counseling session that addresses an employee's current housing problem does not take place while the employee is working. Staff develop clear distinctions and space between working and solving personal problems.

Attempting to operate a social purpose enterprise without program support will lead to serious operational problems in the venture. A business manager cannot be expected to operate a successful, profitable business while simultaneously playing the role of a social worker. While a manager can talk to an employee about a personal problem, he or she must also be able to pay close attention to the severity of it, and determine when to involve program staff. More often than not, the manager of the venture is first made aware of a problem through the employee's work performance.

The situation of Antoine described above is a good example of the need for a program. In this case the business manager was the first to know Antoine had a personal problem. She contacted the program staff who immediately worked with Antoine. If the manager had not had a social program interwoven into her business she could not have afforded the time

it took to resolve his situation and run her business. In this case, the business manager quickly found people to cover his shifts, dealt with the issues of getting a new supervisor and made hours available to Antoine when he was able to work. The program staff assisted him with housing information, counseling and guidance on his next steps. Antoine kept his job through the crisis, and the needs of the business were met.

Similarly, in the example of Jami, who had problems with controlling her anger, again the program staff worked with her to examine what had happened and helped her take the necessary steps to make improvements in this area. The business staff stayed focused on the business consequences of the situation.

Without a program in place both Jami and Antoine would have lost their jobs and more importantly would not have learned from their mistakes. Both of these young people made significant changes after the incidences. Jami has not had another outburst of anger on her job.

Role Definitions

Roles need to be clearly defined for the staff working in the social purpose enterprise. Business managers are responsible for an employee's work performance. This involves hiring, training, evaluations and watching for personal problems that might affect their job. Program staff are responsible for working with employees around personal issues that could affect their job performance. This might include problems with housing, school, substance abuse, domestic violence or health issues.

Many operational problems in the business and program can be averted if clear roles are defined and observed by staff. Clear boundaries also provide a more effective program for the client/employee. As illustrated in the examples above, highly volatile situations were handled in a routine way and with significantly greater ease due to the clear roles of the business staff and the program staff.

Decision Making Process

Establishing a clear decision making process for the manager facilitates the balancing of social and business goals. Managers will be in

situations on a daily basis where they will be called upon to consider two opposing views and make a quick decision that in the long run will balance the dual goals of the business. A process that identifies the final decision-makers and communicates this to all employees is the first step. Managers should be trained in how to examine two opposing views and determine the priority, while remaining aware of the impact of their decision on both sides of an issue.

In looking at the example of Thomas, the young man whose hours were reduced, the situation illustrates the hard decisions managers make in a social purpose enterprise. In this business, a decision making process was in place for the manager. At this particular time she made the decision to prioritize the business over the social goals and was supported by the program staff. While the staff did not like to see Thomas lose hours, they fully understood why the manager had to make the decision she did. The staff were all well aware of the negative impact on Thomas, but they also realized if costs were not quickly contained the business would not exist. It was more important to support the continuation and success of the business venture over the benefit to one specific employee. This is not to say that this business manager always chooses the bottom line; as a matter of fact she has made many decisions over the years that support the social need over the business need. The key to the manager's good decision making is having a process in place that supports deliberate decision making. In Thomas's situation the program staff were able to help him secure additional hours in another business and he successfully navigated his way through his dilemma. Although the manager made a difficult decision the outcome was not as grim because other resources were in place.

Vision

Another structure for the parent organization to put in place involves creating a long range vision for the business venture that sets a context for decision making. Managers will have an easier time making hard day-to-day decisions if they understand and believe in the larger picture and vision for the social purpose enterprise. A vision paints a picture, sets parameters and acts as a guiding force that helps managers make sense of the day-to-day circumstances they encounter. Understanding

how a particular decision fits into the overall scheme comes from a clearly articulated vision. In the case of all four examples used in this paper, the managers were well grounded in the vision of the business venture.

Culture

Developing one organizational culture that embraces both the nonprofit culture and the business culture creates an environment that supports the manager in his or her work. Building a culture that values diversity, promotes learning, rewards risk-taking and encourages patience with the dual and competing goals results in a productive work environment for the manager and employees.

To illustrate this point, we take the example of the living wage discussion described earlier in this chapter. In this situation, the manager had a dilemma that was not going to be resolved soon, if ever. This manager was in a position where she had to move forward and operate her business with a highly visible, unresolved contradictory issue. If the culture of these businesses only valued behaviors that led to quick resolution with no ambiguity, she would not be supported in her situation. Operating social purpose enterprises is inviting contradiction and paradoxes into every crevice of the work environment. On the contrary, if the culture values patience with all that is unresolved, this manager is supported in the dilemma she faces. The culture in the social purpose enterprise needs to support the challenges the manager faces to produce productive work environments.

Operational Strategies

The structural strategies described above provide the manager of the social purpose enterprise with a strong foundation to operate his or her business. There are three operational strategies that combined with the structural strategy bolster the operations of the business venture.

Cross Train Staff

One of the best investments a social purpose enterprise can make is cross training business and program staff. If the program staff have a basic understanding of business concepts they are better equipped to do their job. If they understand the financial picture of a small

business they support decisions that promote the goals of the business.

Similarly, if the business staff are grounded in the basics of working with a disadvantaged population they in turn make better decisions and can manage their workforce more effectively. Business managers can make grave errors if they do not understand the basics of working with populations of people that experience social problems.

A team that is cross-trained supports one another and overall makes better decisions. Cross training staff does not need to be overly expensive and can be an added incentive for staff working in a social purpose enterprise.

Balanced Workforce

While the mission of the social purpose enterprise is to hire its employees from a disadvantaged labor pool, this must be done in a way that also helps stabilize business operations. In our experience, hiring 100% of the workforce from a disadvantaged labor pool with few skills and various personal problems leads to serious instability in the operations of the business.

We have experimented with different formulas for each of our businesses with mixed results. While there is no “one right formula” to follow, each business must determine its rules. For example, in one of our businesses we strive for an 80/20 mix – 80% of the employees come from the disadvantaged labor pool and 20% come from the general population and have more skills and fewer personal problems. This formula works for this particular business. When the labor pool moves out of this mix there is an increase in operational problems.

The examples used earlier about the ballpark concession illustrate this point. We describe two rather serious issues: the lack of

money-handling skills in a group of employees and the issue with an employee having an outburst directed at our main business partner. Even with these two problems and many others not described in this chapter, we nearly doubled our sales projections for the year and made a healthy profit from this business venture. One of the reasons the business still performed well financially was because the manager carefully monitored her labor mix. She hired the majority of her employees from the disadvantaged labor pool, but also had enough stable employees to keep the business on track to meet its goals.

If a business has too many unstable employees several issues arise. First, the manager cannot operate the business effectively. Second, the employees that are under-skilled and lack experience do not have stable role models to work with and consequently, the job environment is not strong enough to promote the learning and growth that is needed.

Team Building

Building a strong team comprised of the business staff and the program staff add to the stability of the business venture. With a team in place, the complex issues a disadvantaged labor force bring to the venture can be addressed. Bringing both sides together on a regular basis builds the capacity of the social program and the business operations through direct communication.

Building a team requires an investment of time on the part of the business staff and the program staff. Teamwork can mean additional meetings and preparation time. It is a smart investment to have a functioning team that has learned how to communicate and solve problems together. When issues arise it can be the most effective vehicle for a manager to quickly solve complex problems.

Conclusion

Managing the social purpose enterprise, while being double the challenge, also offers double the rewards. Managers working in these ventures develop skills that are learned in few other situations. Working on a day-to-day basis with employees that have experienced difficult

life circumstances is a valuable experience. The energy and enthusiasm generated from these ventures make the management challenges less daunting. With the proper structures in place, a social purpose enterprise can be one of the most creative and stimulating work environments.

Growing a *Growing a* Social Purpose *Social Purpose* Enterprise *Enterprise*

Kristin Majeska

Farber Fellow 1997-1998

Introduction

How do you grow a business founded with the goal of creating jobs and opportunity? There is no ready answer. “We’re making it up as we go along” is a common proud refrain among social entrepreneurs. Yet there is tremendous learning in the process of this “going along.” Some insights from practitioners hold true for any business; others could have just as easily been learned in the nonprofit world. However, the themes that repeat themselves in conversations with social entrepreneurs are

valuable precisely because they occur in the context of a new hybrid organization, a social purpose enterprise.

The founders of social purpose enterprises are blazing trails that lead to companies successfully employing very low-income, homeless and disabled individuals. This article chronicles the factors these pioneers believe have contributed to their ventures’ triumphs and failures at each stage of their development and begins a discussion of the issues raised by the opportunity for further growth.

The Voices of Social Purpose Enterprise Experience

This discussion centers on social entrepreneurs who are currently leading social purpose enterprises in the San Francisco Bay Area. Each of the organizations represented here receives funding from the Roberts Enterprise Development Fund (REDF). The recurring themes culled from interviews with ten practitioners aspire to be, at best, collective wisdom and at worst, cautionary and inspirational tales about undertaking an enterprise with a social purpose.

The organizations which contributed to this discussion span a range of organizational

models and social missions. They include:

- ◆ nonprofits which decided to create subsidiary ventures,
- ◆ nonprofits founded for the sole purpose of running social purpose enterprises, and
- ◆ ventures working with homeless people, those with disabilities, youth, adults, those in recovery from substance abuse, mentally ill, as well as others who are simply very low income individuals.

Stages of Development

The development cycle of a company is commonly illustrated as a curve in which the company's growth is a function of its age. This typical progression is described in human terms: a company passes through a "Birth" stage at a low rate of growth relative to the increase in its age, the company then moves into a "Survival" stage during which it either accelerates its growth or disappears; a company that makes it past the survival stage continues to expand in a third "Growth" stage, which in turn gives way to a fourth and final stage of more growth, survival or decline.¹

The social entrepreneurs interviewed agreed with the following traditional descriptions of these first three stages in the development of a company:²

Birth

You've made a firm commitment and begin launching a business. You have a product or service, a few customers, a few employees, revenues coming in and expenses going out. Basic administrative systems are in place and you are still refining your product/service offerings and strategy. One manager is primarily responsible for managing and helping operate the business and that person is very, very busy.

Survival

By the end of this phase you have cleared your first hurdles for success. You have customers, you have employees, you have all of the basic systems in place and you have a bona fide business. It's all working – more or less – and you go home each night confident that the doors won't close tomorrow.

Growth

You have reached a point at which you feel comfortable striving to expand your business. You have a management team in place and the company may already be operating profitably. Further investment will likely be needed to increase your capacity, marketing reach, inventory, etc.³

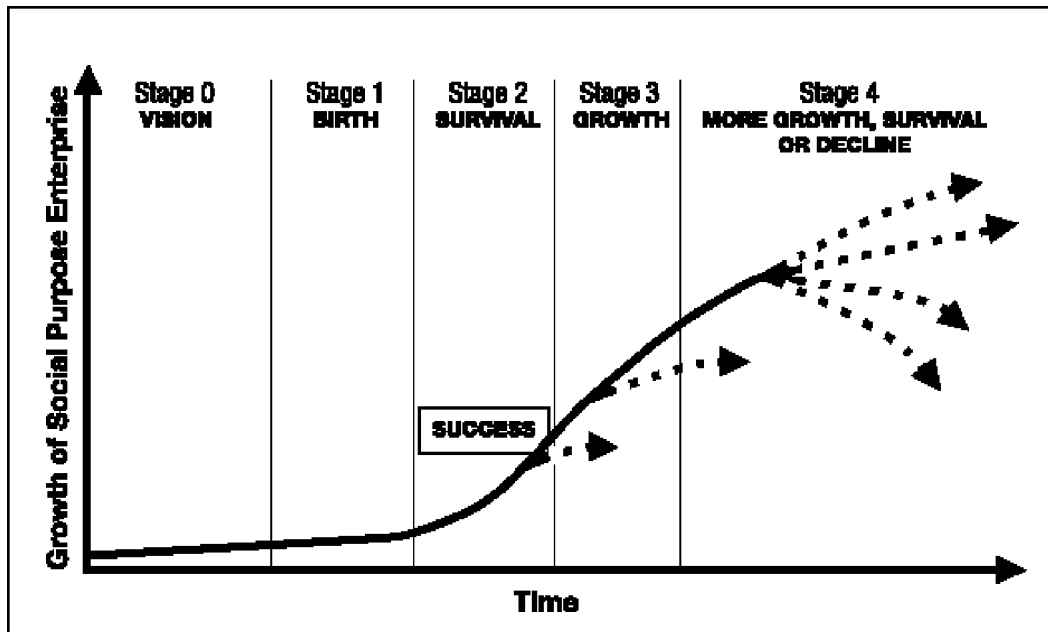
However, several of the social entrepreneurs pointed out that a very critical stage in determining the growth of their companies had been left out of this life-cycle description: the Vision stage. They suggested that the successes and challenges of their businesses began long before their organizations had committed to starting the venture. The following description characterizes this critical "pre-development" phase.

Vision

The idea for a venture is germinating. It is being discussed and evaluated but is far from accepted as a “go.” This stage tends to be both emotional and analytical and creates irrational enthusiasm as well as fear.

Several of the contributing practitioners are running social purpose enterprises that have already reached the growth phase. All of

tremendous change that creating a venture causes in a parent nonprofit. While invigorating for many, the dramatic shifts in approach and thinking associated with social purpose enterprises typically cause significant turnover at the staff, board and even client level and are very challenging for those who remain.⁵ At a minimum, a new business requires a long-term commitment, a significant financial investment and a willingness to



the practitioners interviewed have lived through the birth phase, and a good portion have seen a business through the survival phase - some multiple businesses. And many of these entrepreneurs have participated in serious consideration of a business idea that never made it past the Vision stage.

Vision

In *New Social Entrepreneurs*, Jed Emerson and Fay Twersky argue that when nonprofits evaluate their potential to engage in a social purpose enterprise, “getting to no” is not a “wrong” answer; in fact, deciding not to begin a social purpose enterprise “may be more important than getting to yes.”⁴ The decision of whether or not to launch any social purpose enterprise at all should be the first and overarching concern for any nonprofit thinking of starting its first business enterprise. Emerson’s work with social purpose enterprises in the Bay Area has documented the

learn to manage effectively in a world driven primarily by market forces. In some cases, the differences between the existing program driven nonprofit and the new social purpose enterprise are so great that the organization creates a separate management team or spins off the venture into a separate entity.

Once a nonprofit makes the decision to create a social purpose enterprise, practitioners emphasize the importance of a serious assessment stage prior to committing to a specific business. Three key elements of this Vision stage are: the enunciation of clear criteria by which a decision will be made, the analysis of information gathered, and the securing of stakeholder buy-in based upon the facts and analysis.

Clear decision-making criteria

Despite the diversity of their employees and current businesses, REDF practitioners agree on the importance of a clear set of criteria on

which to base the decision of whether to enter a new business. Several of the organizations employed clear decision criteria before launching their very first social purpose enterprise; all of them could articulate the criteria they used to evaluate proposed additional businesses. These nonprofits primarily consider criteria associated with their mission, the proposed business' financial viability and the fit with their own organization.

Social entrepreneurs typically begin by screening each proposed business by its ability to further their social mission: creating needed jobs for their target population. They base their assessments on different combinations of factors such as:

- ◆ The labor intensity of the business (the more labor intensive the better for creating entry level jobs)
- ◆ Total jobs created for the investment required
- ◆ The ability to create "quality jobs"
- ◆ The attractiveness of the jobs to the target workforce
- ◆ The ability to impart the skills required for a follow-on permanent position
- ◆ The attainability of follow-on jobs
- ◆ The ease of creating a good "first job environment" for the target workforce

Specific organizations employ one or more of the above factors as an initial screen of business ideas:

"We know that our next business will not be in retail. We already have fifty-five retail positions in the Bay Area – we now need to create jobs that lead to higher salaries and develop different sets of skills so we will only consider those kind of businesses."

Diane Flannery
CEO, JUMA VENTURES

At the same time, practitioners have clear criteria for evaluating the economics of the businesses they are considering. Although practitioner definitions of viability vary widely, each organization examines some aspect of

the venture's financial viability and likely returns. For example, some organizations only look seriously at businesses they believe will cover 100% of their costs. Others are willing to engage in ventures that cover all of the typical costs of doing business but require subsidies for additional program and training costs. Still others consider only businesses that have the potential to generate profits back to the parent nonprofit. It should be noted that organizations seldom launch social purpose enterprises with the primary goal of creating a large source of income. Indeed, the organizations represented in the REDF portfolio all have as their primary focus the pursuit of social missions through the operation of ventures that operate "in the black" financially.

"The business must hold its own financially; any additional dollars it generates to help us achieve our social mission are just a nice plus, not a goal."

Maurice Lim Miller
EXECUTIVE DIRECTOR, ASIAN NEIGHBORHOOD
DESIGN (AND)

Finally, even when the parent organization already operates social purpose enterprises, it is useful to have standards by which to assess each proposed business' fit with the nonprofit. Different types of businesses place different demands on human, financial and infrastructure resources. Similarly, expansions into new locations or related businesses may have organizational ramifications that need to be considered beforehand. For example, a new business location may make it difficult for client employees to access complementary social services offered by the parent nonprofit, creating the need for additional program staff. Or, reaching a new type of customer may require hiring someone whose experience would require a salary far higher than the existing pay scale.

The following list captures some of the major questions current social purpose enterprise leaders ask when investigating the fit of an additional business.

- ◆ **Timing:** Does the organization have sufficient resources (human and financial) to devote the significant effort necessary to start up a new business and make it succeed at this point in time? Can the organization (management, board, staff) focus

its attention on a new enterprise right now or does this energy need to focus on other programs, other businesses, fundraising, strategic planning etc.?

- ◆ **Leadership:** Who will be the social entrepreneur that leads this new business? What role will current senior management play? How can this role be managed given other commitments?
- ◆ **Internal knowledge/expertise needed:** What specific skills are needed to start and to run this business? What level of industry, functional and management experience does the venture need to have? How could those needs and the industry standards for compensation and structure fit with the organization’s human resource strategy?
- ◆ **Capital required:** How much investment will be required up-front and over the next five years? How much of that capital can the organization invest or realistically obtain from third parties? How will that investment affect other organizational priorities?
- ◆ **Financial risk for the rest of the organization:** How much cash would the parent organization need to contribute to the enterprise up-front and over the next five years? Could the nonprofit survive the loss of its total investment and the requirement to pay off accumulated debt? What structures could be put in place to minimize financial exposure (rent vs. buy property, slow expansion, low initial inventory levels, etc.) without jeopardizing the business?
- ◆ **Board readiness for this type of business:** How well does the current board understand this business? What specific expertise could individual board members contribute? How does the business fit with the board’s risk profile?
- ◆ **Existence of an established model to follow:** Is there any evidence that this business could be successful with the target population? Is it reasonable to believe that a nonprofit has any advantages that would enable it to reach profitability in this business?

“Once we had established that our latest

business would further our mission of helping youth, we answered the question of whether we would be financially successful in a relatively short period of time. We then thought about what made sense for the organization. For example, we knew that we wanted a business that would be located near most of our other businesses and our office.

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Rigorous analysis

According to practitioners who have gone through the process of deciding to start a social purpose enterprise, getting the information to make a good decision requires investigating and analyzing the facts more rigorously than many of them realized when they went through the decision process the first time. The social entrepreneurs mention a common pitfall of “not really understanding what we were getting into” when they started their first business. When considering later businesses, these same organizations had learned they needed to dig much deeper in order to understand the likely social outcomes, financial resources required and key levers of profitability before making a commitment.

Social outcomes

Social purpose enterprises should carefully examine at least three factors that will affect a proposed business’ capacity to achieve its social goals. First, the nonprofit should consider the potential job opportunity from the perspective of the targeted employee. Then, the organization must research the business sufficiently to understand whether it can support the proposed employment scenario without subsidies or losses. Finally, the decision makers must ensure they have a viable strategy for both attracting the intended employees to the business and helping them reach any longer term goals that are part of the organization’s social mission.

Unlike most businesses, the employees described in a social purpose enterprise’s mission statement are its ultimate clients. The social purpose enterprise must investigate whether the intended beneficiaries of additional employment opportunities would actually value this opportunity. Would members of the target population want to work in

the proposed business? What would be the benefits of working for the new business instead of working for existing businesses, enrolling in other programs or other alternatives? How would the proposed positions contribute to employees' overall objectives, such as escaping poverty, finding a career or providing better for their children? The best way to gather this information is from the source, talking with both individuals from the targeted group and talking in-depth with providers of services, for a "reality check."

"I began with the naïve belief that because it was not physically demanding, a retail position would be attractive to almost anyone without a job. In fact, retail is not for everyone. The inherent customer contact can be so difficult for some individuals that it's almost impossible for them to succeed in that environment."

Kristin Majeska

FORMER ENTERPRISE DIRECTOR, THE CITY STORE

Social purpose enterprise proponents must next plug their social objectives into the analysis of the viability of the proposed business (see discussion of financial analysis later in this chapter.) First, can the targeted employees execute the required tasks with sufficient quality and efficiency to make the business successful? Will it be able to compete head to head with other companies with more advantaged labor pools? Is the nonprofit comfortable with the mix of client vs. non-client employees needed for the business to break-even? How do the organization's stated objectives of preparing and training employees for more advanced positions balance with a need for experience and efficiency to keep costs down? Positions that are purposely created to be transitional create additional challenges. For example, is it realistic to achieve industry productivity levels with intentionally higher than average turnover?

Employee compensation is the next issue to analyze. Nonprofits tend to think of themselves as relatively low paying but overall "good employers" and believe in concepts like "a living wage" and health insurance. However, these types of benefits may be far above the standard for entry-level employees in the new venture's industry. Each organization must take a hard look at the norms for pay and benefits in the industry they are

entering in order to decide whether they will be happy with the "quality" of the jobs that they will be able to create. It is nearly impossible to be profitable with a labor force that is *both* lower skilled and higher paid than those of the competitors.

"We knew that most home healthcare jobs were not well paying and offer few benefits and promotion opportunities. We had to determine if we could pay a living wage and still be competitive before deciding to enter the industry."

Carrie Portis

DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

The links that bring target employees into the business, support them in the work environment and later help them transition to better employment opportunities are less obvious but also integral pieces of analyzing a business' potential for social impact. The venture should either be able to identify an existing mechanism for recruiting and screening the targeted employee pool or must include these expenses in its cost structure. Engaging in the *Field of Dreams* strategy of "build it and they will come" just doesn't work. Similarly, the organization must research the programmatic support needed for disadvantaged employees to succeed in the businesses and determine how it will be delivered and funded. What support mechanisms will be incorporated in the day-to-day operations of the business? What services can be provided by existing third party organizations? How will using those services affect employees' schedules, etc.? Ventures that strive to help their employees move on to other positions in the private sector also need to analyze the options and costs for job counseling, job development and job coaching. Rarely will employees be able to take that step fully on their own.

Financial viability

Analysis of the financial viability of a social purpose enterprise is typically the single most important and most challenging type of pre-launch analysis. Social purpose enterprise leaders emphasize the need for a clearly defined business strategy, realistic revenue and cost projections and a focused and thorough analysis.

Wise organizations begin by spelling out

their “competitive advantage” in the potential business, i.e. “what makes us think that we are more likely to succeed at this business than everyone else who is already there or may enter the industry and will compete with us for customers?” Fundamentally, a business must be able to offer a better “value proposition” than its competitors from the customer’s perspective and must be able to deliver its product or service cost effectively. To succeed, a social purpose enterprise must be able to identify an advantage that competitors will not be able to easily replicate. For example, screen printer Ashbury Images keeps its customers on the basis of its high quality printing, quick response to graphic design needs and competitive (but not low-ball) pricing. Unique salvage products from the City, such as street signs and parking meters, give The City Store an advantage over the thousands of other retailers targeting San Francisco tourists.

“We look to be sure that any new business offers us a way to leverage our mission and nonprofit status. An advantage such as being able to re-sell donated clothes or bicycles enables us to sell at market rates yet compensate for the higher costs we incur because of our workforce.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

In a sound analysis, an organization verifies that the hypothetical competitive advantage really would exist and explores how much that advantage is likely to be worth. For example, nonprofits frequently overestimate the advantage of their social mission on the revenue side. They assume, for instance, that customers will buy their product because of the good done by the organization. In fact, customers usually only consider social mission after they have decided on more important factors such as

- ◆ *“How much do I like this product or service?”*
- ◆ *“Is this a good price?”*
- ◆ *“Is this the highest quality I can get for my dollar?”*

◆ *“Is this product or service easy for me to purchase?”*

Once the organization has outlined its proposed strategy, professionals in the industry can help an organization realistically estimate what its revenues would be if it were operating a comparable for-profit business. It is imperative to check these and any other sales estimates by assessing the underlying assumptions. For example, “we should sell at least \$500,000 in year one because that’s what ‘competitor x’ does” may not stand up when you compare ‘competitor x’s’ foot traffic, long-standing reputation and unique product to your proposed business. (In particular, do not underestimate the importance of location as it relates to your retail operations potential success—remember: customers will seldom walk an extra block even if they do believe in your cause!) The most effective projections tend to be “bottom-up”, e.g. “if we sell 30 products per day in the slow season (an average of three products per hour) at an average price of \$19.94 and gross margin of 60%...” with a good sensitivity analysis. However, even bottom-up estimates should be reality checked by quick top-down assessments of gross measures like industry sales per square foot, sales per employee, etc.

Accurate revenue forecasting will help your organization understand and be able to meet its cash flow, capital, management, staffing and funding needs over the first several years of the business – or make the decision not to enter the business if it can not meet those needs.

“Our sales estimates for our first store in year one were too optimistic and that caused problems. For future store openings we really examined our assumptions and built our projections up from an analysis of what we knew about the drivers of the business.”

Kristin Majeska
FORMER ENTERPRISE DIRECTOR, THE CITY STORE

Smart organizations also realistically assess the costs associated with the proposed business. The most common mistakes of social purpose enterprises are to underestimate the senior management time needed to run a venture and the hidden costs associated with

working with the target population. Looking at the organizational structures of comparable for-profit businesses can give insight into the management requirements of a new business (keeping in mind that your for-profit counterpart may be an owner/manager who is willing to put extraordinary effort into the business.) Talking with other social purpose enterprises and analyzing the skill set your employees will need can go a long way in predicting the additional costs you will incur because of your workforce and even whether your target employees will likely be able to contribute sufficiently to make the business successful.

“Our first employees were ‘job-ready’ but we found out the hard way that they usually were not ready for a job in the construction industry. We discovered that the business needed much more skilled labor than we could find among our target employees.”

boona cheema

EXECUTIVE DIRECTOR, BOSS ENTERPRISES

A rigorous analysis of the potential of a proposed business is a large undertaking that requires time as well as an understanding of business principles. Because many nonprofit and social purpose enterprise managers are already stretched so thin, they often ask third parties to help them assess a potential venture. Third parties can dedicate their efforts to assessing the business, can bring in additional business experience and potentially even

industry knowledge and may be more objective than someone inside of the organization. Outside consultants or interns with business backgrounds can provide management and board members with significant leverage.

“We’d highly recommend spending the time and money it takes to do a really good analysis of any proposed business. Our outside consultants could focus exclusively on the potential business, brought their experience to bear and helped us get to a much better decision on whether to enter the business than we could have done on our own.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE, INC.

Nonetheless, practitioners should never turn over the process completely to an outside “expert.” The planning and exploration stage is the point at which the social entrepreneur learns how to engage in appropriate business planning. Social purpose enterprises should view the relationship with consultants as an opportunity for “knowledge transfer,” not simply one of “paying for a plan.” Whether done in-house or with consultants, a strong analysis of the financial potential of a venture highlights the key factors for success in the business. Nonprofit managers can then use this information to understand better their own ability to manage the venture and how to allocate their scarce start-up resources in the areas that will be most critical for early success.

Stakeholder buy-in

The process of “bringing along” all of the people who must be behind a nonprofit’s decision to launch a social purpose enterprise begins well before that decision is made; it must begin during the Vision stage. That effort must be inclusive, well planned and include a significant amount of education about the business and how it contributes to the fulfillment of the organization’s mission.

“Starting a social purpose enterprise involves many more stakeholders than a comparable private start-up which has one or two founders and maybe a few family

and friends who invest money. Getting buy-in from the stakeholders in a nonprofit takes much more time and is much more complex. Sometimes it’s even hard to find a common language to use to talk about the venture.”

Carrie Portis

DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

The first business enterprise an organization considers creating will often meet with significant resistance from many staff and

community members. As described at the beginning of the Vision stage description, social purpose enterprises are very different entities from most nonprofits. Before moving forward, the whole organization should thoughtfully consider the road ahead and recognize the changes it will require in priorities, mindset, funder relationships, client relationships, and maybe even leadership. Key staff, as well as the organization's leaders should do some soul-searching and question the appropriateness of this step, the organization's level of commitment to the venture's success and the skill gaps the organization must fill in order to make the venture work.

The support of one of every nonprofit's key stakeholders, the Board of Directors, is also critical to successfully launching a business. Board members must be prepared not only to help seek outside donors and investors to fund the venture, they must also be ready to make a significant commitment of the organization's own financial resources. Thinking through this decision from their perspective can facilitate the process of obtaining board support for a venture.

"Although our Board is an exception, nonprofit boards are not necessarily entrepreneurial, indeed they tend to be risk averse. It helps to recognize upfront that Board members have a moral and legal responsibility to ensure the mission of the organization is carried out — regardless of business opportunities — they have a fiduciary as well as a moral liability for the organization. They certainly don't want to go into bankruptcy!"

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

The process of building buy-in can be lengthy but can also reap rich dividends. First, skeptics tend to ask difficult questions and challenge overly optimistic scenarios, pointing out the potential risks and asking about worst case scenarios. This process inevitably strengthens the final business plan. Second, if stakeholders understand the risks and have made a very conscious decision to move forward with a social purpose enterprise, they are more likely to support it in the future. An intensive process of building commitment early on can result in a much

smoother ride during later more turbulent start-up and survival stages.

Birth

As current practitioners think back to their business launches, three themes consistently emerge: "Find the right managers, plan carefully and make sure you have the capital to see you through." Each of these interdependent recommendations merits special attention in the context of a social purpose enterprise.

The right managers

Investors in for-profit businesses concur that the most important predictor of a start-up business' success is its management team. However, social purpose enterprises not only need great businesspeople, they need managers who also thrive on the challenges of blending profit and social mission goals. They need managers who enjoy "creating the rules" in a new industry where ambiguity abounds. They need managers with compassion and an aptitude for coaching. And, if possible, they need industry expertise. Finding the manager with all of these characteristics is just as difficult as it sounds, but it can make the difference between success and failure for a new venture.

"The most important piece of advice I would give to someone starting a new venture is 'hire your management staff very carefully.' Invest the time to check references and prior work the person has done and definitely include someone with industry experience in the hiring decision process."

boona cheema
EXECUTIVE DIRECTOR, BOSS ENTERPRISES

If the best candidate for the position does not have enough industry experience, look for creative ways to access that expertise and integrate it into the business during the initial phase. Consider creating an active advisory board, finding a for-profit entity with which you don't compete to provide advice, or hiring an industry consultant to work on key areas and coach the new manager.

"Unlike the private sector where the founders usually have expertise in the busi-

ness they are starting, a social purpose enterprise might not yet know what it really needs in a manager. We resolved that problem by contacting with an industry consultant to manage our business for the first several months while we learned the ropes."

Carrie Portis

DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

Because of their nonprofit backgrounds, new social purpose enterprises may face different hiring pressures than private businesses. First, because the venture is likely to be seen as "new" and "fun," managers from the parent nonprofit may be eager to help lead the business. The social purpose enterprise must carefully determine the management skills it requires and select only candidates who have already demonstrated those skills. Just because an individual was a good job developer does not mean she will be a good business developer! Most social purpose enterprises do not have the luxury of providing managers with a lot of "on the job" training, but rather require managers who can hit the ground running and take immediate control of the business. Second, business ventures must resist the temptation to find management "bargains."

"Don't scrimp on people and choose the person with 'the good heart' who is willing to work for less. You need one or two very good people in key positions from day one. It might take a little more money than you'd like but it really pays off."

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

Finally, because they are not offering the carrot of ownership of the company and personal rewards for its financial success, social purpose enterprises should search for managers who believe deeply in their mission and are willing to go the extra mile to make the business succeed.

"You need determination on the part of your leadership. Assume that everything that can go wrong will and that the management will just have to jump in there and do whatever has to be done – even if it's

scooping ice cream."

Diane Flannery
CEO, JUMA VENTURES

"Look for strong entrepreneurs who will take the venture's mission and make it their personal mission"

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

Practitioners who have launched more than one business heartily recommend not only hiring the right managers, but also hiring them early. Recruiting a great manager early on, even before you may technically 'have the money to do so,' increases your chances of finding the "right person" before opening day. Having the manager on board for the operations planning phase both reduces the need to rework plans upon his or her arrival and gives the new manager time to learn more about the new business and the parent organization before getting caught up in day-to-day operations.

"We hired our Ben & Jerry shop managers before we even began the store build-out – and we sent them to other franchises for training. By the time our store opened they really knew what to expect."

Diane Flannery
CEO, JUMA VENTURES

Careful planning

Planning during the Birth stage builds on the analysis that underpinned the decision to launch the social purpose enterprise. Yet it is much more than a compelling business case. This level of planning must be very detailed and focused on operationalizing the already identified factors for success.

The launch plan must specify the resources, specific tasks and estimated time required to set up the business. For example, in addition to planning for obvious requirements such as equipment, raw materials, customers, employees, etc. a detailed plan would anticipate factors such as the need for an accounting system that meets both the requirements of the business and the parent nonprofit or the lead time required to get employees accredited to perform required tasks.

A good plan also highlights the priorities for launching the business. Referring back to the key success factors identified in the vision stage and focusing on these “must haves” helps leaders resist the temptation to charge ahead before the venture is in a position to succeed. Social purpose enterprises, in particular, often face pressure from funders to get their programs up and running quickly, sometimes without the necessary infrastructure in place. Both practitioners who have waited and those who have moved forward too fast emphasize the value of not compromising on items that may determine the fate of the entire business.

“Following the advice of our business advisors, Juma spent sixteen months looking for the perfect site for our first store. Having a clear plan makes it easier not to cave into things like fundations’ pressures to take a sub-optimal location, thereby condemning yourself to building a mediocre business instead of a great one.”

Diane Flannery
CEO, JUMA VENTURES

Ventures should also incorporate realistic forecasting into their plans, preferably an updated version of the Vision stage projections. Although later adjustments may be necessary, setting explicit expectations for financial and social impact is much easier before a business is in operation. These expectations should also include clear time frames. Having pre-set points at which to judge the business’ performance against plan makes it easier to make hard decisions, such as when to invest more in a business and when to cut your losses and close the doors.

Indeed, an explicit exit strategy should be part of every business plan. Managers are more likely to perform well when they have a deadline by which they must hit their numbers, rather than having to worry day-to-day about the ramifications of interim losses. A clear decision point also takes pressure off the leaders of a nonprofit parent by minimizing the risk that a venture’s financial troubles may jeopardize the financial security of the entire parent organization. Finally, enunciated financial targets and decision points reduce the likelihood of an unanticipated cash crunch – one of the primary causes of bankruptcy for all businesses fewer than five years old.

The process of starting the first social purpose enterprise of an organization will almost inevitably be dramatic and time-consuming, with repercussions throughout the organization. The importance of senior leadership’s involvement in this process should be planned for and not under-estimated.

In contrast, an intensive planning effort for an additional venture is often best coordinated by a single individual who can focus on getting the new business ready to open its doors. Not only does this minimize upheaval for the rest of the organization, it requires less coordination and makes for a better and more efficient process.

“I highly recommend designating a full-time coordinator for the business opening. It’s usually more than a full-time workload and means the rest of the staff is less likely to have to give 150%”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Sufficient capital

Once the decision is made to start a business, a thorough business plan makes it much easier to solicit the other key ingredient of a start-up, capital. Nearly every practitioner stresses the importance of securing sufficient capital and of having access to that capital long enough to reach the point of sustainability or “success.”

Unlike nonprofits that typically receive grants underwriting direct social programs, social purpose enterprises need capital to invest in their businesses well before they start operating or in any way furthering their social mission. Start-up capital enables an organization to hire the managers and/or coordinators it needs to get the business up and running, to recruit, screen and train the employees, to build-out the business facilities, etc. Ventures often need this injection of capital to create an organization that will succeed; for example, to carry out their plan of hiring the “right” manager, purchasing competitive equipment, or creating a professional storefront, rather than having to fall back on the limited funds often available to nonprofits or to look for lower cost substitutes.

“One of the things I’ve learned is to get more funding in advance. For this new business

we've actually been able to hire the additional Youth Service Workers in time to get enough youth screened and trained before the day of the grand opening."

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

During the planning phase, it can be vital to understand the necessary timing of potential sources of capital. Foundations, in particular, often make their investment decisions only at certain times during the year and disburse them only at certain points – points which may not naturally coincide with the business' needs.

Equally important, funders must understand the likely growth and profit trajectory of the social purpose enterprise. Businesses often experience early losses and require multiple years of funding to grow. Again and again, practitioners emphasize the need for access to capital over sufficient time to give the business a chance to succeed. Even though these needs may be laid out in the plan for the business, funders who are not used to investing in businesses will benefit from additional explanations.

"You really need to find a funder who will 'stick it out with you' as long it makes sense."

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

The nonprofit's willingness to invest its own funds in the venture is likely to be a compelling factor for potential investors. For-profit investors typically expect entrepreneurs to invest most, if not all, of their personal assets in a venture before they will contribute. Social purpose enterprise investors are usually less demanding of individuals, but nonetheless want to be sure that the organization is at least as financially committed to the business' success as they are.

Survival

The Survival stage in the growth trajectory of businesses is very aptly named – very few for-profit businesses ever make it past this phase. Social purpose enterprises suggest three strategies for surviving its traumas: retaining strong

managers, analyzing and continuously learning from running the business and maintaining a long-term perspective.

Retaining strong managers

Management burnout characterizes social purpose enterprises during the Survival stage of growth. The already burdensome challenges of forming a viable, even profitable business are exacerbated by the additional difficulty of simultaneously accomplishing a social mission. At the same time, managers who self-select a position at a social purpose enterprise are often willing and expected to "give their all" to make the business succeed.

"Supervisors and board members must consciously monitor venture managers for burn-out. The managers usually won't complain even when they should and they're so busy serving others and working to achieve their goals that it may take their boss to make them slow down."

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

Senior management should consider tactics such as clearly recognizing managers' efforts, letting them know that the responsibility for the entire organization does not rest solely on their shoulders and emphasizing the importance of 'fun' in the workplace. Ensuring managers have sufficient resources can also be critical to minimizing burnout. The best managers often identify ways to save money or resources in the name of "the mission" but may actually need more support than they realize. If they try to run too thin, both the manager and the business suffer. Likewise, stretching even a superb resource in too many directions can be counterproductive.

"We've now separated two roles that never should have been combined – graphic design and office management. It was a combination out of necessity but it was taking its toll on both the individual and the company."

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

At the same time, leaders must continue to build commitment to the organization and its

mission. Without this commitment, it is difficult to maintain the same sense of ownership that underlies most successful small businesses.

“It’s a real challenge retaining managers and keeping them motivated in this business. They need to have faith there’s a payoff for all their hard work – and they know it won’t be a share of the company....”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Adding the right managers can go a long way toward both restoring that faith and reducing burnout. Identifying the one or two skill sets that the organization needs to take the next step and carefully hiring those one or two individuals can give the rest of the management team the boost it needs to propel the business to the next stage of growth – even though it may hurt the short-term bottom-line.

Learning from the business

Successful managers are constantly analyzing the key drivers of their business and using that information to improve its results. As a venture moves beyond the model of the one manager who guides the company by intuition, the organization must develop systems to monitor its performance and resources. These systems must reflect the key drivers of the business (gross margin, sales per hour, percent of inventory returned, etc.), rather than simply generate the reports traditionally used by the parent nonprofit.

“We worked to set up systems and very good management reports so that we now can watch our expense and sales numbers very carefully.”

Diane Flannery
CEO, JUMA VENTURES

Other practitioners echo the effectiveness of good management reporting and forecasting which can be used to evaluate performance and guide the business. However, these practitioners not only monitor “the numbers,” they learn from them.

“As the numbers come in, we are constantly revisiting our projections so that we can identify problems and respond to them. We’re always asking “What’s happening in each business?” and the more important question, “Why?”

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE

“We’ve created a culture that says it’s ok to make mistakes, as long as you learn from them. We’ve developed a practice of quickly letting go of our original ideas and adjusting our actions to achieve the results that we want.”

Diane Flannery
CEO, JUMA VENTURES

“I like to call it the “scientific method.” We knew that we needed to increase our sales rapidly, so I tried the classic retail levers one by one until something started to work.” -

Kristin Majeska
FORMER ENTERPRISE DIRECTOR, THE CITY STORE

“We emphasize learning across the organization as the best way to improve our business and indeed to improve anything that we do.”

boona cheema
EXECUTIVE DIRECTOR, BOSS ENTERPRISES

This continual learning is critical to an organization’s long-term success.⁶ The skills and strategies that get a business well into the Survival stage are often not the same skills and strategies it will take to propel the business to the next level. Accordingly, social purpose enterprises must constantly question their way of doing things and continually look for new insights into the business, the mission and how the strategies of both are executed. Part of this questioning includes taking a hard, self-analytical look at whether the current management team has all of the

skills and experience it needs to meet sales, profits or employment objectives. As an organization grows and makes decisions with greater and greater financial ramifications, a consistent group of managers learning by trial and error can be much more risky than bringing in experienced voices at key points.

Often, learning about the business includes a revision of expectations, particularly with regard to the social mission. Several social purpose enterprises have scaled down their first expectations of the role their clients would play in the organization. For example, Ashbury Images hoped that its clients who began as screen-printers would develop to fill all of the management spots in the organization, including areas such as sales. Although Ashbury's clients currently have leadership roles in graphic design and administration, the company believes it must also consider management candidates from outside this pool in order to grow the business. In another example, Juma Ventures initially projected that it would cover 100% of its social costs with business revenue. In more recent years Juma has set a lower threshold for how much the company should be able to contribute to the social costs of working with disadvantaged youth.

A long-term perspective

The ability to make decisions based on a longer-term outlook has contributed to a number of social purpose enterprises' ability to move past the Survival stage. In addition to securing the capital necessary to move beyond the start-up of the company, successful social purpose enterprises have created environments in which their managers, Board members and decision-makers share a long-term perspective.

Ideally, managers use the business plan's budgets to help guide their decision-making and to keep focused on the ultimate goal of creating a healthy venture that fulfills its mission, rather than focusing on very short-term results.

"Having leaders and funders who share your long-term goals means you are less likely to cut the very spending you desperately need to grow the business. The City Store learned the hard way that the only way for us to stop losing money was to spend more. We needed to invest in a professional

store manager and increase our inventory to be able to reach our sales and profitability goals."

Kristin Majeska
FORMER ENTERPRISE DIRECTOR, THE CITY STORE

When Board members support the venture's long-term mission, they facilitate its success. Social purpose enterprise's Boards must walk a fine line, focusing primarily on policy, but also fulfilling their responsibility to ensure the financial and programmatic health of the organization. The Board should chart the organization's course and strategy and should make major decisions in function of its long-term goals. Board members should involve the Executive Director and relevant managers in honest and frank discussions in which potential policy alternatives are seriously critiqued and considered, rather than simply approved. An open and honest relationship between the staff and Board makes this possible.

"It's very useful to have a strong and long-term relationship between the Board and the staff. When Board members trust the staff, they spend their time at the policy level, not trying to run the day-to-day business."

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

A nonprofit Board's legal responsibility for overseeing its organization is unequivocal. Unfortunately, in the face of competing pressures to raise funds, it is easy for volunteer Boards to fall into the habit of simply nodding in support of a competent Executive Director. This habit puts the organization, its programs and its clients, as well as the Board members themselves, at risk, a risk that is greatly augmented when a nonprofit launches an inherently tricky business enterprise. Board members support the long-term objectives of their organization by being engaged in its present and immediate future, as well as the longer horizon. The Board should thoughtfully set up key metrics which accurately capture each venture's well-being and progress against its goals.

Like any good supervisor, the Board should question and challenge management

in a positive and constructive manner. Rather than hesitating to push an Executive Director, Board members should remember they are “on the same side” and that their tactful interventions will help create the best possible organization. Similarly, when the Executive Director can use particular expertise or guidance from Board members, he or she should not hesitate to ask for additional support.

Shared goals and a plan vetted by major stakeholders create fair parameters for judging a venture’s long-term success – and for deciding whether to call it quits. If the venture does not meet its targets in the agreed upon time frame, the stakeholders must consider acting on the exit strategy. As described earlier, the existence of the exit strategy enables the venture to invest resources, monetary and human, up to a certain point but no further and helps shield the parent nonprofit from jeopardizing other programs with unmanageable business losses.

“Having a clear exit strategy gives you time to let a business establish itself without panicking because it might not work.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Growth

For social purpose enterprises that have already established themselves as businesses and are eager to grow further, practitioners suggest staying focused on the business aspects of the venture, developing a growth strategy tailored to the business’ existing strengths and recognizing the additional management resources that may be required.

A business focus

When they reach a point of clear financial viability, social purpose enterprises may unwittingly slow down their growth by returning to focus on their original social mission.

“Because the leaders of most social purpose enterprises care deeply about their social mission, they are often tempted to shift their attention to improving the program side of the venture once the business feels stable.”

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT
RUBICON PROGRAMS

While admirable, and often very productive, dedicating significant management time to efforts such as improving non-job-specific training or placement efforts distracts managers from what must be their primary job: running the business. The competitive nature of business means that even a momentary distraction not only slows down growth, but also can result in the loss of the business’ current position.

“It’s a real danger if we sit back and focus on what feel like more compelling social needs. We have to stay competitive to stay in business.”

Diane Flannery
CEO, JUMA VENTURES

Rather than ignoring the opportunity to improve the venture’s program side, leaders should consciously allocate resources both to this effort and to aggressively running the business. For example, this juncture may highlight the need for a professional manager with industry experience to take over the day-to-day running of the business in order to free up a manager who is more personally interested in ensuring the desired social outcomes take place within the successful business.

A growth strategy based on the venture’s strengths

Without an explicit plan to guide the growth of its venture to a new level, it is easy for an organization to fall into the traditional nonprofit modus operandi of creating only as many jobs as its budget will allow. A social purpose enterprise must consciously choose to continue to grow once it is sustainable.

“You need to actively get in the mindset of growth to avoid the trap of simply ‘chugging along’ at the survival level, constrained by funding limits rather than potential for the business.”

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT
RUBICON PROGRAMS

A strong blueprint for growth starts with clear objectives and a strategy that is grounded in the business’ existing strengths and understanding of true market demand.

“Our business expansions have always been a natural outgrowth of our network and our skills. We want to keep doing things that we’re good at.”

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

Growing based on businesses’ proven strengths can take any number of different forms. Social purpose enterprises in the REDF portfolio have taken routes ranging from new sales strategies, new customer segments, new locations, new channels and expanding into related businesses, to name a few.

“In order to grow we had to develop a very tactical sales strategy – in contrast to the scatter shot sales efforts of our early days. We have identified high likelihood and profitable customers and are methodically qualifying and going after them.”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

“We really thought about the timing of our growth strategy. First we built a brand and reputation by entering the retail distribution market. Now we’re using that brand to get in the door and get volume in the whole sale market.”

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT
RUBICON PROGRAMS

“NU2U has been a great business for us from both the financial and the mission perspective – the economics are good and the kids like to work there. So, when we wanted to grow, the first thing we did was assess the demand and availability of supply for a second store – and we’ve opened NU2U2.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

“Our website was a response to interest from tourists who would come into our store and want a catalogue so they could order from home. It’s an alternative channel to reach the non-local market for our merchandise.”

Kristin Majeska
FORMER ENTERPRISE DIRECTOR, THE CITY STORE

“We have grown both by moving into a related business – from an ice cream shop to selling ice cream at the ballpark – and by opportunistically expanding our product line – selling coffee as well as ice cream at the stadium.”

Diane Flannery
CEO, JUMA VENTURES

Growing management resources

Like every other stage of a business’ development, a push for substantial growth has implications for the management team.⁷ First, existing managers may need coaching and guidance to take this next step.

“There’s an important process of educating all of the management staff about how to look at the bigger picture and how to develop a vision of where we want to be – it’s the only way we’ll move our thinking sufficiently beyond where we are today.”

Diane Flannery
CEO, JUMA VENTURES

Second, the venture may need additional skills to complement the existing management team or may simply need more depth to back up the managers of each area. Substantial growth also usually means coming up against more sophisticated competitors with more resources at their disposal. In these cases, social purpose enterprises must have leaders of similar caliber on hand.

“You can not grow aggressively without focused and experienced leaders in each of your key management positions.”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

In addition, the complexities of a larger business mean its individual employees must be able to work together. At this stage in growth, like for-profit businesses, social purpose enterprises need to create a “great management team” as well as great individuals.

The Imperative to Grow

In 1999 the social purpose enterprise movement is still so young that “growth” is almost a mantra, a consistent goal. So few ventures feel they have achieved “scale” and “significant social impact” that the objective of growth appears obvious and paramount among other potential objectives. When asked, “When is [profitable] growth the goal of a social purpose enterprise?” practitioners responded with either surprise at someone even asking the question or gave very strong responses such as, “Growth is always good.” The only caveat they offered was the benefit of controlled, rather than unchecked, growth. Today’s social entrepreneurs grow their ventures in the name of both financial viability and social impact.

Financial viability

Economies of scale play the same role in driving the growth of social purpose enterprises as they do in the for-profit sector. Simply put, economies of scale mean that as the number of units produced increases, the average unit cost decreases. For example, the same number of employees may be needed to screen print 50 t-shirts as to print 100 t-shirts on the same presses. If so, the average cost per shirt printed is lower on a day when the shop prints 100 shirts. Similarly, if only one truck and driver is needed to pick-up and drop-off anywhere from one to four landscaping teams in a single day, the average transportation cost for each team goes down as the number of teams increases (up to four.) Because of high fixed overhead costs associated with supporting their employees, social purpose enterprises may be even more eager than many private sector companies to spread their costs over a large volume of sales.

Depending on their business, practitioners also cite other typical for-profit factors such as the need to achieve high volume because of low industry profit margins or the need for critical mass to achieve visibility in the market as rationales for growth.

Social purpose enterprises also frequently make reference to their nonprofit origins in their desire to achieve financial viability.

“It’s unlikely that we will ever be able to stop

growing. Because we need to cover about 15% of our total organization’s costs through fundraising, we must be able to come up with something new” and intriguing to funders every year.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

“So much has been invested in this effort to help the community and create jobs that we must leverage that investment as much as possible. It’s our responsibility.”

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT,
RUBICON PROGRAMS

“We will keep growing as long as we can achieve our target margins. We want a cash cow that will fund our training programs and other fledgling social businesses.”

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE, INC.

Social impact

Social purpose enterprises are equally motivated to grow by a desire to realize their social goals. As long as their businesses are meeting pressing needs in their target population, the leaders of these ventures will fight to grow in order to create more jobs.

“We’re determined to grow our business because its potential is too great to resist. We can visualize our success in creating quality jobs and we know that economic development must be an integral part of our organization if we are to strengthen our community.”

boona cheema
EXECUTIVE DIRECTOR, BOSS ENTERPRISES

The concept of the Social Return On Investment (SROI) also pervades many of the social purpose enterprises.⁸ Scale arguments can be as effective when describing positive social outcomes as when describing ‘profit after taxes.’ Organizations recognize the value of creating fifty rather than ten jobs from the same initial capital investment and appreciate the value of leveraging ongoing

investments of management time and dedication.

Indeed, at least one organization is motivated by a vision of social impact even larger than the direct impact of the business itself or the jobs its creates.

“Our goal is bigger than economic development, it’s fighting poverty on all fronts. Our business is valuable to us because it gives a higher profile and consequently a much greater ability to influence the discussion on how to combat poverty.”

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

Limits of growth

Social purpose enterprise leaders remain remarkably consistent to their origins. Growth is only questioned when it jeopardizes or no longer furthers the organization’s social mission. For example, social purpose enterprise leaders may ask themselves whether they are really meeting their stated goals of “moving youth to their highest potential” or whether their venture simply creates entry-level jobs.⁹

However, growth does present very real dangers to all business enterprises and particular hazards for social purpose enterprises. The lack of key success factors described in the Birth, Survival, and Growth stages can mean suicide when a company continues to grow. As counter-intuitive as it may sound, increasing sales can actually drive down profits. Finally, expanding into new markets and businesses can be very risky.

For-profit and nonprofit businesses alike are often able to “sneak by” and continue to grow for a time without adequate infrastructure. Unfortunately, as a venture grows, each of these problems gets magnified and any one of them can drive a company quickly to bankruptcy. Accounting and financial systems are the most common Achilles’ heel of social purpose enterprises, often made even more challenging by accounting processes connected to a parent nonprofit organization. Operational processes that “evolved” to meet the needs of a small start-up business are often cumbersome, expensive and ineffective in a larger organization. And inferior technology that was annoying yet viable on a smaller scale can

create real problems as a company grows. Similarly, a manager who “did okay” managing \$1 million of sales per year may not have the skills needed to handle a company three times as big and five times as complex.

The single largest concern of ventures planning aggressive growth should be having the cash flow to see them through this stage. As mentioned earlier, insufficient cash flow during a phase of growth is the most common cause of bankruptcy in new businesses. Nonprofits often have experience managing cash flow crunches, but usually rely on the relatively predictable timing of grants and reimbursements and know that a brief reduction in delivery of services, although never desirable, will typically not mean the end to the organization. Business ventures, on the other hand, must typically pay for their raw materials/goods and often other expenses long before they receive the revenues for selling their product or services so must have the cash on hand to bridge this less predictable gap. Refusing to spend the requisite amount in inventory can cost the company loyal customers as well as individual sales. Yet because of their nonprofit origins and status, social purpose enterprises rarely have access to all of the financing mechanisms used by their for-profit counterparts.¹⁰ Growth without careful cash flow planning can have severe ramifications.

Growing revenues is relatively easy. Additional profits are much harder to come by. Social purpose enterprises eager to expand must take care that their additional sales add to the bottom line rather than subtract from it. Each business must understand what it costs to serve its current markets and customer segments, then analyze the cost of selling to any proposed new markets and customers. Factors such as a high cost to acquire each new customer, high variable costs of transportation or high customer service usage can actually mean even selling a product or service at the standard price will lead to lower profits. Similarly, a strategy to go after a new customer segment by offering a lower priced product will mean overall reduced margins if the costs to sell this product are not lower as well.

At the same time, growing sales often means expanding the business’ production or sales capacity. However, these kind of fixed costs, such as a new production facility, machine or storefront, can rarely be added in

the exact increments as needed. Rather, the business pays the cost for total new capacity even when it may be ready to sell only a few additional units - a risky proposition unless it is sure it can fill the capacity to at least the point where total costs drop down to their pre-expansion levels. Depending on the venture's ability to fill its capacity, such growth can reduce profits and quickly lead to dramatic losses.

Finally, growth often means exploring uncharted territory – new markets, new chan-

nels, new customer segments, new products or new businesses. Even with the best of planning and analysis, anytime any organization takes on something new, there is a larger element of risk and less predictability in its success. Social purpose enterprises are no exception. Despite perceived pressure from certain kinds of funders to “do something new,” when they attempt to grow by trying new strategies, ventures run the risk of jeopardizing the health of what they have already established.

Conclusion

Social purpose enterprises should be encouraged to collect and learn from best practices in the social purpose enterprise world, as well as from the environment in which they are competing. Interviews with a small sample of businesses suggests that there are common experiences, learnings and tenets that can help guide a venture from the vision-

ary stage through to a stage focused on expansion and growth. At that point, as established viable businesses, social purpose enterprises can decide from a position of strength how and if they want to continue to grow – there is no one-size-fits-all definition of when an enterprise has reached its optimal size.

Footnotes:

- 1 Maureen Bennett, *Managing Growth*. (New York: Nichols Publishing, 1989) p. 2.
- 2 An additional framework for understanding financing aspects related to the development of nonprofit organizations and social purpose enterprises is presented in “The U.S. Nonprofit Capital Market: An Introductory Overview,” in the companion book to this volume, *Investor Perspectives*.
- 3 Modified using Bennet’s description as a starting point. Bennet. p. 2.
- 4 *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation*. Jed Emerson and Fay Twersky, eds. (San Francisco: The Roberts Foundation, 1996) p. 12.
- 5 Emerson and Twersky, p. 14.
- 6 See Chapter 9: The Social Purpose Enterprise as a Learning Organization in this book for a more in-depth discussion of this concept and how it has been employed in a social purpose enterprise.
- 7 See Chapter 7: Cultivating the Next Generation of Leaders for a discussion of this topic.
- 8 See “Social Return on Investment” in the companion book to this volume, *Investor Perspectives* for a full explanation of the SROI concept.
- 9 The question of “Should we create more jobs or concentrate on fewer jobs with more intense programmatic support?” has barely been addressed by social purpose enterprises to date and has certainly not been resolved.
- 10 See “The U.S. Nonprofit Capital Market” in the companion book to this volume, *Investor Perspectives* for more on the financing options available to social purpose enterprises.

The Challenges of Staffing and Leading a Social Purpose Enterprise

John Brauer
Executive Director

Michele Tatos
Director of Business and Finance

CVE, Inc.

“The responsiveness, adaptability, and imagination essential for handling the dynamism of today’s business environment can be fulfilled only by its most responsive adaptive and imaginative element: its people.”¹

One of the most critical factors in running a successful social purpose enterprise is employing the right staff, both for the social purpose enterprise and for the agency as a whole. In integrating the concept of a “double bottom line” into your agency, a set of issues and challenges often arises that may not be evidenced in the tradi-

tional nonprofit world. These new challenges include:

- ◆ Preparing your organization for cultural change
- ◆ Assisting your staff with those cultural changes

- ◆ Building the new organizational team
- ◆ Hiring the entrepreneur to run your social enterprise
- ◆ Compensation issues
- ◆ Conflicts between business and support teams

In this chapter we will explore how these challenges can be addressed both prior to and during the evolution of the social purpose enterprise.

Preparing Your Organization for Cultural Change

“If an organization is to meet the challenges of a changing world it must be prepared to change everything about itself except [its basic] beliefs as it moves through corporate life... The only sacred cow in an organization should be its basic philosophy of doing business.”²

When a nonprofit agency has decided to undertake the incorporation of a social purpose enterprise into the organization, the Board and management need to be clear this journey **will** change both the culture and the staffing of the organization. Commonly nonprofits, which have made the transition, report high staff and Board turnover, community and funder concern, and massive changes to the organization’s internal systems.

High staff turnover may be inevitable. Employees who have joined your organization because of the social mission may not approve or understand the organization’s new direction. Incorporating the focus required to run and operate a successful and profitable business often hits a deep nerve in socially driven personnel. Even staff members who initially support the change may discover they do not like how the organization has evolved when perceived or real conflicts arise between profit and people. Still others will find that although they like and value the new direction, they simply do not have the skill set needed by the new organization.

In addition to high staff turnover, Board members will also find that similarly they, too, no longer fit in with the organization’s new culture. Confusion, a change in traditional roles, and a lack of expertise may cause long term Board members to resign.

What steps can you take to prepare for

these changes? The first step for leaders and top managers is to prepare staff and Board members for these changes by acknowledging they will occur. This is important so that when these changes hit, staff do not feel unprepared, uninformed, or even betrayed. It is also important to understand that an agency’s culture cannot be changed overnight and that, ultimately, the culture will redefine itself over time.

Edgar Schein states that “the critical thing to understand about cultural dynamics is that leaders cannot arbitrarily change culture in the sense of eliminating dysfunctional elements, but they can evolve culture by building on its strengths while letting its weaknesses atrophy over time. Culture cannot be manipulated by announcing changes or instituting ‘programs.’”³

The second step you can take to prepare for this cultural change is to make sure the Board and the Executive Director are on the same page in making this shift. Without some common understanding and support, when the going gets tough you or your Board may find it easier to call the enterprise a failure-financial or otherwise- and move back to the old way of doing business.

Prior to undertaking this journey, it is highly recommended that an organization and its Board interview a minimum of three social venture agencies that have implemented this change. Questions that should be included in your interview are:

- ◆ “What kind of staff and Board turnover did you experience?”
- ◆ “What were the lessons learned?”
- ◆ “Did the implementation of the social

enterprise compromise your mission or your core values?"

◆ “Given all that you now know, would you do it again?”

◆ “Is your business venture profitable?”

Assisting Your Staff with the Cultural Changes

“True magic begins when individual people begin to become aware of the threads of interconnectedness in any one thing or activity.”⁴

The first step in bringing your existing staff on board is to clearly define what a social purpose enterprise is, and to explain how it relates positively to your organization’s mission. It is important to take the time needed with your staff so that everyone from the CEO to the receptionist has been included in hearing about the new organization and, equally important, that there is an acknowledgment of what the old organization culture has been. Remember that by validating your past culture you are also validating your employees’ efforts to get you to this point. Further, it is vitally important that each staff member knows how these changes affect his or her role, their fellow employees, their clients, and the agency as a whole. Issue new job descriptions — even for those employees whose role will not change — to reiterate what functions remain stable and delineate what is new.

In defining and clarifying the organization’s new path, it will become apparent that some staff will not be taking this journey with you. Try to create an environment where staff can voice their concerns and, ultimately, can choose to leave the agency with the knowledge that they have made the choice that was best for them and for the organization.

One of the most difficult aspects of moving toward this next level is firing staff who do not choose to leave voluntarily, and who clearly do not fit in the new organization. An effective tool we’ve found in determining which staff to keep and which to let go comes from James Collins. Collins has created a quadrant matrix to assist managers in this determination:

		Does the employee make their numbers?	
		Yes	No
Does the employee have the right organizational values?	Yes	1	2
	No	3	4

1. If employees make their numbers and have the right organizational values — keep them. These are the employees that will help you take your organization to the next level.
2. If employees don’t make their numbers but have the right organizational values — keep them and work with them for a set period. If they still do not make their numbers, you may have to fire them. Making numbers can be taught; organizational values can not.
3. If employees make their numbers but do not have the right organizational values — they will never fit into the organization, and can do more harm than good. These employees need to be let go.
4. If employees do not make their numbers and do not have the right organizational

values – they clearly do not fit into the organization, and need to be let go.

Even when it is clear to all concerned that moving one or more staff members out of the organization is the only answer, the actual displacement is difficult at best. Many times these same individuals have been with the agency for such a long time their identity is closely linked to that of the organization. The issue of firing staff may seem contrary to a nonprofit's warm and fuzzy image, but focus needs to remain on why these seemingly dramatic changes are vital to the long term survival and success of your agency.

Carrie Portis, Director of Enterprise Development, Rubicon Programs, states *"sometimes it is hard for a nonprofit to admit that a committed and loyal employee might not be right for the job."*

Supervisors and managers should meet regularly with problem employees to discuss how their performance and/or attitude in the new organization do not fit. For those who need to move out of the organization, enough time should be allowed for the employee to transition their existing workload or client caseload. However, in some cases problem employees will need to be moved out as soon as possible — either because of morale or performance issues.

In addition, during this tumultuous phase, it is preferable to meet with all of the staff on an on-going basis to continue to send the message that the agency is moving in a well-thought-out, positive direction. With this message comes the repeated emphasis that not all staff will make this transition, some by choice, others by necessity. This clear, consistent message will help when a staff

member is transitioning out of the organization.

It is important to consider morale during this time. Staff may feel overwhelmed by these changes. To address these issues staff should be encouraged to ask questions, managers should be supported as they strive to build a qualified, invested staff, and the focus should be kept on how these changes help both the clients and the agency. This is the beginning of building acceptance for change into your organizational culture.

When Community Vocational Enterprises (CVE), an organization with several social purpose enterprises, initially made the shift from treating the business ventures as training vehicles to viewing them as market-driven businesses, several staff were fired or left voluntarily. Management made the mistake of not adequately preparing the staff. As a result, this change was traumatic to the remaining staff, and management was unclear on how to proceed. CVE has since been continually changing and evolving, and now, three years later, comfort with change has been firmly incorporated into the organizational culture. Because the level of expectation for each position is clearly defined, and because staff rely on each other to achieve their individual and organizational goals, when one member of the team is not pulling their weight, the rest of the staff openly discuss the need for a change.

"Each of us has a choice every day...we can choose between going about our task in a way that contributes to high organizational performance or we can muddle along as usual. The cumulative result of all of our choices will determine if we prosper in the long run."⁵

Building the New Organizational Team

As you begin to build your new organizational team, whether you are working with existing staff or hiring new ones, it is imperative you know what characteristics you are looking for before proceeding. Not only do you need to have clearly delineated job descriptions, you need to have staff on your team understand, at least at some fundamental level, how both the social and business sides of any given position fit into the organization as a whole. When interviewing prospective new staff, at any level, it is important to screen candidates for their ability to tolerate conflict (gracefully), be open to differing view points, and embrace change.

Hiring Leaders

What is leadership? Are leaders born or made? How do we know when we are in the presence of a leader? John W. Work states that leaders are “those individuals who, in their inimitable ways, inspire confidence, undermine despair, fight fear, initiate positive and productive actions, light the candles, define the goals, and paint brighter tomorrows.”⁶

Building the foundation for a successful social purpose enterprise begins with the right leadership. Certain roles must be filled: a visionary to lead the organization forward; a financial expert to ensure solid systems and practices are implemented; an entrepreneur to lend expertise and energy; and the support services⁷ champion to ensure that the organization does not lose sight of its mission, core values and client outcomes.

These roles do not need to exist in the form of four separate people. In fact, ideally all management and board members will hold these values to varying degrees. The following is a brief overview of the referenced roles:

The Visionary:

This is the leader of the organization and is usually the director or the executive director. In some cases the visionary role is taken on by the Board of Directors who then hire an executive director to carry out their vision for the

organization. In either case, there must be some basic agreement between the executive director and the Board as to the vision of the organization for effective growth of the business venture. The visionary is charged with bringing passion and direction to the organization, and to inspire the management under him or her to lead the organization to accomplish stated goals.

The Financial Expert:

For the entrepreneurial venture to be successful, the organization needs someone who has a strong business and financial background. Generally, this position is the Chief Financial Officer. This position has the responsibility of setting and monitoring fiscal goals, maintaining checks and balances within the entire organization, keeping an eye on external markets and trends, and ensuring that the “vision” is fiscally viable.

The Entrepreneur:

This is the person with the passion and autonomy to build the business venture into a viable, market driven company. Entrepreneurs are generally driven by an inner motivation to make the business a success at any cost, thriving on the challenge. It is not unusual for entrepreneurs to devote time to building the business, and to eventually hand off the daily responsibilities of running the venture.

The Support Services Champion:

This role is generally a manager within the agency who has a strong investment in the social mission and core values of the organization. The support services champion is charged with ensuring that the visionary’s dream, the entrepreneur’s implementation, and the financial expert’s goals all stay focused on the primary reason that the nonprofit was originally started, to best serve the clients.

As most organizations already have their leader, financial expert, and social service component in place, the following highlights how to hire what you may be lacking – the entrepreneur to start your business.

Hiring the Entrepreneur to Start Your Social Enterprise

“The perfect candidate has the right balance of confidence and humility, to both lead the employees and to learn from them. S/he is willing to take risks, but not foolhardy ones, has experience in management within the industry, and has both the head and the heart.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

When hiring an enterprise manager to start or expand your venture, a dream candidate would be someone who has expertise in the business you are running; extensive management experience; a history of working with your target population; and is willing to do all of this without owning a share of the business.

Unfortunately, due to the non-traditional nature of the social entrepreneurial field, “dream candidates” are often hard to find. Your organization may need to hire someone without every characteristic for which you are looking. When hiring, keep in mind the skills that are essential, and which ones could be developed in your potential candidates via trainings and consultants.

The following are the pros and cons of hiring candidates with strictly entrepreneurial, management, or client focused expertise:

Hiring an expert in the business that you’re running:

pros:

- ◆ Hands-on, practical experience in your business
- ◆ Knowledge of market, customer base and industry standards
- ◆ Often someone from the for-profit realm who is highly motivated and excited to “give something back to their community”

cons:

- ◆ May not have experience working with your population and may be skeptical as to how “work ready” your employees actually are

- ◆ May have little experience supervising a diverse workforce
- ◆ May not have worked in an environment where there is limited capital and where implementation decisions may be slower and less autonomous

Hire an individual with extensive management experience:

pros:

- ◆ Adept at motivating and managing personnel, and experienced in program development and implementation
- ◆ Most likely will have experience supervising a diverse workforce
- ◆ Likely to adapt to your organization’s culture

cons:

- ◆ May have little or no expertise in the specific business
- ◆ May have little or no experience working with a social mission
- ◆ May need assistance with creation of business plan and financial projections

Hire an individual with social service experience:

pros:

- ◆ Typically a promotion from within — which means they are aligned with your organization’s core values and mission
- ◆ They have experience working with your target population or similar populations
- ◆ They may be well connected with the community which can alleviate “community concerns” and assist in gaining positive PR

cons:

- ◆ May have little or no direct business experience

- ◆ May require extensive business training
- ◆ May have difficulty managing the “double bottom line”

Hiring the right entrepreneur is key to the success of a social purpose enterprise - don't let time constraints pressure you into hiring the wrong candidate. Any candidate whom you are seriously considering should have the essential skills as previously defined by your organization.

Compensation Issues — Who Says Money Isn't Everything?

As is true in many areas of a nation where one's perceived value is often tied to how much money one makes, salary is a huge issue in the nonprofit arena. Historically, nonprofits have paid significantly lower wages to their employees than is true in the for-profit world. According to Minnesota and other state government surveys, two of the greatest challenges facing the nonprofit employer and workforce are: one, the salaries of nonprofit employees are 14 percent less than their counterparts in industry and government; and two, the inability or lack of willingness of nonprofits to contribute to their employees' retirement funds.⁸

Complicating this matter even further is that when you take on a social purpose enterprise you need to step out of the traditional nonprofit comparisons, and start looking at what for-profit companies are paying to recruit and retain qualified people in a specific business industry.

There are no textbook answers to two fundamental questions:

- ◆ Can you afford to compete with the for-profit companies to get and keep good people?
- ◆ Should social program and business staff be compensated equally?

The following are common perspectives from social entrepreneurial organizations.

Can you afford this?

It is important that your Board buy into pay-

ing market driven wages and that compensation issues have been thoroughly discussed and agreed upon prior to embarking upon or expanding a social purpose enterprise. The community, and other stakeholders, may have questions about salaries which you and your Board will need to be ready to address.

Most leaders in the social entrepreneurial field agree that to get and keep qualified people in your social venture you have to be able to afford this. You must look at what your competitors are paying their staff, and your salary base should be at least in the low end of the pay range.

Rick Aubry, Executive Director of Rubicon Programs, states *“to think that people will be willing to sacrifice significant compensation because it is about the mission is simply aggrandizing and not terribly realistic.”*

Most nonprofit employees aren't attracted to the nonprofit sector for the money, but for an interest in what the organization does and the desire to make an impact in their community. However, money is usually cited as the number one reason nonprofit employees leave the sector.⁸ Although candidates may want to work in their community, you must be realistic about what people can and are willing to give up monetarily.

Realistically, smaller social purpose enterprises cannot directly compete with for-profits, which can offer incentives such as stock options and dividends. Grants and public funds traditionally do not allow for paying employees above the “standard” nonprofit wage — they prefer that their dollars go into direct services. Therefore, each agency must review their overall budget to determine what their unrestricted funds can support and come up with creative packaging to entice talented individuals to join their team. Some examples are:

Performance based bonuses:

These should be tied to both business and social goals. The money for these bonuses should be built into the income projections for the business. Remember to check the IRS guidelines prior to setting up such a structure.

Vacation packages:

Giving a good vacation/sick package is often a way to have a “perk” that may exceed the for profit community's.

Appealing to the pioneer and entrepreneurial spirit:

Managers of social purpose enterprises are given the opportunity to explore the new and dynamic field of social entrepreneurship. For an entrepreneur, the opportunity exists to have all the challenges and experiences of running their own business without having to put up their own money.

The mission:

And, finally, don't underestimate the power of people's need to work for a cause in which they believe. People who have extensive work experience in the for-profit world sometimes "feel like something is missing", and want to be given the opportunity to fill that void.

Are social staff and business staff compensated equally?

Organizations vary greatly on this topic. At CVE, the pay structure is based on the positions' requirements, including skill level, experience, and education. Support service salaries are set slightly above what other nonprofit agencies are paying for comparable positions, and business salaries are set to be competitive with the for-profit industry. Three executive directors from the REDF portfolio made the following points:

"The business side is at the lower end of the pay scale for the private sector. We are at the higher end for social service. This maintains some semblance of balance, and we get good people. We have had some challenges accepting comparable requirements for some key positions because they are so much above the organizational pay structure."

Maurice Lim Miller
EXECUTIVE DIRECTOR, ASIAN NEIGHBORHOOD
DESIGN (AND)

"We do have social and business compensation issues. For now, we try to be competitive within each field so that we can attract the best from each, but that means inequities exist — which we don't really feel comfortable about. We don't offer performance bonuses to social staff, but may in the future. This is a complicated issue."

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

"We compensate everyone relatively well. There are no substantive differences between the social and the business side. I wouldn't bring in someone at the cost of having them at a much higher compensation rate. Most of the people we hire would go run their own business and get salaries twice as high, but money is not everything to them."

Diane Flannery
EXECUTIVE DIRECTOR, JUMA VENTURES

Each program will need to decide what its own level of comfort is in terms of compensation. Thoroughly research any existing documents that will give you a gauge of both nonprofit and for-profit wages. One document often used in determining support team salaries in the Bay Area is the "Wage and Benefit Survey of Northern California Nonprofit Organizations." For business team salaries, newspapers, internet job listings, and contacts in various local industries can be resources to determine prevailing wages.

Conflicts Between Business and Support Teams

Although the overall agency mission is the same, the business team and program support team perspectives are very different. The business staff may complain that the support service staff don't understand the importance of running the business ventures competitively, while support staff may perceive the business staff as only caring about the bottom line and that they have lost sight of the core mission. Both sides accuse each other of taking the higher ground (moral or business) when there is a disagreement. This often causes conflict between the business and support service staff.

The following example illustrates how this conflict manifested itself within CVE:

Ben, a client working in CVE's janitorial venture, had worked within the venture for a period of eight weeks. At times, Ben showed up at the work site either several hours early or several hours late. After each occurrence, Ben's supervisor discussed with him the importance of showing up to work as scheduled and the consequences if this pattern continued. After numerous complaints about his

erratic work attendance, the janitorial customer stated that they would discontinue using CVE's service if Ben were not replaced. The employee was pulled from the site and replaced with another CVE employee. Ben was sent back to the support service division of the organization to work on time management issues before he could reapply to the business venture.

The CVE social service team felt Ben had been improving on his time management issues and therefore should not have been pulled. They stated that the business team was more supportive of the work site's needs than of the client's. The business team was angry at what they felt was the support team's lack of business savvy. Furthermore, they felt there was a lack of knowledge of what community employers expected of employees.

In the above example when support and business teams met to openly discuss this situation, both sides agreed the decision made was ultimately best for both the client and the business. It is not in either the clients' or the business' best interest to allow behaviors that would not be acceptable in the general community. And losing a work site means losing future training opportunities for future clients.

This tension between the social staff and business staff will always exist. The key is to turn it into a healthy tension by acknowledging the inherent conflict between the two philosophies from day one. At CVE this concept is introduced as early as the hiring interview. In addition, it is addressed on a regular basis in staff meetings, retreats and supervision. As a result, this conflict has become a check and balance system, and thus a positive influence. While it may be hard to believe, CVE can honestly say that it is now virtually a non-issue in our agency.

Other Related Issues

Although staffing is a key factor for success, there are other issues that need to be considered, such as your organization's need for an expanded infrastructure and the community reaction to the new changes.

Operating systems you currently have in place may prove to be ineffective in managing a social purpose enterprise. Accounting systems, as well as accounting staff, may not be able to handle the new financial requirements of a business venture. Marketing materials and methods may prove obsolete. Managerial, charting and protocol systems will also need to be implemented to deal with business and client issues that will come up (e.g., how long can we afford to train an employee? When do we move good employees to a community employer? How do we best work with employees with substantial issues outside their job?) It may prove worthwhile to utilize consultants at various stages as these questions arise.

Other concerns that may need to be addressed include community stakeholder questions regarding your agency's new direction, especially if you have large staff or Board turnover. Does this change mean that your agency now values profits and business over people? Be prepared to explain how your business venture fits into your social mission, and ultimately, how the inclusion of the business venture may very well ensure the long-term survival of the agency. Be sure to state how this growth of business venture dollars means fewer taxpayer dollars are needed to support your program, and that the clients you serve are receiving more for each taxpayer dollar spent. In addition, clients are relying less on government benefits and are now tax-paying members of society.

Conclusion

As we have just discussed, metamorphosing into a social purpose enterprise includes a unique set of challenges. It is important to remember that before you embark upon this journey you must prepare your staff, your Board, and yourself for significant cultural change. In addition, issues such as compensation, hiring key personnel, conflict between business and support staff, internal systems and community concerns are inevitable.

Researching and addressing these factors in advance will put you ahead of the game.

Most organizations do not recognize these as issues until they become an immediate problem.

Earlier in this chapter it was recommended that interested agencies interview nonprofits that have gone through this process and ask, amongst other things, "Given all you now know, would you do it again?" As the authors of this article, we would answer with a resounding "YES!" The process, although painful, has provided our agency (CVE) with richness in both staff and culture that would not have otherwise been achieved.

Footnotes:

- 1 Friedman, Lisa. Gyr, Herman, *The Dynamic Enterprise*, p. 20
- 2 Watson Jr., Thomas J., *A Business and its Beliefs*, pp. 5-6, pp 72-73
- 2 Schein, Edgar H., "Leadership and Organizational Culture", *The Leader of the Future*, p. 64
- 3 Butterfield, Barbara. Emir, Rudite., *The Dynamic Enterprise*, p. 33
- 4 Hardy, Robert. Schwartz, Randy., *The Self Defeating Organization*, pp 279-280
- 5 Work, John W., *The Leader of the Future*, p. 73
- 6 Foundation News and Commentary, January/February 1999, pp 22-24 "Underpaid and Easy Picking"
- 7 The definition of support services can vary from agency to agency and range from providing "traditional" social services to providing personal and professional development.
- 8 Foundation News and Commentary, January/February 1999, pp 22-24 "Underpaid and Easy Picking"

The Challenge of Workforce Development

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Introduction

Nonprofits that create training programs and long-term employment for severely economically disadvantaged people in social purpose enterprises provide unique opportunities to impart realistic work skills in a supportive environment. Such training offers the benefits of both traditional training and private business opportunities yet is structured to avoid some of each sector's deficiencies. For example, traditional training programs are often criticized for not providing participants with market-ready skills and not being linked to employers; graduates of traditional training programs are often not competitive in the workplace nor do they have access to jobs. In contrast, the pri-

vate sector typically does not have the resources or commitment to assist employees in a transition to work. Candidates are expected to come to employers "job-ready." Through supportive employment ventures, a balance can be struck between assisting individuals to be independent workers and benefiting from their positive contributions to the success of an ongoing business. In the following pages we will first highlight the particular challenges of workforce development in social purpose enterprises, then share what practitioners have learned about how to effectively meet their employee development objectives in the face of these challenges.

There is no one formula for creating a successful workforce development program.

A good program may be based on common principles but must be uniquely suited to its organization, the population it serves, the goals of its program and the environment in which it operates. To bring greater relevance to this discussion, we have interspersed our learnings with concrete examples from our own experiences, Kristin at The City Store and Carrie at Rubicon Programs, and examples that we gathered from other practitioners in the Roberts Enterprise Development Fund (REDF) portfolio of social purpose enterprises. Typically, REDF businesses work with youth and adults in transition providing them with employment as trainees or in permanent positions. The end goal is greater independence and self-confidence, entrance into traditional educational institutions, or placement in permanent jobs in the private sector or with the nonprofit business venture.

The ventures within REDF are very varied and include:

- ◆ Businesses in the start-up phase and those that are more mature multi-million dollar operations
- ◆ Businesses that create transitional

employment and those that create permanent jobs

- ◆ Businesses with distinct training programs prior to employment and those that train on-the-job
- ◆ Businesses that focus on employing youth, adults or adults with disabilities
- ◆ Businesses that are manufacturers and those that are service-based.

Although quite different from one another, the REDF social purpose enterprises do share common goals. In relation to workforce development, the goals are to:

- ◆ Develop skills and work-experience so that employees can work in the organization's business and other work environments
- ◆ Provide increased stability in employee's lives through supportive employment
- ◆ Integrate the needs of employees with a competitive business strategy to ensure program and business sustainability

Challenges

Social purpose enterprises face unique challenges because of their need to simultaneously meet the traditional goals of a business and a nonprofit social service agency. The social purpose enterprise must run a competitive enterprise that also integrates additional training and support for employees who are not yet ready for employment in traditional, for-profit companies. Specific challenges include:

- ◆ Balancing tensions between the requirements of the business and of workforce development; and between the perspectives and skills of supervisors versus job coaches or trainers
- ◆ Meeting substantial workforce development needs with limited training and support resources

- ◆ Funding training that occurs within the context of a business
- ◆ Measuring the progress of a training program through its social impact

Social purpose enterprises have learned how to respond to these challenges in a number of ways. The following pages outline practitioners' learnings about developing their workforce through the:

- ◆ Design of the social purpose enterprise
- ◆ Client flow
- ◆ Delivery of the program
- ◆ Content and curricula

Design of the social purpose enterprise

Carefully choosing what business to enter and determining in advance how the social purpose enterprise will handle workforce development improves its likelihood of achieving both training and business objectives. Issues to be considered include:

- ◆ What kind of training to provide
- ◆ How to ensure it meets the needs of the clients
- ◆ Deciding how to integrate training into the business
- ◆ How much the program will cost and where funding can be attained
- ◆ How to measure impact

It is best to consider the implications of these issues and how to balance the demands of both program and business development before launching a new venture.

Choose a business which offers training that is both appropriate to the targeted employees and leads to quality jobs

Although these factors should be integral to the concept of the business and present throughout the stages of business development, nonprofits often do not know enough about the industry before they jump in. The organization is then heavily invested in progressing down a road that requires tremendous effort yet may not meet its original social mission. It is critical that the initial feasibility study evaluates the labor issues of the business. Initial budgets and profitability projections must be based on a realistic understanding of the capability of the target workforce and the training and on-going coaching and supervision they will require to succeed in this business. Unreasonable expectations will lead to frustration and potential failure for employees as well as potentially high turnover, higher than expected costs and an inability to deliver full value to customers.

“We evaluate each potential new business idea/expansion first on whether it is labor

intensive enough to provide good vocational training and many jobs – that’s the point of what we do.”

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

At the same time, each organization must analyze how a proposed venture can meet its social goals. For instance, if most work in the industry is seasonal, pays minimum wage, doesn’t pay benefits, or has no opportunity for advancement, it is likely a social purpose business will also have to be structured in this way in order to be successful. While it is true that most entry-level jobs for people with limited or no work history will have some of these characteristics, the responsibility of the employer is to know how its employees will be able to advance through these positions to achieve greater economic stability.

Advancement can be through relationships with a union that will hire graduates into apprentice programs, relations with large private employers that hire graduates or by building a social purpose enterprise to sufficient scale to provide greater opportunity in the form of advancement or compensation.

Home healthcare jobs historically pay poorly, offer temporary employment and no career ladder. Rubicon went into the home care business when we saw changes in the local market and relationships that we could leverage to create quality jobs. Now we are working on creating a second stage of training and jobs for our employees so that they don’t become the ‘working poor.’ We are doing more work than a traditional employer does but we need to measure our efforts by the quality of employment we provide.

Create businesses that can support high turnover

The purpose of workforce development is to empower people to reach their highest level of independence. In most cases that will mean leaving the nonprofit business enterprise. In a reversal of traditional business practice, many of the REDF portfolio businesses are clearly set up as transitional employers. This constant turnover means that for the business to be feasible there has to be a fit between how long it will take average employees to effec-

tively master their work and how long they are expected to hold their positions.

At the City Store we found that depending on the individual, our employees have mastered basic skills and begin making real contributions to the business after three to six months of being with us. We expected nine month tenure in the program means we always have a core of more experienced employees.

At the same time, this reality requires the business not to depend on the employees' collective experience but to document and keep current the best practices for doing the different jobs.

Define and maintain a limited scope of training and development

The feasibility study for the business should include a clear description of the training and workforce development that the organization expects to provide. Training resources should first be dedicated to skills that are either mission critical to the business – for example, adjusting bicycle gears at Pedal Revolution – or are very specific to the company – for example operating the industrial ovens at Rubicon Bakery. Additional training should be undertaken when it builds on competencies within the organization and prioritized by its direct impact on the business. For example, The City Store teaches its employees computer skills but refers them to other nonprofits for resume writing or personal finance management workshops. In contrast, Youth Industry chooses to leverage its experience communicating to at-risk youth by offering regular life-skills classes. The key is to strategically allocate limited training resources in accordance with an organization's skills and priorities. Organizations new to social purpose enterprises should be realistic about the effort required to implement a business strategy and recognize that initial plans for workforce development may have to be modest.

“Now that Nu2u has passed the survival stage and moved into growth, we’re going back and deepening our ability to train. We would have liked to have done it earlier but

the bottom line is that the business needs to be viable first.”

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Ensure access to community resources for additional supportive services

Many resources that could potentially support targeted employees may be beyond the scope or services of the parent organization. Identifying the most significant gaps in training and developing a strategy for connecting employees with other service providers enables a nonprofit both to meet the needs of its employees and to resist the temptation to try to do everything – a common work characteristic of social purpose enterprise staff! It is often useful to partner with organizations offering relevant services. For example, the City Store and Ashbury Images have partnered with Youth Industry (YI) so that employees referred by either of these companies have on-going access to YI youth service workers for individual counseling and support. Organizations should consider providing “orientations” to partners or frequently accessed organizations. These providers need to understand employment goals, participants' expectations, services provided in-house, etc. Conversely, they should communicate how their services will impact employees at work. Work and service schedules need to be coordinated so that employees can receive the help they need while retaining their employment. Periodic meetings to assess the partnership relationship can also be useful when working closely with an outside agency.

“We previously referred clients to other agencies for training but the bottom line was that they just wouldn’t go – we lost them at that point – particularly when they had to go to different classes at different places. Now we offer more classes in house but still send clients out if they want more detailed training.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE

Even with strong internal capabilities and collaborative relationships, social purpose

enterprise managers often need other resources when employees deal with complicated or extraordinary issues in their lives. A personal Rolodex or list of contacts who can assist as issues arise is an essential tool for managers. Providing a phone number or other contact information and perhaps making an introductory phone call to an appropriate social service agency is a low-cost, high value form of supporting employees.

Determine the best mix of classroom versus on-the-job training

The following are each factors in workforce development: the requirements of the job, the difficulty of acquiring needed skills, most effective learning styles for the target employees, and the amount of resources and/or time available. Rubicon HomeCare offers formal training in a classroom setting at a local community college to fulfill state requirements for certification in that industry. In contrast, Ashbury Images offers on-the-job training exclusively, beginning with the simplest task on the production floor – catching shirts as they come out of the dryer. Other social purpose enterprises, like Juma's Ben & Jerry's franchises, supplement initial training and individual on-the-job coaching with weekly interactive group training sessions on soft and job-specific skills.

Most people learn best in the context in which they will use their learning and can immediately see its relevance. On the other hand, unless it is part of a strategic effort, on-the-job training runs the risk of distracting supervisors and other employees, compromising the quality or speed of the product or service. Organizations in which the majority of training is "on-the-job" must be explicit about the resources dedicated to this task and the outcomes expected from that investment. This clarity makes it possible to evaluate the performance of the business separately from the performance of training.

Separate workforce development funding from the business

The financial requirements of many workforce development programs we have described are not typical costs of operating a business. The training costs that would be incurred by a for-profit competitor must be distinguished from the additional costs of developing a less prepared workforce. This

distinction enables a business to understand how profitable it would be if its workforce were comparable to that of its competitors and to identify its social subsidies.

"Because of our intensive training needs our labor costs run 8-15% higher than our industry's average. We consider these expenses social costs and capture them in the business financials. We recover them through grants that we raise."

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE

While a number of REDF organizations generate net income to cover social costs, many are similar to CVE and receive outside funds to pay such social costs. These funds come from traditional sources such as local, state and national government agencies and private foundations. It is useful for a business to decide beforehand how funder restrictions will impact its operations, such as how many hours people can work, what they are required to be paid, where they are placed, etc.

At Rubicon Bakery, trainees in the bakery are paid minimum wage and work fifteen hours a week. Fifteen hours a week of work, as well as meeting with a case manager, a job developer and working on other issues in their life is often a full load. However, fifteen hours a week is also determined by the requirements of the funder. We need to pay wages that will attract dedicated participants, and so we developed a program that meets everyone's needs.

It can be quite time-intensive to develop relationships with funders, manage contracts, send out status reports, etc. Such fundraising also often requires different skills than those required to manage the business venture. It is therefore important that business managers focus on executing the business strategy and if possible, outside development staff assists in contracts and grants management.

Measure and adapt the workforce development program

In this chapter we have described a balancing act that combines a social mission-based training program with a competitive business. Evaluating the success of such an endeavor requires analyzing social outcomes as well as measuring business results; together these

make up the “double bottom line.” The topic of measurement in workforce development could be a paper or book unto itself. However, some basic guidelines are:

- ◆ Obtain baselines of the chosen performance indicators when each participant begins the program
- ◆ Set goals
- ◆ Periodically re-assess
- ◆ Evaluate measured results against goals and adjust program as appropriate

Baseline measures can include such factors as new employees’ housing and employment status, substance abuse situation, health, sense of self-esteem, sense of community or support from others as well as their job-specific and transferable skills. Depending on the program requirements, agency resources and legal issues, candidates may also need to be tested before being hired. To measure progress, periodic re-assessments should occur even after an employee has moved on from the business. In order to have consistent data, each employee should ideally be assessed on the same schedule. This requires tracking employee anniversaries and obtaining regular information from former employees. Skill acquisition can frequently be measured by using existing performance evaluations. Other information is less likely to come directly from traditional business tracking tools. Potential measures of social impact include job performance, such as raises received, and life performance issues, such as alcohol and drug activity and housing status. Legally, life issues tracking should be done such that clients do not provide this information to supervisors or the agency’s HR department. This procedure ensures that sharing personal information does not impact employees’ jobs. Emphasizing that their confidentiality will be protected is also critical to encouraging employees to answer honestly.

Collecting information on employees and making comparisons to the organization’s expectations allows room for improving programs so that they contribute more effectively to realizing the desired social mission. Employees’ and former employees’ evaluations of different elements of the program

and each element’s usefulness in helping them meet their own goals is equally valuable information. With these two types of feedback, social purpose enterprises often discover that their expectations are off or that they need to adjust their approaches to make their programs more effective. Measurement and evaluation will make the organization’s balancing of training needs with business needs more transparent.

Client Flow

When asked about critical success factors of their programs, practitioners often point to specific processes they have put in place to help employees flow into and out of their employment. Setting up clear expectations, roles and responsibilities starts from the initial recruitment of employees and goes through to their transition to working for other employers. These activities need to be planned and implemented to ensure that the workforce development program actually achieves its goals.

Develop and implement clear assessment and intake criteria

To ensure an appropriate match, social purpose enterprises need to assess whether an individual is appropriate for their specific training and employment opportunity. Clear criteria on the physical, educational, legal, and mental requirements to do the work need to be developed and fully explained to participants.¹ The venture must also evaluate each candidate’s potential to move successfully through the program if provided the appropriate support. Organizations often have representatives from both the program and the business present at the interview of each candidate. Involving experienced employees from the target population in the process of interviewing new candidates provides a very useful experience for all involved. Some organizations, like Ashbury Images, also have a trial employment period during which candidates must demonstrate their readiness to learn and work. Similarly, employees of Youth Industry begin on the “bag crew,” hanging bags on doors and picking up bags of donations. They must prove that they are ready to show up and function in a structured job before they are considered for a position in

the stores, bike repair shop or restaurant.

“We do an occupational therapy assessment to see which business is the best fit for a candidate – if any. Then, supervisors, intake person, and the potential employee sit down and discuss if it will work. For example, if the person is going to require a lot of hand-holding during training and the supervisor is already stretched then this is not the right time and they need someone who can learn more quickly.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE

The organization must also assess each candidate's potential barriers such as inadequate housing, substance abuse, lack of transportation, health problems, behavioral issues, or lack of childcare. The mission of supportive employment enterprises means that barriers to stability do not necessarily exclude candidates from training and/or employment. However, the organization must understand the resources an employee would need and have a sense of appropriate staging or timing if he or she is facing other issues. For example, over time the City Store introduced “stable housing” as a criterion for its employees because of the particular needs of its business. In contrast Nu2u, a Youth Industry retail store, regularly offers positions to youth who are still living on the street. CVE not only hires candidates with mental illness, but its program and businesses are specifically structured with these employees in mind.

Communicate clear expectations and responsibilities to participants, training and business and agency staff

It is critical that potential participants have a clear understanding of the program so they can make an educated decision whether to enroll. Candidates need to know the work content, what they will learn, what opportunities this training will help them access, who their supervisor will be and what the work environment will be like. Their responsibilities need to be clearly explained and distributed in the form of an employee contract, job description and personnel manual.

Often social purpose enterprise employ-

ees have never had a job before or have never held onto one for any length of time. Therefore, employees may not understand the importance of attendance or punctuality, how to call in if sick, how to fill out a timesheet, how payroll deductions work or other standard elements of work. They should be offered instruction on how to complete these seemingly routine requirements. At the same time, the consequences of not meeting job requirements need to be made explicit. A clear system of written warnings and escalating disciplinary action reduces pressure on supervisors to have to make situation-specific decisions, and reduces ambiguity for employees while giving them responsibility for their own actions while they are still in a supportive environment.

At the same time, supervisors and trainers must understand the barriers to successful employment that employees may encounter and how to respond to those barriers in the most constructive way. They also need to recognize they will be working with individuals who may suffer from lack of confidence, low self-esteem or fear of failure. Particularly for staff coming from the business world, training on how to effectively interact with these kinds of employees can be invaluable.

At Rubicon the line supervisors in our businesses usually have had industry experience in the private sector in supervising people with limited experience or barriers to employment. However, our employees often have more issues going on or will take longer to stabilize. Our supervisors learn about the support services that are available to our employees. But what makes the difference in our ability to keep people on the job is our supervisors' commitment to their staff.

Integrate trainees into the workplace

Whether working on a rolling admission or having defined “classes,” trainees and new employees will be entering a foreign environment when they come to work for the first time. Immediate steps to initiate new workers such as an orientation and developing a clear schedule go a long way towards making them feel safe and welcome in a structured environment from the very beginning.

When a new trainee starts at Rubicon Bakery they are fully oriented – where to get an apron, how to wash your hands, how to cover your head, where the timesheets are, etc. Many of these tasks are for health and safety reasons but we also want the participant to gain confidence in a new environment and begin to work independently.

In certain situations it may be best to begin with a reduced number of work hours and increase those over time as the employee becomes more familiar with the work.

Start placement efforts at the beginning

For businesses that provide transitional employment, trainees ideally should meet with a vocational placement counselor at the beginning of their training and throughout their employment. Permanent employees should develop a similar personal development plan tailored to progression within the business or toward achievement of personal goals. These plans should be shared with employees' supervisors and made an important consideration in job assignments. Working on a job plan helps keep a trainee focused on his or her personal longer-term goals, gives the counselor time to understand the trainee's needs, strengths and weaknesses, and helps the trainee develop a resume.

“All employees start a career plan the minute they walk in the door. Follow-up is through monthly meetings where employees and the supervisor check-in and quarterly one-on-one meetings. When a goal is met, the supervisor, employee and job developer set the next one.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE

For employees who are not interested in continuing in the same industry, a career plan enables both trainers and supervisors to focus on developing transferable skills. For example, City Store employees in this situation have consciously focused on the development of inventory management and computer skills in addition to those of sales and customer service. Jointly developing a career plan also increases the likelihood that an

employee will develop internal commitment to the job and to acquiring skills, doing it because he or she “wants” to do it rather than to meet external rules or expectations. Such motivation contributes to an employee's sense of empowerment and likely retention of current and future jobs. Monitoring progress against a personal career plan will also make the “usefulness” of what has been learned more evident to the employee.

When training is separate from being employed in the business, it is imperative to place trainees into a job immediately upon their completion of training. This continuity allows trainees to stay in the roles and habits they developed in the training program and is a tremendous emotional boost.

Provide regular and structured feedback

Even more than in a comparable private business, employees in supportive employment enterprises benefit from frequent feedback on skill development. From day one, an employee should know how he or she will be evaluated. Standard and easy to understand evaluation forms for each job are useful tools that can be tailored to any business. Supervisors should go over the blank form before each employee begins work in a particular area and give the employee tangible examples of what an “unsatisfactory,” “good” and “excellent” mark means in each category. Forms with such ratings, as well as descriptive comments with specific examples from the individual's most recent evaluation period, are quite effective. An additional progress tracking form can be particularly useful when tied to the initial placement plan and put in the context of the employee's longer-term goals. Of course, all formal feedback should build on the informal feedback given by supervisors throughout the period and “in the moment.”

Feedback should specifically include relevant “soft” skills as well as skills specific to the job. For example, the City Store Sales Associate evaluation form includes categories for “initiative, responsibility, attitude and relationship with other employees” and specific ratings for “eager to learn new skills” and “manages conflict effectively,” etc. The Assistant Manager form includes an evaluation of “leadership,” characterized by “leads by example and attains employee buy-in” and “earns the respect of fellow employees.”

Create incentives for mastery of skills

A business is as successful as the people who work in it. A supported employment business builds its employees' work skills from the ground up. It is important that incentives be built in for their performance. Incentives can include raises, forms of recognition or opportunities for advanced training or promotion. Such "rewards" are paramount given many social purpose enterprise employees' issues around self-esteem or confidence, issues that often are preventing them from taking ownership or being assertive about taking on new responsibilities.

Many of the jobs created in social purpose enterprises start out as low-paying entry-level positions and gradually lead to increased responsibility. Some employees may need to work at this level for a significant period of time; for others this entry-level job can be a short-term stepping stone. A crucial element in employees' progression is instilling the notions of "lifetime learning" and "career path." Having at least one potential internal promotion or next step in a supportive environment can be very valuable in this process. Although such a promotion is easier in a transitional employment setting where there is more turnover and there are job openings, a permanent employment-oriented business can create different levels of job classifications – for instance a step from "Assistant Baker" to "Baker." A promotion can be a very proud moment for someone with poor or no work history.

Tying a small portion of compensation or other incentives to the business' or the division's success as well as to the individual's own skill progression also has various benefits. First, it helps the employee develop a sense of ownership and often, pride, in their job. Second, it is a way to recognize the importance of their contribution. Third, making the connection between employees' jobs and the company's success can provide a very effective lesson in how business works. For example, speeding up production for a crisis or selling two additional bicycle overhauls may seem much more meaningful when the monthly sales and bonus numbers are made public. And, fourth, if the proper business measure is chosen, the employee's incentives are aligned with those of the social purpose enterprise. If the business is part of a larger

nonprofit organization it may need to be creative in how it provides incentives, because they may not be accepted in the parent organization's culture. Yet more motivated employees tend to help the business bottom line and always improve the social bottom line.

Facilitate peer support

Often more meaningful than the assistance employees receive from staff will be the support they provide to each other. Peer support can be formalized through group meetings or informal if employees are working with others. As individuals are making significant, difficult changes in their life and dealing with multiple issues it is incredibly helpful to know the person working beside them has overcome similar challenges, and to be able to talk with someone who has "been there."

At Rubicon Bakery it is a real advantage of having trainees, new employees and more senior employees work side by side. Staff offers support and encouragement to each other while they are preparing tarts to go in the oven, washing dishes or decorating cakes. Our employees who have made it look out for the people who are trying to get it together, and since many people are from the same neighborhoods they are going to know who's really doing what better than a vocational counselor.

If the workplace is one in which people work in isolation, the organization should arrange ways for employees to get together, for workshops or socially, so they can form bonds and a sense of community. Asian Neighborhood Design, for example, has developed a job club where people come to support each other on their employment search and work together with vocational counselors.

Delivery of training

In addition to the general parameters and procedures surrounding training, most social purpose enterprises have given thought to how learning takes place. These "how to's" of delivering training have been developed by seeing what has and has not worked for their distinct populations, and, although the organizations in the REDF portfolio are often very different, their learnings have many commonalities.

Combine instruction with “learning by doing”

Regardless of whether it is primarily formal or informal, training will likely be a combination of instruction and actual experience. It is important initially to weight the training more toward instruction, either from a trainer or peers, while the trainee is developing confidence. However, once trainees have been able to integrate themselves into the business, it is equally important not to “coddle” them, rather to encourage their own problem-solving ability. Social purpose enterprises would be doing a disservice to their employees if they did not expect continual improvement and ultimately the same or higher level of skills, responsibility and leadership found in traditional businesses.

Strive for variety in training

Particularly given the diverse and often hard to reach employee pool, social purpose enterprises can benefit from introducing different styles of teaching and training. Because of their mission, they often have access to experienced industry professionals at low or no cost for short periods of time. For example, window display experts from the Gap coming into a retail store for a hands-on workshop may spark the creativity of one employee the way no one had before. Or, the compelling presentation of a proven sales champion from another industry may make it all “click” for another employee.

Ensure that trainers and supervisors have appropriate skills.

It can be useful to separate training and supervising functions. The supervisor can focus on the operations to ensure the business is running effectively while the trainer can focus on the employees developing their skills. Whether these functions are separated or not, both positions need similar levels of expertise. Staff need to be trained and experienced in their industry and stay current of local trends. To the greatest degree possible, they need the tools and equipment to teach skills that employees would be using if they were placed within a traditional business. At the same time, supervisors must have much more than average patience and ability to work compassionately with people. All staff must be able to understand and constantly balance the often competing demands of the business and employee development.

“Our managers need both the head and the heart; they don’t just need to be a great business person, but also the compassion to be a great vocational trainer.”

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Operating a social purpose enterprise is hard work; one of the hardest jobs is supervising employees and trainees. Employees often have many difficult issues in their lives and often have not had adequate resources or support to deal with them. Trainers and supervisors need to be special people who are exceptionally committed, but they also need to know the importance of setting limits. They need to make sure employees know that there will be consequences for not following the rules of their workplace. Organizations need to have clear disciplinary procedures with which employees are familiar. Employees need to understand how to contribute to a workplace, a skill they will need throughout their working careers. To help manage the difficulties of their jobs, trainers may also benefit from additional training on how to work most effectively with the target employees. Their training should include the support of a peer network striving toward similar social goals and facing similar challenges.

Selectively use peers to train

Employees are likely to benefit significantly from learning from peers. Not only are peers likely to explain from the employee’s perspective and likely to be less intimidating, they can also be wonderful role models and confidence builders. At the same time, giving an employee the opportunity to train someone builds his or her own confidence tremendously and provides new insight into the role of a supervisor. Naturally, peer training should be guided, supervised and coordinated with a complete training program. At the City Store, Assistant Managers who have been promoted from the entry-level position of Sales Associate play a major role in training new hires in day-to-day operations. Youth Industry takes this approach one step further, asking former Assistant Managers who have subsequently been successful in other jobs to return to Youth Industry as staff in management roles.

Content and curricula of workforce development initiatives

The content of effective training includes not only business and industry specific elements but also several characteristics germane to social purpose enterprises. Employees often lack two critical qualities - confidence in the workplace and “soft” skills that will help them have positive working relationships and tackle the hardships in their lives. Social purpose enterprises must explicitly address these needs through their choice of curricula, by including soft skills training in their development efforts and by using connections to the private sector to make sure all training is relevant.

Implement curriculum and stage skill development

A skills curriculum should be developed and tasks identified. The targeted skills should reflect both the needs of the business and key skills that will be transferable to other positions. Business-related skill objectives should be vetted, if not developed, by someone very experienced in the industry. Ventures may want to invest in actual curriculum development by a professional who understands different techniques of teaching and learning and can identify the most effective way to reach target employees. Regardless, it is usually helpful to have the workplace broken down into tasks and have employees begin with the most accessible. After mastery – a “success” – they gradually increase the difficulty of their work by taking on new challenges.

“We have created three production departments, each with ten or so primary skills to be mastered. A new employee usually starts in the easiest department. The goal is to master each department before rotating. We have to mesh this goal with some realities - it’s hard to balance the timing with a small staff - chances are everyone won’t be able to move at the same time. Also, sometimes we can’t move people into new positions at the best time for them if we have tight deadlines to meet customer orders - they may have to wait until it slows down and we can spend time with them so that they learn the new department.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

General skills useful for future employment but not directly relevant to the current position can first be creatively integrated into operations in a minimal way and then developed in “down time.” For example, although City Store employees technically need to learn only the PC-based register software, they also grow familiar with spreadsheets in the process of tracking daily and monthly sales against their goals, and are encouraged to develop their skill in word processing by creating and updating signage throughout the store.

The culture of the workplace also needs to stress learning; the curriculum should be posted, made available and directly tied into performance evaluations and incentives. Supervisors and trainers encourage learning when they create an environment in which questions are encouraged, mistakes are permitted and no one is made to “feel stupid,” particularly in light of the self-confidence issues common among the employees of social purpose enterprises. Given the variety in individuals’ abilities and barriers in supportive environment enterprises, training will likely be self-paced, so having a documented and consistent process and progression of skills is especially helpful.

Integrate life and “soft” skills with job specific training

Although this chapter has emphasized the industry skill development of employees, the most critical element of their ability to keep a job typically lies with their life and “soft” skills. The former may include skills such as handling stress, grooming, being able to manage time and money, punctuality, flexibility, etc. The latter covers skills such as taking direction, working with others, positive attitude, etc. The skills curriculum should integrate all elements that the employees need to improve. In addition to working on both job-specific and soft skills at work, employees should have access to life skills classes or coaching, whether in-house or through another agency.

“We surveyed employers and our current customers and asked what do you want from our employees, how can they improve? The overwhelming answer was “a change in attitude.” So we decided to focus learning

on the soft skills, training that people can't get in a typical work setting."

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE, CVE

It is equally important that employees have a staff person with whom they can work specifically on their life and certain "soft" skills. This can be a trainer, counselor, or staff from an employee assistance plan or outside referral agency. Preferably their work supervisor does not play this role because it can cloud the line between employees' job performance and their life issues and is not realistic to expect in a typical work setting. The employee assistance plans used by many traditional businesses may not be appropriate to social purpose enterprise employees because of the severity of their issues and the fact that employees are unlikely to feel comfortable obtaining assistance by calling an 800 number.

Create linkages to the private sector
Close relationships to the private sector are essential in order to run a quality program and successful business. Workforce development benefits of these linkages include: keeping current with industry standards, enabling employees to learn more about the industry and developing future employment opportunities. The imperatives of running a competitive business and producing competitive workers both mandate that employees work in the current industry conditions. Employees' knowledge of how to do quality work, proper use of equipment, and safety will help them get a job and ease their acclimation to their new workplace once employed. Employees can learn more about their industry through site visits to other businesses and through inviting private sector employers to discuss the field. Site visits by the private sector will also help minimize the isolation social purpose enterprises can feel. Some organizations create these links by forming technical advisory committees of outside experts.

Social purpose enterprises face challenges in becoming fully integrated into their industry peer groups both because their nonprofit status makes them suspect and because their leadership tends to identify

with the nonprofit community. However, working to make sure the venture is recognized as a business, rather than identified only as a nonprofit, will increase the perceived value of the training employees receive and assist them in finding permanent employment. Ideally, ventures will create linkages to employers that are large enough to hire all of the business' graduates and offer quality jobs and opportunity for advancement. Yet this is often not a realistic expectation. In lieu of having a single large link, cultivating as many professional relationships as it is feasible to maintain (the social purpose enterprise, not the private sector counterpart, will need to do maintenance) provides the most opportunities.

"We have developed a close relationship with a very high volume screen printer. They are eager to hire as many qualified and experienced candidates as we can provide. Thus far we have been conservative about sending anyone over because we want the first person we send over to be a success - we are excited that we are grooming our first candidate right now!"

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

Once employees are placed, they need follow-up and retention support as they adjust to a new work environment. The program design, support and expertise that have helped an employee succeed in a social purpose enterprise are unlikely to exist in a traditional business. Unfortunately, retention support presents many challenges. Although improving, retention support is currently one of the hardest program activities to fund – although it is something funders place emphasis on when they evaluate programs. REDF, in partnership with portfolio organizations, has begun to address this difficulty by launching an impressive data tracking and management system to assist its groups with the challenge of assessing long-term impact and social return on investment. However in the bulk of organizations, retention support remains a pressing need. Sometimes staff will do this work in addition to their regular duties, but it is very hard to do.

Conclusion

In this chapter we have discussed a variety of intervention strategies, peppered with examples from our own experiences. However, we do not think we have all the answers. Starting up a successful small business is difficult, but reaching social impact goals is often harder. Hoping to succeed in both areas can at times seem like an impossible juggling act. And many of the activities we recommend take time and resources. However, we believe that the opportunity that

social purpose enterprises present to combine the benefits of a realistic work setting with a supportive training environment can have a greater impact than traditional approaches. The goal of our work is to make the tools and experience of work and life accessible so that individuals can reach their highest potential. Providing the combination of challenge and support that a social purpose enterprise offers can be the ideal formula to help employees to move forward and create their own successes.

Footnote

- 1 The organization should first research what personal information they are allowed to obtain under current state and federal laws.

Managing Key Relationships with the Rest of the World: Lessons Learned (The Hard Way) by Social Purpose Enterprises

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Farber Fellow 1997 – 1998

Introduction

Traditionally, nonprofit social service agencies have been oriented toward the funder as the main external stakeholder. Funders monitor the quality of their investment¹ by the social impact achieved but do not typically receive the services themselves. By launching a social purpose enterprise, a nonprofit immediately takes on a new set of relationships outside of its own organization – relationships not anchored by a social mission but by the imperatives of running a successful business. For example, social purpose enterprises work with customers they must convince to buy their products or services, suppliers who provide essential raw materials, competitors and peers in the industry and outside sources of valuable expertise.

At the same time, even external relationships based on a shared social mission take on a new character in the context of a social purpose enterprise. Funders, volunteers, even partners driven by a shared social mission often must be approached in a different way within a social purpose enterprise. In this chapter, we share our learnings about how to create the most value from each of these types of relationships. To illustrate our points, we have used examples from our own experiences, Kristin at The City Store and Carrie at Rubicon Programs, and examples we gathered from our colleagues at other groups in the Roberts Enterprise Development Fund (REDF) portfolio.

We outline principles that practitioners in the field have learned about how to most effectively manage the above relationships with the outside world. Bear in mind that the parties described here are not social purpose enterprises' only stakeholders and that traditional nonprofit stakeholders, such as clients,

community, and investors in purely social service organizations, are central and critical to a nonprofit's operation. However, they will not be addressed in this chapter to allow us to focus on social purpose enterprises' interactions with actors that are both outside their organizations and integral to their businesses.

We will be using the following terms throughout our discussion:

- ◆ Customers: Those who purchase the product or service that the social purpose enterprise sells
- ◆ Clients: Recipients of a social purpose enterprise's social mission benefit, including employees from the target population
- ◆ Suppliers: Vendors who supply the raw and finished materials used in the business
- ◆ Competitors: Businesses offering similar products or services in the marketplace
- ◆ Consultants: Third-party advisors focused on specific projects or topics
- ◆ Funders: Investors who provide money to the organization without the expectation of receiving the business' products or services in exchange
- ◆ Volunteers: Individuals who contribute their time to helping the social purpose enterprise without the expectation of compensation
- ◆ Third-party partners: Organizations with whom the social purpose enterprise has a collaborative professional relationship

Business Relationships

Social purpose enterprises interact with the same stakeholders as traditional businesses; this discussion assumes an understanding of commonly accepted business principles. We will focus on strategies for responding to

the specific challenges that social purpose enterprises are likely to face because of their social mission and their roots in more traditional nonprofit organizations.

Customers

A business only succeeds when customers perceive that it consistently provides them superior value.

One of the greatest challenges facing a social purpose enterprise is becoming a customer-driven as well as mission-driven organization. Internalizing the reality that business decisions must be guided first and foremost by customer behavior can be very difficult in organizations founded for the purpose of helping clients meet goals such as employment or self-sufficiency. The social mission is typically the personal priority for the social purpose enterprise’s founders and for many of its staff. Client employees who are used to receiving social service assistance focused on meeting their own needs also often need a strong push to internalize a focus on the customer.

Despite these obstacles, however, social purpose enterprises can apply three proven for-profit techniques:

- ◆ create a compelling value proposition
- ◆ use customer-focused sales strategies
- ◆ deliver on the value proposition

Social purpose enterprises can also employ one technique that is uniquely their own:

- ◆ communicate their mission

Create a compelling customer value proposition

Social purpose enterprises are often attracted to a potential business because of the employment possibilities that it presents for their target population. However, feasibility studies and business plans must first determine “Can we realistically offer a product or service that customers will purchase in sufficient amounts to cover our costs of running the business?” Answering this question means objectively assessing the basis on which potential customers make their purchase decision.

A company’s social mission is usually way down the list of priorities when a customer buys a product or service. This is one of the hardest, yet one of the most important,

realities for social purpose enterprises to accept.

At the City Store we see our mission influence the consumer’s decision to buy a product only if they first find it attractive, reasonably priced and convenient to purchase. If we’re not competitive on any one of those three factors the mission doesn’t help at all.

“Business customers very rarely buy because it’s ‘the right thing to do’ They buy if what you offer improves their company’s bottom line.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE
COMMUNITY VOCATIONAL ENTERPRISES, INC. (CVE)

Again and again, research has found that social mission is only a competitive advantage on the margin, when customers already find high value in the product or service they want to purchase. At each stage of growth, social purpose enterprises should listen to the results of objective market research and resist the temptation to assume that customers will value their mission as much as they do.

At Rubicon Bakery, we ask potential customers who have not purchased from us, as well as those who have purchased, what they like about our products, what they don’t and what they would like. In the course of the conversation we often do inform customers about our social mission as we describe our company. For some this has a positive impact, for some it has a negative impact, for the vast majority it has no impact.

On occasion, meeting customer needs may conflict with the business’ social mission. For example, being responsive or flexible may require extending store hours, promising next day delivery or replacing a trainee with a more experienced employee. Getting a clear understanding of the business’ operational requirements as you plan your business gives you the opportunity to anticipate potential conflicts with meeting customer priorities. Before proceeding you should either find a solution to this conflict, potentially by meeting other important customer needs, or adjust your strategy to create a business that will be a better fit.

Use customer-focused sales strategies

This same objective assessment of customer priorities must inform the sales strategies of a social purpose enterprise. Good salespeople tailor their pitches to what motivates the potential customer, not what motivates them or their management. For many customers, the rationale of “repair your bicycle here because you’ll help homeless youth” would be no more compelling than “buy this television because I will make a \$50 commission.” In contrast, “your bicycle will be fixed in three days or fewer at a competitive price with a year’s guarantee on both parts and labor” responds to customers’ desire for a quick, fairly priced and risk-free way to get their bikes working again.

Because of their cultural heritage, social purpose enterprises may have to concentrate particularly hard on creating a workforce that is also a “salesforce” that always keeps the final customer’s perspective in mind. Communicate to all management and staff, as well as to all client employees, that they are responsible for sales. In return, let them know how the business is performing, how they have contributed to its success and what more they could do to increase revenues – then tie it all back to how it impacts the mission.

Social purpose enterprises should evaluate the cost-benefit of bringing in professional salespeople for key positions. Not only do salespeople have a specialized skill, but they are also much more likely to sell the product or service rather than the social mission of the organization. Of course, a salesperson must still fit with the culture of the organization and genuinely believe in its mission.

At Rubicon Bakery the work culture conveys a tremendous amount of genuine enthusiasm for the business’ social outcomes. However, what we need to convey to our customers is an unparalleled excitement for our cakes; our salesperson knows that is our external message.

Deliver on your value proposition

Once they’ve made the sale, social purpose enterprises often face even greater pressure to deliver than do their competitors. Because of

negative assumptions about nonprofits, customers are often quick to let one mistake confirm their negative expectations. Unlike their for-profit competitors, social purpose enterprises may not get another chance to prove themselves. Being aware of the importance of a good first impression and only promising what you know you can deliver – no matter how tempting it is to say yes to a potential customer – is essential. To reduce this risk it is also important to be conservative and invest in the additional resources that may be necessary to do the first job well.

Potential customers are also likely to assume they will be paying a premium if they buy from a nonprofit. Social purpose enterprises are well advised to carefully watch and match competitors’ pricing as much as possible while still meeting the business’ financial needs unless they have evidence that customers place a premium on some aspect of their product or service.

Communicate your mission

Yes, there still is value in communicating your mission to your customers. First, as described above, a social mission does prompt some customers to purchase a product, all other conditions being met. Second, once you have demonstrated the worth of your product, your social mission provides one more reason for your customers to be loyal to you. Finally, communicating the social outcomes of your social purpose enterprise may perform a valuable educational function. For example, having a satisfied customer learn that their work was performed by an individual in recovery from mental illness may start to break down some of the stigmas attached to that condition.

The strategy you design for communicating the social component of your business should be based on your customer research. Here are a few examples of what social purpose enterprises have learned.

“We identified potential customers whom we felt would be intrigued by the social component of our business – companies with a reputation for supporting the community, student organizations, other nonprofits, etc. – and pointed to our employees as a positive point of differentiation above and beyond

our high quality and competitive pricing.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

At the City Store we had customers who started looking around the store for more things to buy when they find why we exist, so now we are trying to communicate its message more effectively. We’ve learned the hard way that retail consumers don’t tend to read small signs, so we’re working on more attention-getting signage as well as having our employees tell the story.

“Sometimes we will wait until we’ve been cleaning a building very successfully for six months before we really highlight our mission to the customer. At that point, the fact that our employees are recovering from mental illness is more likely to be seen as a plus. Any earlier, the same information might be seen as a potential weakness.”

John Brauer

EXECUTIVE DIRECTOR, CVE

Suppliers

Traditional nonprofits are often not as dependent as businesses on suppliers to ensure the smooth running of their operations and to be kept up to date on changes within their industry. Social purpose enterprises have to adopt business practices to ensure they receive materials in a timely manner so that they can meet customer demand. This includes presenting themselves to vendors as high value potential customers rather than charities, carefully choosing their key suppliers and managing those relationships attentively.

To obtain the best service and terms from commercial suppliers, a social purpose enterprise should present itself as a business, a professional operation that has the potential to grow and become a valuable customer of the supplier. This means developing an industry standard credit application, monitoring accounts payables and communicating with the supplier if payment issues arise. Social purpose enterprises should also be aware of the value that supplier sales representatives can provide at no cost. Sales reps have a vested interest in selling you a product which will help your business succeed, a repeat versus a one-time sale, so take advantage of their

expertise and ask for their opinions when making your selections.

“We learned an incredible amount from a laundry equipment manufacturer’s representative. He even evaluated potential sites for us – all at no cost. He invested his time in the hope that our potential business would become an important customer”

Michele Tatos

DIRECTOR OF BUSINESS AND DEVELOPMENT, CVE

At the City Store we have gotten lots of good advice – and have avoided several expensive mistakes – since we started to trust our sales reps and to take advantage of their accumulated knowledge.

Social purpose enterprises must identify their most critical suppliers and pay close attention to managing them. Not only comparing prices, but also researching potential suppliers and checking reputations with other customers is a first step that can save on product costs and even more expensive quality and timeliness issues. Because of the time-sensitive nature of business, social purpose enterprises will likely also need to establish back-up suppliers, as well to keep up on product trends and consider new suppliers as they enter the market.

Once key supplier relationships have been set-up, they must receive priority among accounts payable. This often presents a special challenge for social purpose enterprises because their accounting systems are frequently integrated into a parent organization’s system, systems designed for different priorities and response times. However, slipping on payables can cripple your ability to offer your product or meet your customers’ deadlines, in addition to triggering expensive finance charges. In contrast, good credit is more likely to make you eligible for discounts and emergency “favors” and can facilitate your overall cash flow.

“We have developed a reputation for two things with our suppliers: being a little late in our payments, and being honest about our payments – when we say the check’s in the mail, it really is. Because of this honesty and pro-active communication, vendors have helped us out in a pinch by letting us go beyond our credit limit based on our word

that payment would come on a certain date.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

Competitors

While nonprofit organizations often engage in their own form of competition, businesses compete openly and aggressively for customers and for profits. Successful social purpose enterprises embrace this reality and simultaneously watch their competitors closely and attempt to create mutually beneficial relationships with them. As new entrants to the industry, social purpose enterprises can learn much by simply observing their competitors. On the flip side, missing the latest trend or not matching competitors’ offerings can be life-threatening. A competitive analysis must be part of all business plans and updated regularly.

Social purpose enterprises can also gain valuable insights by creating connections with others in their industry. Industry or chamber of commerce associations, trade shows and networking events all provide opportunities to keep up on what’s happening in the industry and to get to know industry colleagues. As you establish credibility, it will be useful to present yourself as a player in the industry, rather than focusing primarily on your novel nonprofit status. While all businesses consider some information proprietary, most businesses are slightly different and many for-profit managers will be willing to share some ideas and references with others in the industry.

Competitors are more likely to share information with you if they perceive you have something to offer them than simply because they feel they should do a good deed – after all, you are a competitor. Creating permanent placement opportunities for social purpose enterprise employees at competitors can be one very powerful win-win collaboration. Sitting down with these colleagues to understand their expectations for a new hire can provide tremendous insights for your workforce development program and help ensure true job readiness.

“Ashbury Images routinely places its employees with other screen printers based on both personal contacts and the company’s reputation. AI has also developed a

particularly strong working relationship with a “semi-competitor”; a screen printing company that focuses on much higher-volume orders, who is eager to hire our trained graduates.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

An additional benefit of creating a friendly working relationship with competitors is the opportunity to head off any concern about your nonprofit status. As increasing numbers of nonprofit organizations engage in various forms of commercial activity and as more for-profit corporations move to take market share away from traditionally nonprofit organizations, individuals are talking about the question of competition between for-profit and nonprofit corporations. A full discussion of this question may be found in “The Competitive (Dis)Advantage of Nonprofit Enterprise,” a chapter in *New Social Entrepreneurs*.² However, for our purposes, a few points should be kept in mind by the nonprofit manager:

- ◆ Be sure to have meaningful and honest responses ready to competitors’ questions about your social mission and tax status
- ◆ Be familiar with IRS policies on unrelated business income tax and state clearly that your organization pays all taxes and other appropriate fees
- ◆ Be prepared to explain that you run your business very similarly to everyone else in the industry, you pay the same costs for supplies and you charge prices based on industry standards
- ◆ Remind them that when they cash out on their business venture, they will personally benefit from the financial return on their investment of time and money, while you will walk away from your social purpose enterprise with no personal equity or benefit
- ◆ Make the point that because of your social mission you incur much higher labor costs than the industry average due to the more in-depth initial training and support of your employees – employees who would likely not be available to the indus-

try if your organization had not made this investment

- ◆ You may also want to point out that while some people assume a marketing advantage comes from your social mission, in point of fact initial customer assumptions of lower quality must be overcome because of your nonprofit status
- ◆ If the questioner still feels there is such a great advantage to being a nonprofit business employing disadvantaged individuals, you can suggest he/she convert all their assets to a nonprofit and you will be happy to advise them on the process of establishing a nonprofit, social purpose enterprise

Consultants

Outside consultants can offer excellent value to savvy social purpose enterprises that prepare carefully and judiciously buy their services. Social purpose enterprises are more likely to pay for expert advice than the average nonprofit – and the experts they call are typically used to working for for-profit businesses. Because nonprofit agencies often fill the role of advisors with their Board of Directors, social purpose enterprises also have the additional job of defining the organizational role of consultants who may be perceived as “outsiders.” Social purpose enterprises must learn when to call an outside consultant, how to work most effectively with them and how to get services at the best price.

It is critical to remember that using an outside consultant represents an excellent strategy for building the internal capacity of the social purpose enterprise. However, keep in mind that one cannot outsource capacity building! If you contract with a consultant, make sure you engage them in “knowledge transfer” to improve your own organization’s skills and ability to manage your venture. Do not work with any consultant who is only interested in taking on your project, writing up a report, submitting their report and then departing. Use this as an opportunity to engage individuals with particular expertise in assisting you or your staff in learning more about how to manage your venture.

Organizations within the REDF portfolio have used for-profit consultants at a variety of

points in their business’ lifecycles and for a range of topics. The following examples illustrate points at which consultants have been helpful.

Focused attention

CVE brought in Keystone Community Ventures to help them decide whether to enter the commercial laundry business. CVE’s goal was to understand the economics and operations of the business well enough to decide whether it was a good fit with their organization. Keystone answered a series of increasingly in-depth questions about the business, which assisted CVE with its thorough decision-making process. According to CVE, the primary benefits of Keystone’s involvement were the quality of product that resulted from having individuals dedicated full-time to the project and the consultants’ experience at analyzing potential businesses.

Industry expertise

The City Store had already been in business for two years when it hired two outside consultants with in-depth industry experience. One, an established retail consultant, provided one-day’s worth of advice on store layout, design, product placement, etc. The second consultant was a successful local retail business owner who did product buying, hands-on display and merchandising on contract over a two-month period. The City Store approached these consultants because it identified major areas for improvement and did not have access to retail expertise in-house. They gave management the confidence, as well as the insights, to successfully make major changes to the business.

However, simply bringing in an outside private sector “expert” in no way guarantees the results you want. Carefully defining the goals of the project, selecting the right consultant, negotiating a specific work plan and timeline for deliverables and managing the project attentively all help ensure the consultant’s work will be effective. The social purpose enterprise must first define and then communicate the outcome that is needed (a decision, the specifications of a new system, gaining industry knowledge, etc.) and give them a budget for the project. Then, both the potential consultants and the organization must understand their respective roles and the resources, and agree and sign-off on the

terms of the engagement in writing.

At least three factors should be considered when selecting a consultant.

1. The consultant must truly grasp what the social purpose enterprise needs them to deliver.
2. The consultant must understand and accept any budget constraints of the social purpose enterprise.
3. Finally, because the organizational cultures of social purpose enterprises are often different from those of their for-profit counterparts, it is important to consider the fit between the personalities of the consultant team and the internal team members.

To manage a consultant engagement constructively, at a minimum you need an internal point person who is responsible for coordinating the consultants, accessing internal information, ensuring internal buy-in as the project advances and for implementing the recommendations. To get maximum value from the consultant, that person should understand enough about the topic to give the consultant clear direction and ensure their output meets the organization's needs. That basic internal understanding of the topic gives the organization the basis for making an informed decision that takes into account the consultant's recommendations. Social purpose enterprises should treat the "experts" with as much skepticism as faith and should take into consideration the specific features of their business model or culture before blindly following their advice.

"We once made the mistake of using consultants in an area where we did not have the internal expertise to guide them effectively. We found out that it is very difficult to get the outcome you need and to make a wise decision for the company in that situation."

Maurice Lim Miller
EXECUTIVE DIRECTOR, ASIAN NEIGHBORHOOD
DESIGN (AND)

At Rubicon we work with a variety of consultants on all different aspects of our business and typically find it a successful strate-

gy. Examples include: having the principals of a homecare business fill key staff roles as we implemented our homecare business; pastry chefs helping with product development in our bakery; and an accounting firm that has worked with us for six months to develop a financial system that can do financial and nonprofit accounting. Besides being professionally qualified to do the work, our consultants understand that they are taking on a teaching role and helping us improve our skills capacity.

It should also be remembered that there are a host of different types of consultants, with various skills, experience and focus. Some consultants are more generalists and others have very specific expertise in a given industry. Furthermore, recent years have seen an inflow of "new" consultants into the field. Some individuals who used to engage in organizational development consulting or general nonprofit management are now marketing themselves as "social entrepreneur" or social purpose business development consultants – buyer beware! Check references carefully, make sure candidates have a demonstrated track record of success and include "exit points" in your contract in case you realize after the first month that you are not getting what you wanted and need to terminate the relationship.

With these thoughts in mind, although expensive at first glance, consultants may accomplish a task more cheaply and quickly than if a person without the specific mix of skills and experience were hired to do it in-house. At the same time, the high price of a consultant's time may prompt management to define the project's goals and scope more carefully up-front and to actually implement the results. While some consultants will work as volunteers, it is usually best to pay for services. This ensures your project is given priority and quality service. In addition, seeking free services limits your choices since the best consultants often have limited time to give. However, social purpose enterprises may still be able to get a discount rate or superior service, reflecting a consultant's interest in the social mission. Working with a nonprofit is often also a good business opportunity for industry consultants because it exposes them to a new sector and allows them to network with a new field of potential customers.³

Social Mission Relationships

Certain external stakeholders distinct from those typically involved with a business will be drawn to the social purpose business venture because of its mission. In this newly emerging field, the roles and expectations of the different players are still evolving. The following discussion focuses on managing relationships with funders, volunteers and third-party partners given the special characteristics that set social purpose enterprises apart from other nonprofits.

Funders

Obtaining funding for any new business venture is hard; the hybrid nature of social purpose enterprises and the new territory they represent makes securing financing, whether from traditional nonprofit funders or private sector investors, even more difficult. Understanding the specific challenges social purpose enterprises face in seeking funding from different sources is a first step toward applying two recommended funding strategies: identifying funders with which your venture has a strong “fit” and creating open and honest relationships with your funders.

The primary funding sources for most nonprofits are rarely set up to provide the kind of funding social purpose enterprises need. Both foundations and governments usually distribute their money as grants tied to providing social services. Unfortunately, the social impact of an investment in a social purpose enterprise may not occur until after the grant is spent, as the business develops, grows and hires and trains more people. This longer timeframe does not fit within a typical program period. Nor, generally speaking, will foundations or governments commit to the multiple-year funding that businesses need to make it through the cash-strapped start-up phase before they start to turn a profit. Foundations often look more favorably at “new and innovative” programs than at ongoing, albeit successful, programs. Although social purpose enterprises are currently very popular as a concept, some foundations are hesitant to take a financial risk and so obtaining funding past the business development or initial implementation stages can be difficult. Nor are community development resources

always oriented toward the capital requirements of building a business to scale. Government money is sometimes available but is often not responsive enough to business opportunities that arise because of longer lead times and it is more political to obtain. The potential paperwork in most government funding – which a business is usually not set up to do – makes it essential to do a cost-benefit analysis before going after these funds.

The expectations of investors in for-profit start-up businesses, such as private investors and community loan funds, typically do not fit with social purpose enterprises. First and foremost, private investors want a financial return on their investment. However, the law prohibits nonprofits from giving an equity stake or otherwise distributing profits for any reason other than furthering their mission. The private and community loan funds that are available to nonprofits for community development may offer discounted interest rates but are often initially set up for housing development and so may require negotiation and adjustments on both sides. Standard business loans will be available, typically at market interest rates. However, they will have collateral requirements that may be hard for nonprofits to meet because most organizations typically have few assets or significant cash holdings.

“Venture philanthropy” is a growing field and often an excellent fit with funding a social purpose enterprise. However, because this term is interpreted in many ways, you should first understand the expectations and mode of operations of the specific funder. An excellent resource for understanding venture philanthropy is “Implementing Venture Philanthropy: The Roberts Enterprise Development Fund,” a business case published by Stanford University’s Graduate School of Business.

Social purpose enterprises should concentrate their efforts on funders who want to work with this kind of organization, and with whom the relationship can effectively meet the goals of both parties. This means first defining what you’re offering in terms of target social outcomes, the timing of expected results and funding requirements. Basic questions to be addressed include:

- ◆ How many years will you need funding before breaking even as a business?

- ◆ How much money do you anticipate needing over this period? (It's always more than you think!)
- ◆ How many people do you expect to employ over time?
- ◆ How much can you accept in the form of loans vs. grants?

While defining your own needs, you must also become familiar with the needs of the funder and evaluate the costs and benefits of what they offer your organization:

- ◆ Do they view social purpose enterprises as a viable concept and are they familiar with the ups and downs of business development?
- ◆ Can they participate in a multi-year relationship?
- ◆ Do they have access to the necessary capital or help leverage their investment with other funders?
- ◆ Do they have access to other resources beyond capital that are necessary for the social purpose enterprise's success?
- ◆ Are they mandated to serve a certain population with certain services?
- ◆ What are their reporting requirements?

"With a government funder I tend to talk a lot about the return on their investment. For example, I emphasize that because of the leverage and funding our business generates we can create twenty-five jobs with the same amount of money they would normally spend to get five of the same people off entitlement programs."

John Brauer
EXECUTIVE DIRECTOR, CVE

Having a clear vision of your business model and social mission will also make it much easier to say "No" to tempting funds whose social outcome requirements may require you to make decisions that are not ultimately in the best interests of the business.

The most effective relationship between a social purpose enterprise and a "good fit" funder is very different from the typical nonprofit to grantmaker relationship. Rather than presenting a "dog & pony show" in which the nonprofit portrays itself as "perfectly ready and ideally suited to execute a program" once it receives the desired funds, a good social purpose enterprise seeks to present itself to funders as accurately as possible.

"You need to be able to take a long-term view of the relationship and create a sense of trust built on honest communication, cooperation and involvement. While being upfront with your investors you also have to understand this is a professional relationship and commit yourselves to fulfilling their needs as you hope they are fulfilling yours."

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

"We talk about our warts – what didn't work and why – as well as about our triumphs. If you can talk openly about your deficiencies, a funder committed to your social outcomes will help you overcome those deficiencies, whether directly or by helping you find other resources."

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE

Again, unlike many grant recipients, a social purpose enterprise will be held accountable to its budgets and outcome projections. Putting together a tight, realistic business plan that details your financial needs and has believable pro-forma financial statements for at least five years makes this process easier.

"It's hard, but you have to resist the non profit temptation to say 'sure we'll be able to do that' when you know that it's only wishful thinking."

Dianne Flannery
EXECUTIVE DIRECTOR, JUMA VENTURES

At the City Store we have numbers we could honestly stand by which makes it much easier to ask for what you believe the business needs to succeed – even if it's a lot of money.

Volunteers

Another very visible external stakeholder in many traditional nonprofits is the volunteer, an asset usually not available to for-profit ventures. Savvy social purpose enterprises understand the opportunity costs of working with volunteers and focus on creating relationships that are “high value-added.”

The classic role of using volunteers for labor intensive tasks rarely fits in the schema of a social purpose enterprise, where that work is reserved for trainees or employees. Indeed, fair competition considerations mean volunteers can not be directly involved in providing the product or service being sold. However, social purpose enterprises benefit from individuals who act as advisors to the business without compensation, just as for-profit companies take on volunteer interns and receive business advice without charge through their professional networks.

Because of its mission, a social purpose enterprise is likely to receive many offers of free business assistance. However, this assistance is never truly “free.” All business assistance, whether “free” or for fee, requires at least a minimum of management time and may require additional scarce resources such as a computer, office space, access to other employee time, etc. A wise social purpose enterprise carefully evaluates the trade-offs between the likely results of the volunteer’s project and the management time that will be diverted from other aspects of the business to make it happen.

“We used a huge number of volunteer hours to do a build-out for a new shop. They were awesome and skilled volunteers, but I would never do it again. The coordination required was tremendous and took me away from my more important job – running the business.”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

A good rule of thumb is that taking on a volunteer is the same management commitment as hiring another employee. If that person would play a role you would ordinarily fill if you could afford it, it’s likely to be a good use of your time to make the commitment. On the contrary, finding a task simply because you have an eager volunteer is rarely a good idea.

“We turned down several very qualified interns who wanted to help with our businesses because we did not have the time to dedicate to making it worthwhile for them or to make sure the project would be useful for us.”

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE

Asking eager volunteers to be good friends to the social purpose enterprise by promoting the company’s product or service to their acquaintances can be a graceful way to maintain their enthusiasm and accept their offer of assistance to help grow the business.

At Rubicon Bakery when people ask how they can help grow our bakery we tell them to buy our cakes, tell their friends to buy our cakes and thank the grocery store for stocking our cakes. At first they laugh, then they get it and hopefully they go out and make a purchase.

A social purpose enterprise does have the advantage of being able to attract high-powered business advisors who will volunteer their time because of their belief in the social mission. Your business advisors, like a Board, should represent the different facets of your venture, including legal, accounting, strategy and industry experience.

Recruiting business advisors from the private sector is different than reaching the contacts responsible for corporate donations; you must understand and work within the culture of the business world, not the giving world. The business advisor group for the REDF portfolio, Partners-for-Profit, began when one key business leader committed to the idea and assisted in recruiting the other members. In addition to offering their individual expertise, business advisors can be an invaluable way to access the high-level business networks to which nonprofits do not easily get access.

In developing businesses at Rubicon we find it effective to create a network of advisors and use them as resources in gaining key customer accounts, industry information or bouncing ideas around. You don’t necessarily need to meet as a group. We have a Rolodex and when we need something we make a phone call. Our supporters often

have a lifetime of experience and skills, but limited time.

Remember that business advisors are a professional resource and must be treated as such. They will likely need an introduction to the concept and characteristics of a social purpose enterprise as well as a general overview of your business. Your relationship will be most effective if you then ask them to assist on targeted projects, give them background information and follow-up with them on the results. Keeping business advisors in the loop as the project advances, rather than assuming their help will be a one-time shot, gives them more ownership in securing the ultimate goal and makes it much easier to bring them back in at later stages should that be necessary. Since many advisors are attracted to the social venture because of its mission, it is also important to keep them informed about the social impact of your work.

Third-Party Partners

An integral part of the private sector, strategic partnerships can also be very valuable for social purpose enterprises. Partnerships both with for-profit companies, particularly when they support your social mission, and with other nonprofit organizations should be guided by identifying what is important to each partner and then carefully structuring the relationship to obtain those results.

Identifying the potential value that the right partner could bring to your social purpose enterprise – actually recognizing you do not have to do everything yourself – is the first step in creating a partnership. A logical next step is to identify what you could offer a partner, beginning with what you already do well.

“As soon as we began talking to a potential private sector partner, a national janitorial business, we asked what they were looking for. It turned out that expanding community partnerships was a corporate-wide goal for them. To our surprise as we kept talking, it also emerged that CVE’s strength in “soft skills” training complemented their technical skill development expertise, so we had even more to work with.”

John Brauer
EXECUTIVE DIRECTOR, CVE

“We develop win-wins by stating with our own core competencies and looking for complementary ones. For example, we landscape large properties and provide jobs to the economically disadvantaged. It was a natural fit to partner with a local housing authority. They pay us to maintain their grounds, we hire their residents and they provide our employees with housing.”

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

Also keep a close watch on your partner’s unspoken priorities, such as public recognition for their contribution to your social outcomes. Responding to these cues can build real commitment from the partner at a very low cost.

The power realized from a partnership often depends on how carefully it is constructed. Particularly when beginning a relationship with such a different entity as a large for-profit corporation, a social purpose enterprise should research its partner, learn some of the specific industry lingo and try to anticipate any cultural differences. This can enable you to hone in on which areas of the partnership may be most helpful – and which are unlikely to be useful. Talking about process, mechanics, roles and parameters of the relationship from the beginning can ensure everyone has what they need to do their job and can head off later misunderstandings, misinterpretations and errors.

“Make sure you have the same expectations of who is doing what – and how they are doing it. In one instance with Rubicon Buildings and Grounds, one of our partners was already handling intake and had begun forwarding inappropriate job training candidates to us before we realized that we had never really discussed the profile of viable candidates.”

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

Even if both partners are already working on the same social goals with a common understanding of how to do it, agreeing upon a specific action plan can also go a long way to ensure that a partnership moves from paper to reality.

Finally, identifying a partnership “champion” with your partner organization can dramatically improve its chances for success, par-

ticularly if the partner organization is many times larger than the social purpose enterprise.

At the City Store, our liaison with the City and County of San Francisco has been

incredibly valuable to us. She has a very strong commitment to our success, sees the benefits we provide to the City and has an incredible Rolodex that she never hesitates to use.

Fitting into the Business World

To be a nonprofit social entrepreneur requires you to blaze new trails, and the trails that most need to be blazed for your business to succeed are in the traditional business sector. It is critical your business be attuned to your industry and responsive to its changes and opportunities. As you become more involved in your industry and business community, your own contributions to it will also demystify your nonprofit status. Becoming more involved in your industry will help you keep your training program current and assist in placing people from your business in the private sector.

Participating in trade associations, subscribing to industry magazines and going to industry trade shows are excellent ways to know more about the field. It is very easy to connect with these types of larger organizations. While their activities are often more oriented toward larger companies, they will give you a good sense of industry trends, governmental issues, industry-wide suppliers, technical assistance available, best practices and how your business can grow. Costs of these activities can vary from no charge to

thousands of dollars, so talk to peers in your field for membership and subscription recommendations.

Rubicon HomeCare participates in the homecare provider community because it helps the industry and our business. For example, we list our services in a directory we help to publish and hand deliver to local hospitals. This is a way that we market our business and build our professional network.

Locally there are typically a variety of business networks to participate in including Chambers of Commerce, small business associations and informal business networking groups. Larger groups allow you to interact with potential customers. Although harder to find, the more informal groups are a way to meet peers and will allow you to develop better networks and be more candid about the local business environment. When participating in these groups remember that you are there as a member, not as a charity, and that you are viewed as a business, not a nonprofit.

Conclusion

In this chapter we have given an overview of some of the key external actors with whom managers of social purpose enterprises need to develop effective relationships and we have drawn lessons on managing these relationships from our own and other social purpose enterprises' experiences. We have also focused on some of the key points that you will need to understand when operating a social purpose enterprise and engaging in the business world:

- ◆ Deliver a strong value proposition to your customers
- ◆ Be able to educate your industry about your nonprofit status
- ◆ Build your own capacity when hiring consultants
- ◆ Develop clear, deliverable goals and communicate openly with your funders

- ◆ Connect as a businessperson to peers and advisors in your industry and the business community

When running a social purpose enterprise, you are in a unique position of often having to educate your organization and external audiences that you are not a typical nonprofit. This means not only orienting

your operations, staff and Board to the requirements of the business world, but also approaching your investors, volunteers and partners with this mindset. Succeeding as a social purpose enterprise requires presenting yourself to customers, competitors, suppliers and others as a viable, serious enterprise and integrating yourself into the business community.

Footnotes:

- 1 While most funders make grants, which are not historically viewed as investments, we feel all funds received by nonprofit organizations are a form of investment. Please see “The U.S. Nonprofit Capital Market” in the companion book to this volume, *Investor Perspectives* for more on this perspective.
- 2 This and other REDF publications are available at www.redf.org
- 3 An excellent resource for learning how to work with consultants is the book, “Succeeding With Consultants: Self-Assessment for the Changing Nonprofit,” by Barbara Kibbe and Fred Setterberg.

Cultivating the Next Generation of Leaders

Kristin Majeska

Farber Fellow 1997-1998

Today's practitioners do not know who the next generation of social entrepreneurs will be, where they will come from or even if there will be a common "new social entrepreneur" profile. We do know, however, that we must recruit more and more talented people to our social purpose enterprises, we must encourage them to stay with us and, above all, we must proactively help them to grow into leaders.

"One of the things that will influence our ability to continue building our business will be our internal capacity to find the expertise and leadership we need and to have it balanced with commitment to our social mission."

Maurice Lim Miller

EXECUTIVE DIRECTOR

ASIAN NEIGHBORHOOD DESIGN (AND)

After looking first at the imperative of growing social entrepreneurs, this chapter presents a practitioner's perspective on how to identify leadership development needs and how to meet them.

Why Leadership Development?

Whether using fast-track promotions, management trainee programs, business schools, aggressive mentoring or other strategies, successful companies consciously develop their future leaders. The fact that the private sector has institutionalized so many ways to train its next generation suggests that business leaders are not only born, they are bred.

Social purpose enterprises are looking for leaders of the same caliber as their for-profit counterparts but with something even more—the ability to passionately marry these business skills with the challenge of fulfilling a social mission. Although we are only interested in a small segment of potential business leaders, social purpose enterprises are in direct competition with the private sector for those candidates. For example, compare the description of a successful leader-manager by the chairman of a large multinational corporation, “a person who can live with above average ambiguity and manage sometimes conflicting objectives,”¹ to AND’s Executive Director’s description of his target candidates: “We end up looking for flexibility and for someone who is motivated by the constant challenge of balancing the business with the social objectives.”

The challenges of finding leaders for a social purpose enterprise are so great that today’s leaders can not count simply on recruiting—they must help create the next generation of leaders.

“Because we need such unique and committed people, I see our best possibility as an internal farm system, getting to know some one and helping them grow over time. Otherwise, there’s no guarantee you’ll find

that rare combination of qualities in a person right when you need them. For example, we have a business that will open in two weeks and we are still trying to fill a key management position after several months of looking.”

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Even very experienced managers who join a social purpose enterprise rarely have equally developed capabilities in both the business and the social mission side of the enterprise. Leadership development initiatives can help these managers explore the areas that are new to them and gain the balance in perspective and skills that the organization needs.

Finally, organizations that make leadership development an explicit component of their strategies are more likely to be able to retain strong and experienced managers. Particularly in small organizations in which upward mobility may be limited, ensuring that employees are continuously challenged in their existing roles goes a long way toward reducing turnover.² Having the right tools and support to succeed at and learn from these challenges enables employees to grow and creates a positive environment. In contrast, studies suggest a lack of professional development opportunities reduces job satisfaction and, in the case of nonprofits, contributes to individuals leaving the sector.³ At the same time, strengthening leaders’ capability to contribute to their organization’s mission increases the social impact of their efforts, a result that in turn reinforces the employees’ commitment to what they are doing.

What does a Future Leader Need to Learn?

Leadership development initiatives should respond both to the specific nature of the organization and to the strengths of the individual employee.

First, an organization must define its objectives for development. Research on successful organizations in both the private and nonprofit sectors suggests the importance of

what Letts, Ryan and Grossman call “strategic human resources”; “the practice of getting, keeping and motivating good people specifically to advance the objectives and the mission of the organization.”⁴ Social purpose enterprises must not only recruit and maintain good people; they must develop the specific leadership capabilities they need in order

to increase their social impact through success in their businesses. The first step in this process is identifying the skills the organization will need to grow or improve in each area over the next several years. An outsider's perspective can be quite useful in understanding the challenges a venture is likely to face during its next stage of growth and working backward to think about the skills it must have.

In addition to the strategic objectives of the organization at that moment, social purpose enterprises should consider the unique skills or understanding that hybrid social purpose organizations demand of leaders and integrate these into their development efforts. For example, social purpose enterprise managers struggle with balancing mission against profits every day. Are there tips, processes or insights that would make these decisions seem less intimidating for a newcomer? Would an overview of the principles, objectives and mechanics of the organization's social outcome measurements shed some light on organizational decision-making?

"Since our new managers always seem to face some pains during their transition from the private sector, I have learned to anticipate and minimize it by talking in advance about differences and potential conflicts"

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

Social purpose enterprises must recognize that even the most high-powered new manager has much to learn about leadership in the setting of a social purpose enterprise. Starting from this assumption, assess the strengths that the potential leader still needs to gain. For example, a recent MBA may have a great understanding of business concepts but little experience actually operating a business day-to-day. Or, a for-profit production manager may have no previous experience working with individuals in recovery. Ask managers what they would like to learn. Tapping into employees' own self knowledge and enthusiasm can set the stage for incredible learning.

How Do We Develop Leaders?

As small businesses, many of the practitioners within the Roberts Enterprise Development Fund (REDF) portfolio confess that they have only recently felt they had the luxury to think about leadership development within their organizations.

"As an organization we're now reaching a size and a level of stability at which we can devote more time to our managers' development. At the same time, with our new stores we will have a business large enough that the manager can easily grow into a real leadership position."

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

However, social purpose enterprise leaders have many ideas about what could and should be done to develop their leaders in the future. And indeed, REDF has already put in

place a variety of mechanisms to support and develop current leaders. Research on private sector creative and visionary leaders suggests that organizations can develop visionary leaders through job experiences, supervisory styles and specific training programs.⁵ This chapter examines these three methods, plus the value of creating additional learning relationships, from the point of view of social purpose enterprises.

Leadership development on the job

The vast majority of learning in any job occurs as the employee works, as he or she confronts new situations, observes supervisors or co-workers, solves new problems and gains a thorough understanding of one piece of the business. Creating opportunities for managers to learn specific skills, encouraging

general leadership skills, using job assignments to give exposure to different aspects of the business and preparing managers for specific leadership positions are four types of practical leadership development techniques envisioned by social purpose enterprises.

A career development plan will help ensure that the specific development objectives of both the organization and the individual are realized. Linking the career plan to career evaluations means employees can identify tools and opportunities they need to respond to specific feedback on “areas for improvement.” Likewise, the employee and supervisor can then discuss the best way to support the employee in exceeding the next period’s business goals. The plan should have goals and several concrete action steps to take place over the next six to twelve months. Action steps may include preferences for certain types of project assignments, an external workshop, making a presentation to the Board, etc. and should be considered a firm commitment for all involved. At the end of this period, the employee and supervisors and mentors should review progress both against the action steps and against the underlying goals. Consider factoring this progress into career evaluation or bonus decisions.

Regardless of compensation ramifications, a personalized, albeit simple, career plan both demonstrates the organization’s commitment to building the employee’s capabilities and signals his or her potential to grow within the organization. This signal is particularly important since a career path within a social purpose enterprise is still being constructed and the lack of an obvious next career move has historically contributed to valued managers leaving nonprofit positions.

Work experiences are a very useful way to respond to specific career plan objectives. Not only do employees get the chance to learn by doing; they can actually point to how they demonstrated a new skill. With a little creativity, soft skills and management skills, such as team leadership or presentation skills, can easily be integrated into almost any position. Practice in more specific skills can be gained through smaller projects. Although it may not be the most efficient route at the moment, giving an employee the low risk chance to take a first shot at something that will then be reviewed by someone more experienced can be a very effective tool for learning.

In certain circumstances, outside advisors or consultants provide the most effective way for future leaders to learn targeted skills that do not exist within the organization. One of the very valuable forms of support that REDF offers to all of the businesses in its portfolio is technical assistance from a business analyst who specializes in nonprofit business development. By design, the business analyst not only “directly assists management in conducting the analysis,” but also “assists the managers in developing their own skill set.”⁶ REDF also encourages the organizations to bring in industry or functional experts to meet specific needs that come up in the course of running the business.

“We sometimes give managers the chance to bring in outside consultants who have the specific skills that we need. That way they get a chance to learn from the experience as well.”

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

In all cases, to learn the most possible from consultants, social purpose enterprises must insist that the “experts” transfer knowledge and know-how to the organization, rather than simply delivering a final product. Conveying this objective up-front, during the consultant selection process makes it much more likely that this transfer will occur.

Enabling an employee to meet his or her specific career goals by changing jobs within the organization can also have outstanding results, even given the learning curve in the new position.

“After we responded to our office manager’s development goals by moving her full-time into our art department we realized that not only did we gain a motivated employee who now understands all aspects of our business, but we are also saving money!”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

Social purpose enterprises can also foster more general leadership skills by encouraging employees to take advantage of learning opportunities as they present themselves in the course of the business. For example,

preparing for monthly Venture Committee meetings gives Enterprise Directors and key managers in REDF businesses an opportunity to lift their heads up from busy day-to-day business management to assess the progress of their businesses against financial and social goals and to strategize on major issues.⁷ Urging developing leaders to participate in periodically assessing their businesses together with experienced managers can be a very effective learning tool. All new leaders should have practice presenting information, defending their recommendations, asking hard questions, discussing strategy and developing creative solutions.

The private sector has long used job rotation as a means of preparing promising young managers for future leadership. As social purpose enterprises grow, it will be important to enable strong managers to similarly try on different hats in the organization, to take on different roles and tasks. Exposure to different areas will improve managers' abilities to recognize the many issues they need to consider to make their own decisions work strategically for the organization.⁸ Taking on a variety of roles within an organization will also keep young leaders learning, a tremendous benefit given the single most common reason that motivated young managers leave organizations is boredom from not being challenged.

Social purpose enterprises may also prepare managers very purposely for specific leadership positions by putting them in apprentice or assistant positions for those roles.

“Ideally, I’d like to create an Assistant Director position. It would be a great way for someone with the right potential to learn about and practice leadership, and I’d have a back-up. For instance, the assistant could step in and run any one of our five businesses in an emergency.”

Laura McLatchy

EXECUTIVE DIRECTOR, YOUTH INDUSTRY

However, all “on the job” learning has risks. Sink or swim tactics are not only high risk for the organization, but are also high risk for the new manager and can jeopardize an entire career. Well-earned successes build reputations and self-confidence; early failures, even in close to impos-

sible situations, can be very hard to recover from. Despite limited resources and optimistic young entrepreneurs, social purpose enterprises should resist the temptation to over-estimate what a new manager can accomplish and ensure that they have adequate support.

Leadership development from above

Social purpose enterprises enjoy the advantage of having clear business performance measures as well as increasingly measurable social impact results.⁹ For example, all REDF businesses develop annual and five-year business plans with specific financial and social bottom-line targets. Such objective goals and results can be very motivating and set the scene for regular and productive performance evaluations of venture leaders. However, holding a manager accountable for results is only a first step in developing him or her into a leader. Managers' supervisors and mentors must dig into the reality behind the “numbers.” Hard questions about “What went wrong?” and “What have we learned from this?” often follow failures. Good managers ask similar questions when things go right: “What factors contributed to the business exceeding its targets?” “What could the manager have done to have had even greater success?” “What new skills will it take to go the next step?”

Managers with leadership potential can benefit immensely from their supervisors' feedback. To be constructive, feedback must always be specific and honest—and sometimes negative. It is easiest to learn from informal feedback with specific and recent examples, even if it is later summarized and reinforced in writing. To be compelling, feedback must also be balanced between praise and areas for improvement. A supervisor who never suggests anything could be better lacks credibility and robs his or her subordinates of the chance to improve their work. Social purpose enterprises run this risk if they fall into famed nonprofit habits of “niceness” or “good enough” and do not aggressively critique managers' work.

In many social purpose enterprises, top business managers report to the Executive Director of the parent nonprofit. Even if the

Executive Director does not have a business background, he or she should still be able to provide significant feedback on management and leadership issues. However, if the Executive Director does not feel comfortable critiquing the management in depth on running the business, he or she should seek out an outside business advisor to provide that kind of feedback. Reporting or conferring with a designated Board member, advisory group member or industry expert will give the manager valuable feedback and an opportunity to interact with other leaders, while undoubtedly strengthening the business by adding an experienced perspective. Within the REDF portfolio, Venture Committee meetings fulfill part of that need.

“Listening to an immediate response to my presentations and getting input on how to address our current issues at monthly REDF Venture Committee meetings was a good learning experience. I particularly benefited when the meeting was coupled with a de-brief with my Executive Director on the way home.”

Kristin Majeska

FORMER ENTERPRISE DIRECTOR
THE CITY STORE

A final element of feedback supervisors can use comes from elsewhere in the organization. Scholar Philip Sadler includes ‘self-awareness’ as one of the five primary themes of leadership development. He suggests feedback from subordinates and peers is often a valuable aid to understanding oneself.¹⁰ Both because of the challenging relationships with client employees in social purpose enterprises and because of the frequent interaction with other groups, it can be extremely valuable for these managers to know how they are seen by others. Supervisors can have a large impact by suggesting or mandating this kind of input.

“I always had good intentions about getting serious upward feedback from my employees but it always got pushed to the bottom of the list. I would have avoided a lot of tension and miscommunication if I had actually taken the time to solicit it earlier.”

Kristin Majeska

FORMER ENTERPRISE DIRECTOR
THE CITY STORE

Leadership development through external relationships

Because so much learning about leadership comes through role models and decision-making based on accumulated experience, young managers can benefit greatly from cultivating relationships beyond their immediate supervisors. The small size of social purpose enterprises means access to figures outside of the organization can be instrumental. Fortunately, a venture’s social mission often provides an entree to high-powered experts or business people who normally would not devote time to developing the manager of a small business. Organizations can take advantage of this valuable professional development resource by structuring both short-term interactions and long-term relationships.

Organizations provide both a perk and a learning opportunity to their managers when they encourage them to contact business advisors or to tap into a network of connections to help resolve a one-time issue or make a key decision.

“Because of our mission, very wise industry folks will spend time with relatively young management. I highly recommend that other organizations develop this benefit. The industry person doesn’t have to give a lot, after all, it’s just a conversation with another smart person, yet he or she feels good about it and the young manager both learns something and gets a little ego boost.”

Rick Aubry

EXECUTIVE DIRECTOR, RUBICON PROGRAMS

REDF has formalized one channel of access to experienced advisors. The Partners-for-Profit program brings together local business leaders who represent a variety of industries. These partners have offered to provide REDF investees with advice and guidance as well as with connections to their professional networks.

Social purpose enterprises can also tap into interest in their mission to structure longer term and more formal mentoring relationships for managers. Matching managers up with either Board or business advisory board members is usually a good start. Supervisors should also encourage their managers to identify and develop an informal

mentor relationship with at least one person who is completely outside the organization. Resources that help set expectations and provide tips for successful mentor relationships are readily available and increase the likely value of these kinds of relationships for both the mentee and mentor.

“All of us have really benefited from the advice of the owners of a very similar but non-competing business. They have made a personal commitment to our success.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Interactions with peers also offer a useful and relatively low-risk setting for learning. Peers both within the organization and at other social purpose enterprises are likely to understand the unique challenges that social entrepreneurship presents. At the same time as they offer a sympathetic ear, peers can draw on their own experiences to discuss different strategies to resolve a challenge or issue.

“We’re now at the size that we can get some peer-to-peer reinforcement going. That support can be very valuable in professional development.”

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

Smaller organizations may want to help organize periodic peer get-togethers for enterprise directors or front-line managers from different social purpose enterprises. For example, the quarterly meeting of the Executive Directors and Business Managers of REDF investees provides an opportunity to both share ideas on a pre-selected topic of interest to the participants and to talk informally and swap stories with others in the field.

Leadership development through traditional training

Social purpose enterprises can be well served by putting into practice one of the most traditional forms of leadership development, skill specific training. Successful social purpose enterprises have found there is value in mak-

ing the effort to provide their managers with structured professional development opportunities, whether internal or external training sessions or simply the impetus to learn through greater involvement in industry organizations.

“Ensuring access to training and development opportunities not only improves the manager’s skill set, it communicates the value the organization places on their growth and personal development.”

Carrie Portis
DIRECTOR OF ENTERPRISE DEVELOPMENT
RUBICON PROGRAMS

Once an organization reaches critical mass, it has the option of offering training and workshops in-house. Because they can be tailored very precisely to the organization, in-house workshops can be very on-target and can facilitate consistent learning across all attendees.

“We currently do some professional development classes in-house. I can see us doing more in the future.”

Maurice Lim Miller
EXECUTIVE DIRECTOR, AND

On the flip side, organizing such workshops can be expensive and coordinating schedules quite challenging. Taking advantage of training offered by other organizations, for example through an industry group or a Chamber of Commerce, brings advantages of a larger scale as well as the opportunity to learn from participants from other companies.

“Every year our staff and many of our employees attend the national screen printing convention. Each person attends different workshops according to their current skills and interests. Not only do we learn a lot as an organization, everyone comes back recharged and feeling more professional.”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

In a smaller organization, managers with different responsibilities may also want differ-

ent kinds of training at specific points in their development. Social purpose enterprises in this situation may want to follow the example of for-profit businesses who annually allocate a certain amount of money for each manager to spend on the professional development opportunities they believe will be most useful for them.

“While we didn’t offer a monetary incentive to our Business and Finance Director, we did provide a time incentive; CVE projects became school projects. And having an MBA on staff at that point in our development was critical. We needed a set of financials that made sense to the business world as well as the nonprofit world.”

John Brauer
EXECUTIVE DIRECTOR, CVE, INC.

Leaders of organizations can help future leaders stretch their industry specific skills by simply encouraging them to become involved in their professional community. Attending local breakfasts, meetings and trade shows as well as workshops can provide managers with new perspectives and insights. The costs of such participation can vary dramatically but there are usually a few relatively inexpensive ways to get involved, such as volunteering for committees. Because their unique nonprofit status often sets them apart from others in the industry, social purpose enterprise managers in particular can often benefit from making the effort to make these connections.

However, because involvement in the industry takes time that would otherwise be spent running the business, managers need to get a clear sign from their supervisors that this kind of professional development is a priority and to what degree.

“I’d like to help my managers get more in contact with others in their industry, for example, to become associated with the local branch of a professional organization. Both making them feel more a part of the mainstream industry and taking them one step away from the day-to-day operations of the business for a short while would be very beneficial.”

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

Finally, social purpose enterprises can offer potential leaders opportunities to develop by helping advance the field of social entrepreneurship. Because the field is so young, it is comparatively easy for even relative newcomers to add to the body of knowledge. Simply providing managers the opportunity to attend meetings or participate in conferences can go a long way in stimulating their interest and contributions to the field. For example, the REDF Farber Fellows and Farber Intern programs both specifically include opportunities to attend conferences or programs focused on social entrepreneurship.

Conclusion

Leadership development is still in its infancy at most social purpose enterprises. These organizations need to recognize the importance of this task and to start making conscious choices about how they develop the next generation. At the same time, funders of social purpose enterprises can make a huge difference by recognizing the value of building the “human capital” of the organizations whose programs they support. The kind of relatively low-cost investments in today’s managers described here

will reap large rewards in the future.

Nonetheless, social purpose enterprises must realize that valuable professional development for their field can and should also take place outside of the world of social entrepreneurs. Today’s leaders should support their best and brightest’s desires to continue to develop through academic programs or even work experience in the private sector. If they have a passion for social entrepreneurship, these individuals will come back as even stronger contributors and some of tomorrow’s leaders.

Footnotes

- 1 Peter Wiamson, Era of the Network Leader in *Frontiers of Leadership: An Essential Reader*, Michel Syrett and Clare Hogg (eds.) (Oxford: Blackwell, 1992). Page 443. Quote from the Chairman of the BOC Group's remarks at the 1990 Stockton Lecture at the London Business School.
- 2 Christine Letts, William Ryan and Leah Grossman, *High Performance Nonprofit Organizations* (New York: John Wiley and Sons, 1999) Pages 110-125. Please see this discussion of motivation and retention of managers in private and non-profit organizations for more illustrations.
- 3 Letts, p. 117.
- 4 Letts, pp 107-125
- 5 Jay Coger, "Leaders: Born or Made?" in *Frontiers of Leadership: An Essential Reader*, Michel Syrett and Clare Hogg (eds.), Oxford, 1992. Page 366.
- 6 The Roberts Enterprise Development Fund and BTW Consultants – informing change, "The Challenge of Change: Implementation of a Venture Philanthropy Strategy," in the companion book to this volume, *Investor Perspectives*.
- 7 "The Venture Committee consists of representatives from REDF, the nonprofit executive director, the enterprise manager, and as appropriate, a Board member from the non-profit organization and an individual with direct expertise in the industrial sector of the enterprise. Together, the committee meets monthly to review financial and operational performance, identify areas of concern, and help ensure these concerns are addressed in accordance with the enterprise's business plan." The Roberts Enterprise Development Fund and BTW Consultants – informing change, "The Challenge of Change," in the companion book to this volume, *Investor Perspectives*.
- 8 Conger, p367
- 9 REDF has contracted with BTW – informing change to help each of its portfolio organizations conduct its own social outcome studies. For more information, see The Roberts Enterprise Development Fund and BTW Consultants – informing change, *The Challenge of Change*, section on outcome measurement.
- 10 Philip Sadler, *Managerial Leaders: Developing People with Leadership and Expertise* in *Frontiers of Leadership: An Essential Reader*, Michel Syrett and Clare Hogg (eds.), p. 383

The Journey of a Mutant Manager

Joanna Messing

Farber Intern 1998



As the field of social entrepreneurship develops, a growing part of the discussion is the need for “mutant” managers, people who can bridge the nonprofit and business worlds. This is a new role, with new demands, expectations and standards. Increasingly, business schools are being looked to as the source for these managers. As an MBA student with a nonprofit background now working in a social purpose enterprise, I am faced daily with the challenges of filling this new role. These challenges range from translating business school concepts and values into the social purpose enterprise world, to balancing issues of organizational culture, to questioning the value of an MBA. By sharing my experiences and addressing some of these challenges, I hope to provide insight into this new role, both for MBA students interested in entering this sector and for nonprofits looking to hire an MBA.

My personal journey began at Oberlin College, where I studied Economics and Third World Studies. I was very interested in

economic development, and became involved in the community economic development field by working at a community development corporation in Holyoke, Massachusetts. I felt a critical part of what was keeping many communities from economic success was the lack of access to resources, particularly technical skills and economic analysis. My role at the CDC was to provide business counseling and technical assistance in layman’s terms in order to help aspiring entrepreneurs make their dreams a reality. I felt that I could make a difference by working to bring business skills into communities traditionally isolated from the business world. In order to develop my business skills, I entered the MBA program at the University of Massachusetts, where I took an internship through Students for Responsible Business at Youth Industry in San Francisco. Youth Industry and The Roberts Enterprise Development Fund introduced me to the concept of social entrepreneurship, which brought together perfectly my interests and experiences involving youth, small business development, and economic

change. My summer was so fascinating that I agreed to stay full-time at Youth Industry as the Business Development Coordinator.

Although my enthusiasm is undiminished, there have been several challenges in translating my technical and academic skills and previous work experience into my new workplace. Through conversations with other MBAs who have entered this field I have found that many of our experiences are common, although our backgrounds and motivations vary widely. Some challenges would be present in any small business, and some are particular to the social entrepreneurship field. These challenges include applying business school concepts, working in an organization with limited resources, learning to balance the double bottom line of profitability and social change, and organizational culture.

One of the main challenges has been translating business school concepts that are traditionally geared toward large corporations to small social purpose enterprises. Accounting in particular presents challenges, as in business school our professors assured us that “our book-keepers would take care of the details” and our primary role was to analyze the information presented to us. This attitude was immediately put to the test at Einstein’s Café (Youth Industry’s café in the Sunset district of San Francisco), where I had to develop and implement a cost accounting system. Business school teaches the concepts and value of a system like this, but not its implementation, such as how to program the register or design a user-friendly inventory tracking system. In addition to the implementation and scale issues, which are present in any small business, Youth Industry accounting calculations include social costs. Moreover, implementation must take unique factors into consideration, such as the high employee turnover rate made necessary by the design of our youth internships.

A related challenge is the reality that the level of resources is clearly lower than in a major corporation. The level of detail and in-depth analysis expected from our professors in many cases is prohibitively costly to implement at an organization like Youth Industry or any small business due to the staff time and resources required. One must learn to distill the critical facets from business school and apply them in a realistic and cost effective manner. It is important to stay focused on the

main objective of the task and the particular steps necessary to accomplish it.

The key questions I have learned to ask are:

- ◆ What is the objective of this project/task?
- ◆ What information is crucial to accomplishing this task?
- ◆ What information would be helpful, but not critical?
- ◆ What are the challenges in gathering this information?
- ◆ Are the costs and time required to gather this information greater than the benefits accrued?
- ◆ What is the framework for analysis?

These questions have helped me to apply marketing, operational and accounting concepts in a realistic manner. These questions may lead to pared down surveys that may not be statistically significant, but may still yield valuable information. One might also have to make improvements in stages as opposed to implementing a new program all at once. Although it may yield a less academically correct outcome, ultimately it may be more effective.

One of the challenges in making changes and establishing new systems in a social purpose enterprise is implementing them with employees who are not trained in traditional business. Many MBAs are used to working as part of a team, in an environment of shared knowledge and a common language and skill set. The people MBAs work with in social purpose enterprises bring a different set of skills to the table, such as counseling, experience working with the target population or contacts in the community. Often it is the MBA who is expected to bring the business knowledge. To effectively fulfill this role, it is crucial to assess the skills of the people who have been running the business to date and learn from their experience and intuitive knowledge. Business managers often have the knowledge and business sense, but may not share the same vocabulary as MBAs. It is important not to assume knowledge and to avoid being patronizing. Business school

taught me how to write a business plan, but I had to actually work in a business to understand its particular operational needs and how to effectively execute that plan.

As part of balancing the double bottom line of financial success and social impact, concepts that MBAs feel are important to business success may be compromised. This can cause friction and a sense of frustration. It is important to maintain flexibility and perspective in order to judge which compromises are acceptable and which are not. One example of this is at Einstein's Café. I wanted to track each combination available (half turkey sandwich/cup of soup, half turkey sandwich/salad, etc.) on our menu in order to gather information for cost, marketing and sales analysis. However, this would have required a complicated reprogramming of the register, which would have been difficult for the youth program participants (interns) at our program to implement without a high degree of error. The cost differential between a soup and salad was minimal, so we compromised to measuring a half turkey combination, soup or salad. The register was reprogrammed and now generates information helpful to our cost containment and marketing strategies, but it is more user-friendly than the original plan. My analysis will still be effective, and yet the cashiers will be able to use the register without excessive training or errors.

The organizational culture of a social purpose enterprise is also very unique. The pressures of accomplishing positive social goals while being profitable create a new set of tensions. As an MBA, I quickly realized I would have to get my hands dirty to understand these dynamics. Maintaining an outside, consultant perspective wouldn't allow me to grasp the complexity of the issues facing these businesses. Before I was able to design an effective cost accounting system I had to understand the operational reality of the business. I accomplished this by working on the line and in the kitchen to understand the conditions under which this system would be implemented, the key issues facing the business and the manager's challenges and priorities. In addition to gaining greater understanding for myself, by working in this manner I also believe I gained the trust of the interns and employees.

The need to be aware of and cultivate trust is another issue commonly facing MBAs entering this field. An advanced degree in

itself does not automatically create trust— in many cases it is cause for mistrust. Many of the program participants may feel that MBAs stand for everything they are trying to overcome — traditional authority, values and power. It is important to recognize that these dynamics may exist not just in relating to the participants, but to other employees of the organization as well. This can be minimized by having the position and expectations clearly defined to all parties before the MBA starts working. It is also important for the MBA to be conscious that this reaction may happen and to be sensitive to the dynamics. As one small example, I dressed in “business casual” attire during the first few weeks of my job. I eventually realized that such attire was creating a wider gulf and mistrust, causing me to fit the stereotype even more. By toning down my wardrobe, I was able to fit into the organizational culture more smoothly. However, I remained myself — it would have backfired completely if it appeared that I was trying to be someone that I'm not.

Some of the MBAs I spoke with, particularly those with no previous nonprofit experience, found it challenging to learn how to effectively interact with the program participants. Many MBAs are used to working with and supervising college students who are conditioned to accepting feedback, multi-tasking, and problem solving. Due to the barriers many of the program participants have to overcome, a traditional supervisory approach is often unsuccessful. Communication styles may have to be examined and modified to successfully relay expectations and tasks. Furthermore, if the MBA's position is more analytical, involving less direct client contact, it is easy to feel alienated from the program participants or employees. I have found the best way to counteract these issues is to make a concerted effort to spend time with fellow employees and program participants during and after work hours, although this is not a stated part of my responsibilities. Without this contact I would feel unable to understand the pressures the business managers face, and would risk losing sight of our mission.

At times it can be isolating to be the only one jumping up and down over a successful spreadsheet, or to have to look for advice outside of the agency on technical questions. In the private sector it is common to learn business skills and techniques from peers and

supervisors. While such learning is present at social purpose enterprises, the MBA has often been brought in to provide answers to business issues, and the learning that takes place is more operational and social. It can be difficult to be placed in that position, and it has been crucial to my success to have the support and expertise of the Executive Director and outside consultants.

I have encountered a lot of interest and questions about whether or not an MBA was the appropriate degree to have for success in this field. When I first decided to get my MBA I doubted whether or not this was the degree I should be pursuing. I went to business school to continue in the economic development field but wasn't sure if I was going for the credentials alone, or if I would also learn something useful. I was afraid of being brainwashed by corporate culture and/or being isolated from my fellow classmates because of our different world outlook and political views.

While I did not find business school as intellectually stimulating as I might have found a Masters in history, for example, I am actually using every class I have taken. Marketing, operations management, accounting, organizational behavior – the lessons learned in business school are part of my daily work. In order for a social purpose enterprise to be successful it is important for business development staff to understand the whole spectrum of business issues. Business school exposed me to the range of issues, and gave me enough of a foundation to identify issues as they arise, and determine a strategy for solving them. The key is to at least have sufficient exposure and understanding of an issue to be

able to identify it and the resources needed to address it.

Business school gave me analytical skills, took away my fear of numbers, opened doors and opportunities. It doesn't take the place of real world experience, but it has given me a valuable foundation and a depth of understanding I may not have gained through work alone. The important challenge facing mutant managers is how to achieve a balance between business values and social goals. Business school has given me tools to help accomplish the goals I truly believe in, however the tools are a means to the final goal: social change.

The rewards of working in this field are numerous. It has been exciting to work in small businesses and to discover my strengths and weaknesses through the challenges I have encountered in this new field. Working with the program participants and developing relationships is rewarding and inspiring. It is deeply satisfying to be part of something new where you are not following rules, but making them. You can challenge yourself intellectually about the value of what you're doing and strive to make a difference. You can see how your skills are valuable while you work with incredible people - both staff and participants. And it is invaluable to be able to carry out your values through your work.

The presence of MBAs in this field does signal a change in culture, with different expectations and challenges. The standards and experiences also differ, and the challenge facing this field is to find a way to integrate the skills and perspectives of MBAs and other businesspeople with the social conscience and values of the nonprofit world in an equal and complementary way.

The Social Purpose Enterprise as a Learning Organization

boona cheema
Executive Director, BOSS

Introduction

“Be the change you want to see in the world.”
— Gandhi



We are all, in our workplaces, whether they are a shelter, social purpose enterprise, or village hospital, struggling to find greater meaning and purpose in our work lives. In

business, we are trying to let go of the notion of “profit at all costs”, letting go of the workplace of our 20th century past to pursue a 21st century future, a new vision.

We are working to find ways that bring a different imagination to the workplace:

believing and even knowing that a butterfly fluttering its wings in Japan can affect the weather in New York. With systems thinking, we are in the middle of a paradigm shift that does not separate the heart from the mind, or the soul from the profit. We are also surrounded by complex, fast-moving and changing environments. No one is doing business as usual, and if they are, by the early 21st century they will be obsolete. The world is getting more complex and smaller, but human potential is just beginning to be recognized. Technology will play a great role in information, but after the dervish dance with technology it is the human being that will play a greater role in developing knowledge.

Our human potential is once again in search of change. This search for making sense of our selves and our organization has led BOSS on a 3-year search for vision, mission, values, and creating processes that serve those values. Building Opportunities for Self-Sufficiency (BOSS) is a 28-year-old nonprofit organization that has managed a social purpose enterprise, BOSS Enterprises, for three years. Our mission is to end poverty and homelessness in our community. How we pursue this mission has evolved over many years of learning, growing, and listening to our constituency, communities, partners, funders, and colleagues.

In 1999, BOSS is pursuing its mission by providing comprehensive services in four strategic areas: Economic Development, Community Building, Housing, and Support Services. BOSS Enterprises is our property improvement business based in Berkeley, California. It is a key strategy for job creation, which is part of our larger Economic Development agenda. The venture provides six lines of service: general construction, deconstruction, door & window replacement, interior and exterior painting, construction site clean-up, and vacant space preparation.

As a nonprofit, BOSS has been growing, changing, and learning for 28 years. When we entered the enterprise world, we clearly knew how to operate the nonprofit organization as a business, but we had to learn how to operate a for-profit entity as a business. Some lessons and skills were adaptable or transferable, but many were not and had to be learned from scratch.

In operating the social purpose enterprise, BOSS Enterprises, we are immersed in

the balancing act of a triple bottom-line: profitability, values (living-wage jobs for our homeless and low-income clients), and vision (a new way of thinking, working, and continually learning). In the first three years of operation, we have survived many tests of a start-up: hiring the right business manager, refining “true cost” accounting, honing financial system and sales strategy, training people with multiple barriers to employment, engaging the board at critical junctures, and increasing efficiency. As we move the business to its next level of development for increased growth and scale, we find ourselves dipping into not only the learning of successful profit-making businesses, but also the leadership and management practices that have kept BOSS thriving for 28 years.

This is an important point for us because when we began BOSS Enterprises, we assumed that we had to abandon our conditioning as a nonprofit organization in order to create a successful business. While this assumption has been true in some areas, such as risk-taking, it has not been accurate in the core areas of leadership and management. *We have realized that far from being an impediment to profit-making, BOSS's culture — entered on values, employee participation, and community — is an invaluable asset to growing a successful business.* While incubating BOSS Enterprises, we have also discovered that key elements of our organizational culture are qualities which leading businesses are investing great resources to cultivate. What we at BOSS have been doing intuitively, out of our passion for fairness and our determination to activate every person's full potential, aligns well with leading-edge management and organizational models.

The “Learning Organization” is one such framework that most embraces BOSS's own practices. This model, researched and developed at MIT's Sloan School of Management, is a road map for increasing business effectiveness and creating the conditions for sustainable growth, while at the same time enhancing the quality of work for employees. Today's business environment is wide-open and constantly changing. In the words of Arie De Geur, head of planning for Royal Dutch/Shell, “The ability to learn faster than your competitors may be the only sustainable competitive advantage. As the world becomes more interconnected and business becomes

more complex and dynamic, work must become more 'learnful.' It is no longer sufficient to have one person learning for the organization, a Ford or a Sloan or a Watson. It's just not possible any longer to 'figure it out' from the top, and have everyone else following the orders of the 'grand strategist.' The organizations that will truly excel in the future will be the organizations that discover how to tap people's commitment and capacity to learn at all levels of the organization" (from "The Fifth Discipline" by Peter M. Senge).

This chapter describes the progress and the process, as well as the theory and prac-

tices, used to meet our agenda and to begin growing a learning organization. Specifically, the chapter will share with you (a) how BOSS's CoLEAD model (Committed Leadership for Effectiveness, Accountability, and Development) applies the fundamental building blocks of the learning organization, and (b) how we intend to apply CoLEAD's principles to grow our profit-making business. It describes the third bottom-line of BOSS Enterprises: vision — growing and achieving scale using the tools of a learning organization. We believe that far from being a burden, the third bottom line is the lever that can balance profitability and social goals.

Learning Organizations: A Definition

What are some central features of a "Learning Organization"?

- ◆ The learning organization is one that adjusts quickly to market feedback.
- ◆ Organizations need to change fast to survive. As we cannot predict the future, this means learning fast. Learning fast is adjusting to your environment quickly. An organization that learns quickly is essentially entrepreneurial because it acts quickly, makes mistakes, improvises, and changes course ahead of the competition. Only entrepreneurial organizations are learners — they act fast, take risks, and learn from mistakes.
- ◆ Learning organizations introduce products quickly even if they are not "ready". They then modify trial offerings on the basis of feedback. Such a trial and error process (not strategic planning) is the essence of organizational learning.
- ◆ Organizations that are poor at learning are bureaucratic and slow to adjust to changing markets.
- ◆ Fostering continuous employee development is complementary to a learning culture, but an organization can learn in an entrepreneurial sense without a lot of

employee development. You could have a fast-learning organization that continually imports fresh talent with little emphasis on employee development. You can have a cautious culture, afraid to take risks, that still fosters employee development. This is not a learning organization. This is not to downplay the value of employee development, just to clearly separate it from organizational learning.

Richard Karash, Speaker, Facilitator, and Trainer on the concept of Learning Organizations, defines it further: "What is a Learning Organization? A Learning Organization is one in which people at all levels, individually and collectively, are continually increasing their capacity to produce results they really care about."

Why should organizations care? Because the level of performance and improvement needed today requires learning, lots of learning. In most industries, in health care, and in most areas of government, there is no clear path to success, no clear path to follow.

What's in it for the people? Learning to *do* is enormously rewarding and personally satisfying. For those of us working in the field, the possibility of a win-win is part of the attraction. That is, the possibility of achieving extraordinary performance together with satisfaction and fulfillment for the individuals involved.

A learning organization is defined by *full and active engagement with all facets of its environment*. It is not a closed circle, focused inward on itself and its goals, adhering to static plans and time-honored ways of doing business simply because “that’s how we’ve always done it.” It is an open arc, constantly looking both inward and outward for better ways of doing things.

The learning organization is also defined by shared leadership. It does not rely on a single top-down leader, but acknowledges and builds on the strengths of all members, creating organizational memory and a sense of ownership and internal collaboration. This model honors the absorption of new learning as key ingredients to both personal and organizational development. When the individual does well, he or she is a stronger contributor to the well being of the organization and to the community in which the organization operates.

Best Practices of Learning Organizations

Successful learning organizations engage in problem-solving, systems-thinking and cross-boundary learning, team work (learning), alignment with agency mission (aligned vision), conscious inquiry and testing basic assumptions, and valuing people for their expertise—not position. Here are some characteristics of each:

Problem-Solving

- ◆ Becoming aware that almost any decision carries long-term and short-term consequences
- ◆ Mapping out past “solutions” as well as current and planned actions
- ◆ Identifying links between the solutions we use to solve different problems
- ◆ Increasing communication and dialogue

Systems Thinking and Cross-Boundary Learning

- ◆ Seeing interrelationships, not things, and processes

- ◆ Moving beyond blame and not seeing problems as “out there” (i.e. not missing the forest for the trees)
- ◆ Treating the cause not the symptoms
- ◆ Recognizing the breaking down of internal barriers

Team Work (Learning)

- ◆ Mastering the practices of dialogue and discussion — the capacity of members of a team to suspend judgments and enter into “genuine thinking together”
- ◆ Learning how to recognize the patterns of interaction that undermine learning. Teams, not individuals, are the fundamental units of Learning Organizations
- ◆ Fostering the ability to see others’ perspective

Alignment with Agency Mission (Aligned Vision)

- ◆ Getting beyond personal/departmental interests
- ◆ Seeing your actions as part of a broader strategy (the whole is greater than the sum of the parts)

Conscious Inquiry and Testing Basic Assumptions

- ◆ Suspending one’s assumptions means to “hold them in front of you, constantly accessible to questioning and observation”
- ◆ Inquiring into the reasoning behind the abstraction collectively

Valuing People for Their Expertise—Not Position

- ◆ Getting beyond the “I am my position” point of view
- ◆ Respecting position and hierarchy, but not being blinded by it
- ◆ Knowing your staff, their range of capabilities and skills

Current Incarnation of BOSS as a Learning Organization: Outline of Co-Lead Management Model

“If your mind is empty, it is always ready for anything. It is open to everything. In the beginner’s mind, there are opportunities for many possibilities. In the expert’s mind, there are few.”

— Suzuki Roshi Zen

Richard Karash asserts that there are currently no existing Learning Organizations, that the concept is an ideal, although various organizations or parts of organizations achieve it in varying degree. BOSS may not have achieved the ideal, but because of our mission and core values (participation, partnerships, diversity, accountability, accessibility, comprehensiveness, learning/teaching, and compassion), we have much experience to share regarding our practice of consistently striving toward this ideal.

BOSS has a history of continually learning and repositioning ourselves. This evolution has taken place in response to changing constituent and environmental needs, supported by organizational analysis and strategic planning in 1987, 1992, and 1997. BOSS also convenes annual all-agency meetings to direct our energies forward and outward. Continual learning has long been an integral value in our work, institutionalized through participation in internal decision-making by all stakeholders (board, staff, volunteers, constituents, and partners) and regular participation in external decision-making and planning at local, state, and national levels. Thus, the desire to maintain relevance and efficiency through learning and adapting is deeply ingrained within our organizational culture.

BOSS has not always referred to itself as a ‘learning organization’, but has consistently applied the principles. BOSS’s Co-LEAD management model is the most recent structural manifestation of our organizational introspection, analysis, and applied values. Arriving here has been the result of a multi-phased process, centered on two recent deep-thinking retreats with BOSS managers.

Retreat #1: Realignment

In 1997, BOSS stakeholders collaborated on a

strategic planning process centered around changing our way of thinking, planning, problem-solving, and working together, utilizing the movie “Mindwalk” about systems thinking, as a catalyst for three days of discussion and thought. At the time we were to a large degree still thinking in linear terms, expressing our activities and objectives as simple lists: “BOSS provides services A, B, C, D...” We knew intuitively that each element of the list supported the other but we were not converging our strategies and practices according to this intuitive realization.

At the retreat, we focused on our mission and articulated our core values. We then threw ourselves wide open. Ignoring existing structure and entrenched beliefs about our capacity and resources, we asked simply, “Knowing what we know about our constituency, our environment, and future possibilities, what is the best way to achieve our mission?” Guided by systems thinking and our core value of comprehensiveness, four interlinked strategic areas emerged — Economic Development, Community Building, Housing, and Support Services — under which our long laundry list of services naturally aligned. We adjusted the organizational structure to facilitate ongoing planning, progress, and evaluation around these four strategies. Galvanized by this clarity of purpose, we then turned our intentions to nurturing the capacity of all staff to work better and smarter, individually and collectively, toward this purpose.

In early 1997, after the completion of the Strategic Plan, the first implementation phase took place at an all-agency day focused upon the learning theme: “turning challenges into opportunities: building our community.” Discussions among all BOSS staff took place around:

- (1) Optimizing Our Talents
- (2) Staff Well-Being
- (3) Supporting Learning and Growth
- (4) Enhancing Communication
- (5) Team Effectiveness

Best practices that emerged this day include the adoption of “Conocimiento” (a

start-of-meeting tradition of varying exercises to break the ice and learn something new about each other) as a process for learning and team-building, and a list of recommendations in each of the five learning themes.

At this point, the status of our social purpose enterprise moved from one more item on the laundry list to an integral part of the Economic Development Strategy, although it still operated day-to-day as a separate entity, with its own culture based on for-profit world values and vision.

Retreat #2: Strengthening Capacity Through Continued Learning

In a follow-up retreat in mid-1998, we expanded our learning and discussion around refining and improving the primary instrument of achieving our mission — ourselves. We spent some time identifying and absorbing the limitations of our environment (outside resources, internal capacity), and then concentrated on addressing internal barriers to effectiveness through team development: communication, distribution of responsibilities and authority, management structure, and the quality of our personal interactions and collaboration.

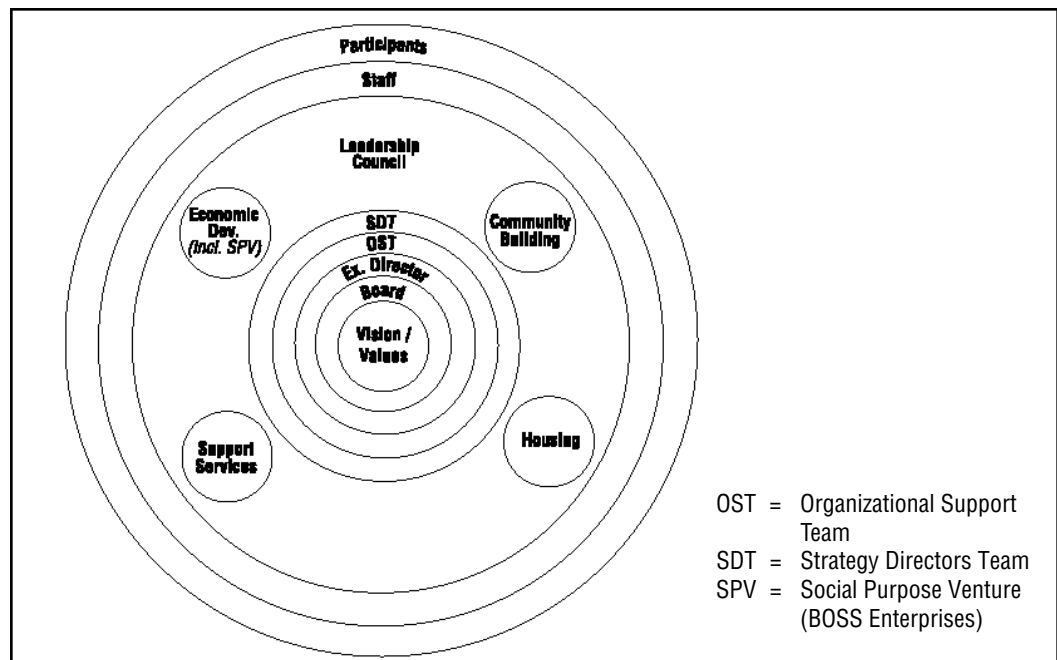
At this retreat, we refined our organizational structure to support increased authori-

ty and decision-making authority by managers to help free the executive director from the sole burden of leadership; we articulated a series of guiding principles to apply in our interactions and collective work; we energized ourselves for a continually changing future; and we began the process of documenting our learning culture. The management model that emerged at this retreat was dubbed Co-LEAD (Committed Leadership for Effectiveness, Accountability, and Development). It is defined fully in the following section.

At this point, the status of the social purpose enterprise was still part of BOSS's Economic Development Strategy, and based on some difficult experiences with the business being run wholly unconnected to the larger organization, the critical process of converging values and vision began.

From our knowledge of other social purpose enterprises and growing experience with our own, we know it is possible to increase profit with compassion and a collective sense of values and vision. This is helping us transform our mental image of business. And we see that BOSS's own CoLEAD model can help us create a sustainable venture. Each concentric circle is a defined group of people with well-defined set of responsibilities and accountability.

CoLEAD Management Model



The key to this structure is the placement of vision and values at the center. This is the circle that drives the organization and all other organizational components flow from this core. In this sense, the use of concentric circles is not a simple replacement of the traditional 'lines and boxes' configuration for flow charts. In the Co-LEAD model, the flow of circles outward describes relative responsibility for stewardship of BOSS's values and vision: the Board, being nearest the center, has foremost responsibility as gatekeeper and holder of BOSS vision and values; the participants, furthest away from the circle, owe no allegiance to BOSS values and vision in return for services and support, although integration is achieved through the presence of participants on the Board of Directors and as staff and volunteers.

The use of circles also represents the holistic nature of each element. Co-LEAD is a "wholearchy" rather than a "hierarchy." Each circle is a complete functioning entity, as well as part of the larger whole. This is critical to strengthening the capacity of BOSS to remain a learning organization, as the type of dependence that exists in traditional hierarchies cannot create effective interdependence.

In more depth, the practitioners of Co-LEAD have these interdependent responsibilities:

Strategy Directors Team:

Individually, each Strategy Director is accountable for his/her strategy area and his/her Strategy Team and its goals, objectives, quality, and values. Together, Strategy Directors are responsible for: coordinating annual workplans to ensure that strategies are well-integrated, meet the needs of constituents, and effectively utilize resources; advancing the workplans; developing and monitoring quality standards and control processes; strategizing and coordinating appropriate community relations and partnerships; and keeping other Co-LEAD participants informed about strategy, programs, and the financial picture.

Leadership Council:

The Leadership Council is comprised of representatives from all BOSS programs. The role of the Leadership Council is to: represent the interests of constituents, staff, and partners in organizational planning; initiate discussions

and make recommendations regarding organizational policy, strategy, and services coordination; respond to concerns, requests, and recommendations from all levels, internal or external; implement approved policies and procedures; and support program and staff development, supervision, and evaluation.

Organizational Support Team (OST):

Comprised of representatives from BOSS's core structural/ operational areas (personnel, fiscal, resource development, and systems), the OST provides support to all Co-LEAD participants to further the mission, vision, values, and concrete objectives of the organization. Key OST responsibilities include: providing information, input, direction, and accountability for resolving priority BOSS issues, including emerging issues and any issues identified by the Leadership Council and Strategy Directors Team; engaging in policy development, clarification, and approval, providing support and resources needed to implement approved policies; providing guidance and standards on personnel management, evaluation, staff development, fiscal operations that impact or involve programs, and resource development; and working with Executive Director and Co-LEAD participants to ensure that BOSS does not miss internal or external strategic opportunities.

A core outcome of the second retreat, one which is impacting the social purpose enterprise as well as the nonprofit, is the development of a series of important guiding principles for different elements of the interactions and decision-making that take place in our model:

Principles to Guide Our Relationships

- 1) Our relationships are guided by the principles of empathy and active compassion.
- 2) We relate to each other with respect, honesty, and forethought, and honor commitments we make to each other.
- 3) We engage in conscious, responsible, open and direct communications in order to foster an environment of learning and growth.
- 4) We acknowledge the dignity of each person and respect each other's time, needs, abilities, limitations, boundaries and potentials.

- 5) We acknowledge the presence of oppression, bias and prejudice, and we strive to eliminate them in ourselves and our relationships.

Principles to Guide our Relationships with Participants

- 1) We strive to provide all participants with quality services.
- 2) We serve participants with respect, honesty, and dignity, honoring their uniqueness and respecting their growth process.
- 3) We encourage participants to achieve, grow, and succeed through caring partnerships.
- 4) We use empathy, compassion, and patience to honor the competency of each individual, encourage their definition of themselves and be involved in decisions affecting their lives.
- 5) We respect participant confidentiality and staff-participant boundaries, and apply them consistently in our work and professional relationships.

Principles to Guide our BOSS Relationship to Staff

- 1) BOSS maintains an open and direct communication system based on empathy and accessibility to information and decision-making.
- 2) BOSS nurtures a supportive environment for self-development by providing quality training, opportunities for creativity, and acknowledgment and praise for people's work and personal growth.
- 3) BOSS strives for consistent treatment of all employees based on clear external and internal criteria regarding labor relations, pay scale policy, and career advancement opportunities.
- 4) BOSS respects staff with a reciprocal process and standards of supervision and evaluation based on consistency, realistic expectations, clear goals and defined job descriptions.

Decision-Making Principles

- 1) BOSS's vision, core values, and principles inform our decision-making.
- 2) We strive to involve persons to be affected by decisions — participants, staff, volun-

teers, and our communities.

- 3) We will ensure that decisions are based on good information.
- 4) Managers frame issues and questions, and communicate restraints and parameters.
- 5) Managers formulate recommendations and decisions depending on context and need, implement, evaluate and refine.

Flow of New Ideas

- ◆ Idea Group or Individual (whoever originates the idea): Clarifies goals, impact, resources, roles and responsibilities
- ◆ Strategy Team: Reviews for compatibility with overall strategy, and consults with OST
- ◆ Leadership Council: Provides input, considers feasibility, recommends
- ◆ Strategy Directors & Executive Director: Makes final decision.

This flow of ideas is not linear — an idea may start from the inside (ED, OST, SDT) or outside (participants, staff) of the Co-LEAD circle. Either way, ideas come to the Leadership Council for an organizational discussion, action, or decision.

In BOSS's Co-LEAD model, each person is accountable to her/his supervisor, to BOSS, and to peers. Teamwork is an important feature of the structure. CoLEAD is about shared leadership through commitment to organizational vision and values. Leadership is power, and power is the capacity to activate our values and our sense of mission. It takes a significant amount of trust and hard work to distribute leadership, to call more than one person "leader," but the outcomes are far greater than strictly hierarchical management:

- ◆ Committed leaders represent BOSS with passion in many community networks and increase our reach
- ◆ They bring new sources of funding to BOSS because they believe in our mission and want to contribute to the growth of something they believe in
- ◆ They free up the Executive Director to focus more on external relations and

resource development without enlarging BOSS's hard-to-fund administrative layer

- ◆ They take remarkable initiatives, and think through new solutions. BOSS is their organization

This lesson is especially relevant to a social purpose enterprise because the majority of BOSS's employees are former clients.

Overall, the learning and growth resulting from the second retreat impacted BOSS Enterprises in terms of value convergence and a commitment to including the enterprise in the growth of BOSS's learning organization culture. As a result, Enterprise staff is more involved in staff development, training, planning, and celebration activities heretofore mainly participated in by the nonprofit.

The Learning Organization's Building Blocks in Practice: BOSS's Social Purpose Enterprise Experience

"When there is a genuine vision, people excel and learn—not because they are old to, but because they want to."

— Peter Senge,
THE FIFTH DISCIPLINE

We have struggled with how to introduce the reader to the disciplines of the Learning Organization. Knowing the theory is a tiny step, but open minds can take small steps to bring about immense change.

Peter Senge argues that the entire global community is learning together: most industries in the past were dominated by a single, undisputed leader, but now companies are pulled forward by each other's examples — the Americans learning from the Japanese, the Japanese from the Europeans. (It's not much different in the REDF portfolio, where collective learning is given a high priority.) He continues to argue that there is a deeper movement toward learning organizations, part of the evolution of industrial society. Material affluence for the majority has shifted people's orientation about work from an instrumental view to a sacred view. In other words, work is no longer simply a matter of completing required tasks, it offers a framework for cultural and social innovations and learning. Bill O'Brien, CEO of Hanover Institute, expresses this best when he says, "the ferment in management will continue until we build organizations that are more

consistent with man's higher aspirations beyond food, shelter, and belonging."

Many individuals and companies who share these values are in leadership positions: Jerry Brown, Mayor of Oakland, is a prime example. Ben & Jerry's. The Body Shop. "Business is only the institution that has a chance as far as I can see, to fundamentally improve the injustice that exists in the world. But first we will have to move through the barriers that are keeping us from being truly vision-led and capable of learning" (Edward Simon, President of Herman Miller).

"Engineers say that a new idea has been 'invented' when it is proven to work in the laboratory. The idea becomes an 'innovation' only when it can be replicated reliably on a meaningful scale at practical costs...In these terms, learning organizations have been invented, but they have not yet been innovated," according to Peter Senge. Learning organization culture has yet to penetrate many businesses, but for social purpose businesses the need to cultivate this culture is critical. There are many fears social purpose enterprises face: the fear of being unionized, the fear of competition, the fear of not pleasing the funders. The disciplines of learning organizations help address these fears and build an organization that is flexible, strategic, and unafraid of change. We will present the different elements to you in their pure form, even though as practitioners we have made some adjustments and additions.

1. Systems Thinking

Systems exist throughout nature and human society — infinite interconnections of cause and effect. Systems thinking directs us away from dealing with problems exclusively by breaking them into their individual components and towards understanding and responding to them according to their holistic, interdependent natures.

Internally, BOSS’s Co-LEAD management model applies systems thinking to generate maximum creativity and results from a large, highly diverse staff located at 24 sites across three cities: different players in the organization interact and make decisions at several levels, based on collective knowledge and thought, instead of a rigid top-down hierarchy for decision-making and implementation.

Of course, the Executive Director and, ultimately, the Board of Directors, have final authority over policy decisions, but mission, values, vision, strategies, and the ongoing flow of ideas and learning are constantly generated, renewed, and monitored at all levels, with the knowledge that the actions of every Co-LEAD participant affects the others, and affects our constituents and community as a whole.

Externally, BOSS has always envisioned itself as part of a larger connected system.

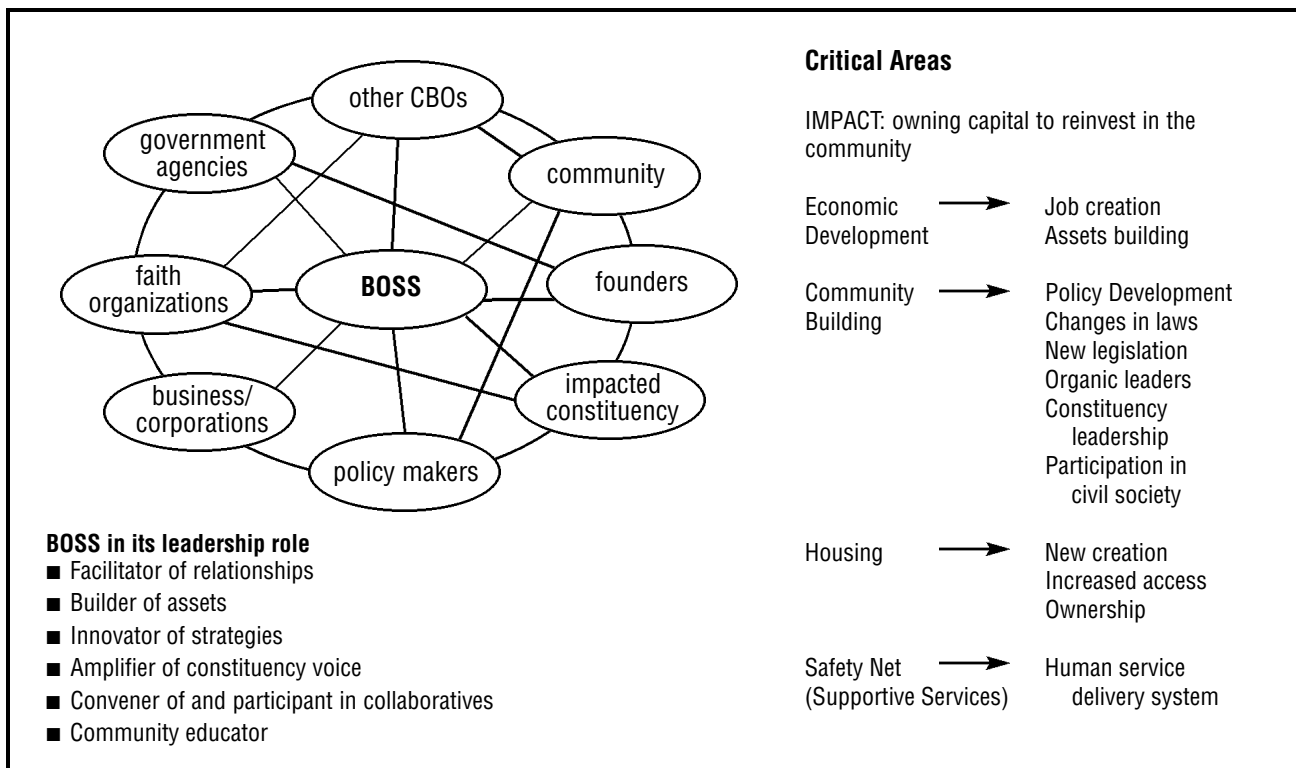
In this system (as illustrated below), the social venture affects the rest of the system through income and employment generation, and is impacted by the system in the quality of trainees and workers funneled through it, and by the ‘mental model’ (described later) the community holds of the business venture.

2. Personal Mastery

Personal mastery is a bridge between personal learning and organizational learning. It is the quality of continually learning, re-focusing, and re-energizing your commitment to a goal or vision.

In BOSS’s CoLEAD model, we have occasional workshops for staff and managers to learn skills that facilitate personal mastery. Our core values — e.g. participation, accountability, and learning/teaching — also speak to our commitment to fostering personal mastery.

Within BOSS’s social purpose enterprise, the personal qualities of the business manager is as important as his/her hard skills for ensuring business effectiveness. For example, knowing when to exercise control and when



to allow things to evolve naturally is a key management talent. As demonstrated in the comments of Michael McDowell, BOSS Enterprises General Manager, so are:

Deep sense of mission: “It’s important for me to feel that I have a mission and that I am accomplishing that mission — I love my job.”

Commitment to excellence: “I don’t think I am satisfied with just getting to a certain level and staying there, and that’s part of the drive that I grew up with — to excel.”

Commitment to skills transfer: “Wherever I’ve been, my goal is trying to make myself obsolete. I figure I’m doing a good job if I can leave one day and have someone step into my position immediately and be able to run the business.”

Respecting boundaries: “When I see a trainee doing something I don’t think is right, I don’t correct them. I talk about it with their supervisor. Maybe the supervisor knows something I don’t know.”

3. Mental Models

Mental models are “deeply ingrained assumptions, generalizations, or even pictures or images that influence how we understand the world and how we take action,” (The Fifth Discipline). Mental models are often not consciously realized, but impact our feelings and actions, and thus our success in achieving goals.

In the 1970’s, as BOSS was forming, the vision was limited to getting people off the streets. In the 1980’s, following an intense period of program expansion, our organizational stance was reactive and oppositional; we were fearful of losing resources. These narrower mental models prevented us from opening ourselves to larger visions and strategic partnerships that would help us grow and learn in order to pursue our mission more effectively. Twenty-eight years later, BOSS has refined its four strategies in the hope of promoting lasting social and economic justice for poor and homeless people in the United States. The organizational stance has changed to one of partnership with all our stakeholders and facilitation of diverse supportive relationships.

By 1995, the “myth” that nonprofits are not managed like a business was erased within BOSS. Some of the scandals around nonprofits woke us up, and we began to put in

accountability, transparency, quality, and efficiency as everyday processes in our work. However, it wasn’t until our strategic planning process in 1997 that we began to purposefully include all stakeholders — organizational and business partners, funders, volunteers, and donors in addition to Board, staff, and participants. We developed a living vision and organizational plan that would position us in the 21st century as a learning organization with a blend of values that would hold strong in both the social services side of our nonprofit and the business ventures side.

When we envision a mental model for ourselves in 2110, we hope to be remembered as an organization that was on the cutting edge of the production of ideas and knowledge, while continuing to be known as a nonprofit committed to excellence. In 2110, using the principles of a learning organization, we also see ourselves as a leader in social ventures — true to our triple bottom line.

Mental models have had a definite impact on the growth of our social purpose enterprise. In starting the business, we were over-aware of competition, and used that as a mode of learning and decision-making. However, in this process we should have learned more from other social purpose enterprises, and not exclusively from the marketplace.

When we started BOSS Enterprises, the business language used by our funders and peers seemed crass to us. So that our organizational culture would not be polluted, we isolated our business venture, with the thought that running a profit-making business was different from running our social services business. Gradually, we learned more about businesses in the profit-making world. We found that the very core of business has been changing greatly in the past ten years. Business has discovered that it cannot be led and managed as though it consisted of machines with separate parts connected to one another through wires, rods, and pipes. The new image of business organizations is that of living, breathing organisms — systems — where each moving part is self-reliant and yet all parts are held together by forces that compel them to gravitate towards a common center, closer to one another, naturally and without coercion. These core forces are organizational values and vision.

The business community has discovered what many nonprofits have long been convinced of: the greater the philosophical depth (from reading, inquiry, and understanding principles of success), the more sustainable the business. Bill O'Brien, CEO of Hanover Insurance, worked continually for 20 years to develop a 'guiding philosophy' for his company. In his words, "Our traditional organizations are designed to provide for the first three levels of Abraham Maslow's hierarchy of human needs — food, shelter, and belonging. These organizations do not provide anything particularly unique to command the loyalty and commitment of people. The ferment in management today will continue until organizations begin to address the other higher needs: self-respect and self-actualization."

There are a number of business examples that use this mental model — profit-seeking combined with clear human values and social objectives — which are not necessarily known as social purpose enterprises.

TDIndustries, a Texas-based mechanical construction and service firm, is another example of a value-based business. Profit-sharing began almost from the company's inception in 1946. Employees are called "partners." In 1989, due to a decline in Texas construction, TD, which started the year with a net worth of \$10 million, had a pretax loss of \$5 million. Then their bank, to which they owed \$15 million, failed. The company risked bankruptcy when its new creditor, the FDIC, demanded immediate payment. With trustworthy leadership, the partners acted altruistically on the only workable solution. They raised \$1.25 million by voluntarily terminating their overfunded retirement plan and making contributions from the distribution of the terminated plan. Today, TDIndustries is thriving. In 1998, Fortune rated it number five in a survey of the top 100 companies to work for in America. The strength of the company's value galvanizes employees: "The reason we're in business is to provide great careers for our people."

Ben & Jerry's is a more familiar example of a value-based business. The company is not satisfied being just a "cause-related" operation: making money by doing business as usual and then donating part of its after-tax profit to charities. What Ben & Jerry's board of directors wants is a business that fully operationalizes its values. For example, the leader-

ship's and employees' concern for the environment means switching to chlorine-free containers that meet their marketing criteria. It is not a matter of "If we could do it, we'll do it," but rather, "Let's do it no matter what it takes and how long it takes." As a result, for a growing base of socially aware consumers, Ben & Jerry's is more than a great ice cream. It is an icon of a value system that customers are proud to support.

For social purpose enterprises, mental models must encompass both service or product quality, and values and vision. BOSS Enterprises is striving to attain this mental model. A stumbling block for many smaller, community-based social purpose enterprises is that attention and care may be heaped on one side of the equation while the other side flounders (e.g. giving full attention to profit-based quality concerns while neglecting values and vision, or vice versa).

4. Building Shared Visions

Shared vision — a common picture of the future and plan for getting there — is at the heart of the success of an organization or business. Without a mutual destination, the best intentions will scatter good people in infinite possible directions. Shared vision pulls people together and helps build a collaborating team.

In BOSS's CoLEAD structure, we use a community building process for creating shared vision. To us, "community" is everyone who is touched by and contributes to our work: participants, staff, managers, board, funders, strategic partners, and the larger community within which we live and work. We engage people at all levels of the organization to tune into the vision of BOSS as a community organization, to connect with our mission of ending homeless and poverty in our community, and to our commitment to practice eight core values. Core values are at the center of the CoLEAD model:

- ◆ Diversity: respecting, celebrating, and actively involving people of diverse cultures, races, genders, disability, ages, incomes, and life choices
- ◆ Participatory process: involving everyone at every level in decisions that affect their lives and work

- ◆ Partnerships: increasing organizational impact through cooperation and synergy
- ◆ Accountability: providing the highest quality service and remaining responsible stewards of funds and partnerships
- ◆ Accessibility: being physically accessible, maintaining open books, and generously sharing information and skills with peers and partners
- ◆ Learning/Teaching: renewing and growing by building our knowledge base and honing our skills
- ◆ Comprehensiveness: responding to the complexity and interconnectedness of people's needs through a coordinated response
- ◆ Compassion: respecting everyone's experience and acting from the reality that the path out of crisis is different for each person

One important function of the CoLEAD model is to operationalize BOSS's core values within all of our 24 programs. For example, we build into the interview process for new hires questions that let us gauge candidates' affinity with our core values and their capacity to learn, thrive, and perform with excellence in BOSS's value-based culture.

At BOSS, we also often celebrate our work and values. In celebration, we connect to what is important to us, and relate to one another as whole persons — bringing out the parts of ourselves that we don't engage during the normal course of work. For example, in many gatherings, people share their talents — in performance or music or storytelling. And because BOSS is an ethnically diverse organization, some of our gatherings take on the quality of a "global village."

Vision in the Social purpose enterprise

Our shared vision for BOSS Enterprises is our triple bottom line: profit (income to sustain the nonprofit); values (employing and training our constituency); and vision (continual learning and innovation to help the social venture and larger organization thrive).

To achieve this vision, BOSS Enterprises must practice values that move it toward its

goal. BOSS Enterprises needs to project an air of professionalism, confidence, responsiveness, value, and friendliness at all times in the field of general contracting. "The appearance of the crew and equipment, and the assuredness in which they are handled, leave important first impressions on clients. In the first quarter of 1999, the enterprise will develop a reasonable appearance standard in order to assure job site safety and project a professional company image" (BOSS Enterprise business plan).

Are the key elements of BOSS's CoLEAD model effective tools for building a profitable business?

We believe they are, based on observing two key trends:

1. Building community inside organizations

Major corporations who suffered from the rigidity of traditional hierarchies (superiors' telling subordinates' what to do) are experiencing positive results from employee participation in creating shared vision, values, and goals. Juanita Brown and David Isaacs, pioneers in the idea of "organization as community" report visible progress in this area among large businesses such as AT&T, Motorola, Steelcase, and Herman Miller. Through frequent interviews, Brown and Isaacs have observed that people relate much more positively to the image of community than that of corporation. In their words, "People talk about the feeling of living in a town or a neighborhood where there is cooperation and a high quality of life. People think of commitment, team spirit, and fun. Whatever the specifics may be, the images always evoke a richer, more involved sense of ourselves in relationship to a bigger whole."

2. Contributing to the larger community

In BOSS Enterprises, many of our staff members have left higher-paying private-sector jobs or lucrative self-employment to work for us because we are doing something for the community, and as a result they know that they are doing something for the community. The General Manager observes that this commitment to the mission is a major contributor to employee morale and engagement in the growth of the business. This is an important learning for BOSS, because when we first started the business we put the emphasis on hiring

people with excellent hard skills. We did not sufficiently value their commitment to organizational mission and values and the impact of this commitment (or lack of it) on the success of the business. In setting up BOSS's social purpose enterprise, we did not practice what is an ingrained and proven success factor in the nonprofit side of the organization. As a result, our first team of workers did not create the community dynamics that are now emerging as key to the effectiveness of the enterprise.

In the venture's next phase of development, we will build operations and marketing on a foundation of shared vision, values, goals, and performance standards. It will take time for new practices to become "second nature" and for us to observe and document the correlation between value convergence and profitability. But we believe that we are on the right track. Our commitment also includes applying BOSS's core value of diversity to the business by hiring more women and minorities in an industry dominated by white males. With diversity and mission-driven motivation added to the mix of excellence, integrity, and social outcomes, we hope to create a new breed of construction company.

We are also encouraged by the potential for extending to our customer base the shared vision of community and a better life for everyone. When we started BOSS Enterprises, many colleagues advised us not to be up-front about our identity because customers would be put off by the image of homeless people working on their properties. This caution has been well placed in some cases, such as projects in private homes, but we are also witnessing another pattern. Recently, a property owner who had previously rented apartments to BOSS's clients was very satisfied with the quality of a job our work crew performed for him, and he said that he would give us more and larger contracts because our work is high quality, our price is competitive, and our mission of helping people to help themselves adds value to our work. As BOSS Enterprises' General Manager observes, "This is a way for them to contribute back to the community, and it doesn't cost them anything."

5. Team Learning

Team learning is the capacity of an organization or business to learn together, to build

knowledge and skills and move forward as a unified entity — a process distinct from varying levels of individual development.

Over the years, in observing the processes of change in BOSS staff and clients, we have noticed a number of key factors that account for both individual and organizational growth:

- ◆ People want to learn
- ◆ People want to be productive
- ◆ People work best when they know that they are part of something larger than themselves
- ◆ People sustain energy and enthusiasm when they feel that they are learning continually

As a result, an important feature of BOSS's CoLEAD model is to provide people many opportunities to learn and to grow personally and professionally. Because of this, many of our key management staff have moved up through the ranks and have provided us valuable continuity through key junctures in BOSS's development.

A standard practice within BOSS's CoLEAD model is the monthly reporting by members of the Leadership Council, representing all of our 24 programs. Everyone reports on the same questions. Questions are intentional and help us learn and see patterns of change across BOSS's strategies and components rather than focus on specific activities that are best left to smaller units of staff to work on.

Most BOSS program components plan and evaluate their goals, activities, challenges, and outcomes regularly. In solving problems together, staff builds stronger teams that are more likely to pull together and support one another during crises. Also, because the shared focus is on serving clients based on BOSS's core values, most often people search for the best solutions instead of giving in to the political clouts of the advocates of specific positions.

Learning is growth. There is an interpersonal dynamic called the "Pygmalion effect": your low opinion of someone influences that person's behavior. BOSS's core values of compassion and respect for diversity are antidotes to the Pygmalion effect. Staff members are

trained to work with clients' potential rather than their shortcomings. Also, at the staff and management levels, people who truly want to learn and move forward in their career are supported to the greatest possible extent. Their will, curiosity, and drive generate the necessary energy to learn and to grow, and when we raise the bar and challenge people to change in the direction of their potential, many meet the challenge. On the other hand, forcing someone to learn and change against her/his own will is futile and can backfire. Learning is a free choice.

Recently, at BOSS Enterprises, one staff member was left with extra responsibility when two other staff were on vacation. The staff person had to perform tasks that were beyond her usual scope of work. At first somewhat overwhelmed, she turned that feeling into a drive to learn. When the General Manager returned, she expressed her desire and need to learn additional management skills. It so happened that the GM had been thinking the same, not only for that staff person, but for others as well, and he committed himself to supplementing formal training with one-on-one coaching as necessary. In BOSS Enterprises' case, the General Manager's own commitment to team learning makes it easier to promote learning in others: "Learning with others gives me a chance to know what my weaknesses are and not take it personally. When something doesn't work well, I figure out exactly why it didn't work and I want to make it work next time — I go on a learning curve."

Participatory planning and evaluation as learning.

Asking questions and deeply assessing performance is an important tool in individual and team learning.

When BOSS Enterprises' new General Manager came on board, he gathered all staff and asked them to talk about everything they felt needed to happen to improve business operations and customer relations, and how they would go about changing things. The areas of improvement — personnel, training, marketing, and operations — were the exact strategic planning framework the manager would have identified had he done it himself, but the itemized list was more complete than it would have been had he done it alone. But the real difference was that the workers "owned" the list. As an experiment, the General Manager put the list on the shelf (usually a recipe for ignoring and forgetting about something) and found that his team began working on the items on the list on their own, and are still "making progress on all of them."

"When people think together and work as a group," observes the General Manager, "you get a lot more perspective on things, and you probably get a truer vision of what you need to accomplish as an organization — the other thing is that by having everybody work on it together, you get a far better buy-in. I probably wouldn't have come up with the 25 different objectives in the five different goal areas. I probably would've missed some things. And even if I had gotten everything, it would have been. 'This one guy called the boss is shoving all this stuff down our throats.' That's a great way to build resistance."

The Core Task: Turning the Gap Between Vision and Current Reality Into A Lever for Growth

"The hallmark of a learning organization is not lovely visions floating in space, but a relentless willingness to examine 'what is' in light of our vision."

— Peter Senge,
THE FIFTH DISCIPLINE

At BOSS we know that a strong vision is not enough for success and sustainability.

The key issue is how we manage the gap between where we strive to be and where we actually are. In the context of learning, this gap and its tensions are sources of creativity. To fully tap into this creativity, we must be committed to seeing reality objectively and to telling the truth about what is not working.

This is what BOSS strives to do in our strategic thinking and day-to-day operations.

For example, we have learned to work and organize ourselves in different ways. One paradigm shift in BOSS last year after the second retreat was the creation of the “Organizational Support Team” or OST (senior-level staff in systems, resource development, personnel, and fiscal management). The OST members have become not only the analysts and decision-makers for these technical operational areas but also now play the role of managing the vision, mission, and values of the organization. This role has developed because of the longevity of staff in this body and also the position it holds overarching the entire organization rather than being based in any one or handful of programs. Working collectively with the union and other Co-LEAD teams, it has set performance standards and built community and shared vision through a loop of communication tools.

Challenges

The process of becoming a learning organization has created new challenges — managing democracy in an organization as complex as ours; continued clarity around mission, vision, values, and performance; shifting more day-to-day responsibility to front-line staff; and creating an organizational culture instead of each component having its own perspective without understanding the whole.

In terms of seeing reality as it is and responding honestly, one example in BOSS came during the retreats described earlier. Looking honestly at our methods of service provision, our ‘laundry list’ mentality and practices, we recognized that people’s needs are interconnected and necessitated a better approach. We responded by creating collaborating teams to undertake service improvements under four core strategies: Economic Development, Community Building, Housing, and Support Services. We are in the process of identifying and assessing outcomes in each area, including impacts on constituent lives, staff productivity, and costs.

Applying the disciplines of a learning organization to meeting our mission requires us to address a number of other challenges:

Knowledge Management vs. Information

In order to turn vision into reality, informa-

tion is not enough — how we manage and apply information, knowledge management, is even more important. “Knowledge and information are distinct entities...The confusion between knowledge and information has caused managers to sink billions of dollars in information technology ventures that have yielded marginal results...(Non-linear) strategies cannot be predicted based on a static picture of information residing in the company’s databases. Rather, such strategies will depend upon developing interpretive flexibility by understanding multiple views of the future. In this perspective, the objective of business strategy is not to indulge in long-term planning of the future. Rather the emphasis is on understanding the various world views of the future,” (“Knowledge Management for the New World of Business,” by Yogesh Malhotra, Ph.D., 1998).

In other words, gathering data is useless without the ability to understand the relationships between different elements of data and to prepare for many possible outcomes predicted by the data.

Malhotra continues, “John Seely Brown, director of the Xerox PARC research center in Palo Alto, California, underscores that in the last 20 years, US industry has invested more than \$1 trillion in technology but has realized little improvement in the efficiency or effectiveness of its knowledge workers. Brown attributes this failure to organizations’ ignorance of ways in which knowledge workers communicate and operate through the social process of collaborating, sharing knowledge, and building on each other’s ideas.”

BOSS is currently refining its agency-wide information management systems and deepening our analytical capacity to apply the knowledge and information we gather to useful purposes, such as evaluation of programs and community needs. In this process, we have been careful to think ahead and avoid working in a vacuum. We are part of a county-wide IMS collaborative, allowing us to learn from existing systems and methods and access relevant available resources.

Plainly, the culture of a learning organization is much better equipped to address the challenge of knowledge management than static (non-learning) organizations. The principles of knowledge management align well with the principles of a learning organization. Among the former are:

- ◆ Viewing the organization as a human community capable of providing diverse meanings to information outputs
- ◆ De-emphasizing adherence to the “way things have always been done”
- ◆ Investing in multiple and diverse interpretations to enable a ‘constructive conflict’ mode of inquiry
- ◆ Encouraging greater pro-active involvement of human imagination and creativity
- ◆ Giving more explicit recognition to ideals, values, or emotions, for developing a richer conceptualization of knowledge management
- ◆ Making the organizational information base accessible to organization members who are close to the action

Unionization

Another challenge for learning organizations is operating in a unionized workplace. BOSS itself is such a workplace; front-line employees are represented by local union CalPRO 2345. Oxfam America, a large international development organization with strong values and practices as a learning organization, has done some critical thinking in this area (from Oxfam’s Bellagio Conference Paper, submitted by Raymond Offenheiser, Susan

Holcombe, and Nancy Hopkins, August 1998):

“Since the early 1980s Oxfam America staff have been unionized under the Service Employees International Union. In general, unions’ modes of operating in the United States today are still firmly rooted in the industrial model of workplace relationships. In recent history at Oxfam America, the relationship between the union and management has been more adversarial than collaborative. The learning organization concept presupposes trust, professionalism, shared values and objectives, and openness to learning. While all staff members are open and even enthusiastic about the learning organization concept, efforts to build a learning organization can stumble on the assumptions of an adversarial relationship and of employees as workers in the industrial model. For example, operating on learning organization principles may require frequent changes in job descriptions or assumptions of supervisory roles by a staff member. In a union environment, job description issues take considerable time for implementation pending union reviews. Union staff are not allowed to take on supervisory functions, even when it would contribute to their professional growth.”

Oxfam identified some key strategies to address these challenges, centered on new ways of interacting with union leadership, including involving union leadership and management in trainings on negotiation and mediation, and on operating a learning organization in a union environment.

Into The Future

“The will of a person committed to a larger purpose is a cry from the soul which has been shaken and awakened.”

— Kazuo Inamori

The challenge faced by social purpose enterprises — to thrive with multiple bottom lines in a fast-changing environment — is best met by the culture of a learning organization: open, honest, flexible, collective, and visionary. As we develop and refine BOSS in

the years ahead, we can learn many things from businesses that do a good job with systems, marketing, and customers. We also can apply BOSS’s vision-driven and values-centered Co-LEAD management model to growing our social purpose enterprise.

In the future of social purpose enterprises, we acknowledge that nonprofits must make significant adjustments in attitude and action when managing a business. To learn profit-centered principles and practices is a leap for many of us. At times, we have to go

against our grain just to get a feel for the business world. But we cannot do this at the expense of our core values and social mission. Eventually the pendulum needs to swing to the middle for balance — social purpose

enterprises that incorporate the best of both worlds: business growth from a solid foundation of values and intent. Finding this balance is part of the continual learning process for social purpose enterprises.

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