

Social enterprise: A powerful engine for economic and social development

Prepared by the Social Enterprise Alliance

“What does our organization do? We create taxpayers!”

Mark Berger, President and CEO, Partnerships with Industry (PWI)

PWI is a social enterprise that provides training, placement and ongoing support services for adults with developmental disabilities, including those with autism, epilepsy, mental retardation and other challenges. PWI simultaneously meets the labor needs of more than 200 employers in southern California and each day serves more than 550 people who are developmentally disabled through vocational assessment, contract services, group services and individual job placements. Founded in 1985, it has four facilities where it manufactures, among other products, the popular Camelbak backpack.

DEFINITION

Two distinct characteristics differentiate social enterprises from other types of businesses, nonprofits and government agencies:

- Social enterprises **directly** address social needs through their products and services or through the numbers of disadvantaged people they employ. This distinguishes them from “socially responsible businesses,” which create positive social change **indirectly** through the practice of corporate social responsibility (e.g., creating and implementing a philanthropic foundation; paying equitable wages to their employees; using environmentally friendly raw materials; providing volunteers to help with community projects).
- Social enterprises use **earned** revenue strategies to pursue a double or triple bottom line, either alone (as a social sector business, in either the private or the nonprofit sector) or as a **significant** part of a nonprofit’s mixed revenue stream that also includes charitable contributions and public sector subsidies. This distinguishes them from traditional nonprofits, which rely primarily on philanthropic and government support.

“Social enterprise” is also different from “social entrepreneurship,” which broadly encompasses such diverse players as B Corp companies, socially responsible investors, “for-benefit” ventures, Fourth Sector organizations, CSR efforts by major corporations, “social innovators” and others. All these types of entities grapple with social needs in a variety of ways, but unless they directly address social needs through their products or services or the numbers of disadvantaged people they employ, they do not qualify as social enterprises.

SCOPE

Social enterprises proliferate in both the private and nonprofit sectors:

- An explosion of activity took place across the United States during the 1970s and 1980s as private sector entrepreneurs, small businesses and major corporations discovered social markets and started social enterprises. They began to run adult day-care centers; educational programs for small children, high-school dropouts and adult students; low-cost housing projects; vocational training and job-placement efforts; home care services for the disabled and elderly; hospice care; outpatient mental-health and rehabilitation services; prisons; wind farms; psychiatric and substance abuse centers; and dozens of other businesses that delivered products and services previously provided only by nonprofits or government agencies.
- The social enterprise movement began to accelerate in the nonprofit sector during the 1990s as a series of pressures made it more and more difficult for nonprofits to survive without adding earned revenue to their mix of resources. Today the five most common types of nonprofits operating social enterprises are those that specialize in workforce development, housing, community and economic development, education, and health. More than 30% of the nonprofit social enterprises responding to a 2009 national survey reported annual sales of more than \$1 million, and many achieved profitability. Unfortunately, some nonprofit Board members, employees, funders and supporters still believe nonprofits are not legally allowed to make a profit from the sale of goods and services. This is not the case: So long as the organization’s profits are re-invested in the nonprofit’s mission and its senior executives do not receive excessive compensation, there is no legal limit on the level of profitably a nonprofit social enterprise is allowed to achieve.
- *Additional information about the origins and growth of the social enterprise movement in both the private and nonprofit sectors appears later in this paper.*

Today, there are three types of social enterprises operated by private sector and nonprofit organizations in the United States. The first treats the people it serves as potential employees, the second views them as customers – and the third combines the two approaches.

- **EMPLOYEE-FOCUSED social enterprises** (known in the United States as “affirmative businesses” and in the U.K. as “social firms”) are created specifically to provide four things for people who are mentally, physically, economically or educationally disadvantaged: Permanent jobs,

competitive wages, career tracks, and ownership opportunities. It has been estimated that more than two-thirds of all social enterprises created by nonprofits in the United States are affirmative businesses, primarily because one of a nonprofit's greatest assets is an available, untapped labor force (and also because these types of businesses are more difficult to scale and therefore less appealing to the private sector). The businesses themselves are typically straightforward enterprises such as janitorial services, telemarketing, packaging/assembly plants, temporary employment agencies and the like -- their social missions are workforce development, job creation and career development. *(A selected list of employee-focused social enterprises may be found in Appendix A.)*

- **CUSTOMER-FOCUSED social enterprises** directly address social needs other than workforce development, job creation and career development. They can be sub-divided into categories such as "human service businesses," "environmental businesses," "education businesses," and so on. Examples include such enterprises as home care services for people who are frail or elderly, adult day care, assistive devices for people who are physically challenged, management of low-income housing units, employee assistance programs, publishing companies, and dozens of others. *(A selected list of customer-focused social enterprises may be found in Appendix B.)*
- **HYBRID social enterprises** simultaneously deliver a product or service that directly addresses a social need *and* employ the members of a target population such as people who are developmentally disabled, men and women coming off welfare, former prisoners, recovering drug addicts, high school dropouts and others. *(A selected list of hybrid social enterprises may be found in Appendix C.)*

THE CASE STATEMENT FOR INVESTING IN SOCIAL ENTERPRISES

The economic and social impact of social enterprises differs depending on whether the enterprise treats people as potential employees ("affirmative businesses") or as customers.

Employee-focused social enterprises: Every year, millions of Americans who are disabled or disadvantaged gaze longingly at those of us who have a job. For them, it represents a ticket to a better life, a measure of self-sufficiency and dignity in a difficult world. They may be developmentally disabled, former convicts, bi-polar, poorly educated, recovering substance abusers, gang members, single mothers on welfare . . . or anybody else standing outside the economic mainstream. But few find employment. Few are even deemed capable. Private sector companies view them as a drag on productivity. Society ignores, tolerates, fears or coddles them. And government and philanthropy pay the bill.

The social and financial cost to the country of excluding these people from the workforce is crippling. Not only do we fail to capitalize on a source of productive human capital, but we also bleed public and philanthropic funds to support many people who are actually capable of supporting themselves.

Yet millions of America's invisible citizens remain unemployed and undervalued. Most people who are physically, mentally, economically or educationally disadvantaged *are* capable of holding real jobs, earning competitive wages and building careers. Nevertheless, all but a few are still a drain on the country's treasure – despite *being* one of our greatest treasures.

Affirmative businesses are changing that equation. Their revolutionary approaches to job creation and business strategy offer hope to millions of invisible Americans – and to a country thirsty for new vitality and skills.

While the importance of a job to an individual is evident, the value of a job to the America economy is even more significant.

Consider first the taxpayer dollars saved by removing individuals from society's safety net: Salaries for social service personnel, incarceration expenses, health care benefits, subsidized housing, child care allowances, temporary assistance to needy families, welfare payments, food stamps, unemployment compensation, and a laundry list of other transfer payments. Then add to that the capital infusion to the economy from a person with barriers to employment once he or she secures a living wage job – the taxes the person pays plus the multiplier effect of the money he or she spends in the local community.

In 1981, economists commissioned by Control Data Corporation, a Fortune 100 company, combined the costs associated with the social safety net with the spending power of a living wage job and estimated the net value of a single job to the American economy at \$52,000 per year. Today, a generation later, economists have informally and, to their minds, conservatively estimated the value at a minimum of \$80,000 per year and quite possibly more than \$100,000.

The implications of those estimates are startling: If the value of a single job is \$100,000, then the contribution to the American economy of a single affirmative business such as PRIDE Industries, which employs 2,700 people who are disabled or disadvantaged, comes to \$270 million *per year*. From *one* social enterprise. And at \$100,000 per job, the numbers mount rapidly: A group of affirmative businesses collectively employing 10,000 people is providing a \$1 billion stimulus to the American economy each year. Migrating 50,000 people into living wage jobs and keeping them there for a ten-year period provides a \$50 billion stimulus.

But those statistics barely hint at the potential. The ranks of businesses that specialize in creating jobs and careers for people who have barriers to employment are rapidly swelling – and it isn't just an American phenomenon. Workability International currently has 133 members in 42 countries that collectively employ more than three million people. During the past decade, the number of affirmative businesses in the United Kingdom alone (where they are known as "social firms") has grown from a handful to more than 300, many of them birthed with seed money from the U.K. government.

Collectively, affirmative businesses are a win-win-win. They offer public sector leaders and philanthropists a new way to address chronic unemployment, recidivism, welfare, inadequate education and a host of other challenges. They give nonprofits a *sustainable* way to achieve their missions. And they usher people with disabilities and disadvantages into the economic mainstream.

Customer-focused social enterprises: The economic and social impact of customer-focused businesses is often easier to determine than the impact of affirmative businesses. Research points to the paralyzing economic burden imposed by America’s unmet social needs. Directly addressing them with market-based approaches not only decreases their negative impact on the country’s social well-being, but also significantly decreases public expenditures and reduces indirect social costs. What follows are the implications in just a few human service industries.

- **Hospice care:** Since arriving in the United States in the 1970s, hospice care has become a \$2.8 billion industry expanding at a rate of 3.5% per year. In 2007, 1.4 million people used hospice care, with Medicare paying 80% of the bill to certified providers such as Vitas Innovative Hospice Care, a social enterprise that started with a single patient in the basement of a church in 1978 and today provides end-of-life care to more than 60,000 people each year. Hospice has been proven to simultaneously reduce overall Medicare program expenditures and greatly increase the quality of life for individual users: Each beneficiary who uses hospice in the last year of life saves the Medicare program approximately \$2,300 (a total savings of nearly \$3 billion/year); and, depending on the type of illness and length of use, Medicare savings can be even higher, as much as \$7,000 per person.
- **Long-term care:** An estimated 9.5 million Americans (six million elderly people and 3.5 million others) require long-term care to help them with the Activities of Daily Living (ADL) – cooking, cleaning, grooming, transportation, and so on. That number is projected to double by 2040. But long-term care can be costly. Medicaid is the primary source of financing and accounts for the large majority of public spending. Although fewer than 10 percent of Medicaid beneficiaries use long-term care services, it accounts for about one-third of total Medicaid spending (\$82.1 billion of \$243.5 billion in 2002). Long term care provided by social enterprises includes several options for consumers. Two of the most cost-effective are described below.
 - **Home care/Homemaker services:** Nearly 80% of people needing assistance with the activities of daily living rely exclusively on unpaid/informal care through friends or family members -- but while informal home care may be “free,” it carries significant costs to society in lost productivity and wages. On the other hand, home care and homemaker services provided by social enterprises such as Missouri Home Care have a double impact: Launched with 30 clients in 1976, the company today serves more than 2,500 frail elderly people throughout rural Missouri – and has simultaneously created 600+ second-income jobs for farm spouses. More importantly, social enterprises not only offer a cost-effective solution for people needing help with ADLs, they also delay transfer to an assisted living facility or nursing home, which are much more expensive. Consumers can expect to pay as much as \$3,000 per month for a single room in an assisted living facility – yet the national median hourly rate for licensed home care aides is only \$18.
 - **Adult day care services:** More than 30 million Americans provide an average of 1,080 hours of care in the home every year to family members with functional limitations, at an estimated economic value of \$350 billion. But home caregivers who feel stressed

and burdened are more likely to institutionalize relatives in assisted living facilities or nursing homes, especially when other options are not available. Fortunately, adult day care services offered by social enterprises play a key role in preventing or delaying nursing home placement, and at an affordable cost -- the national median daily rate is just \$60. Adult day care also has the potential to reduce health care costs by providing monitoring and preventive care, especially to those at risk for high medical costs.

- **Supportive housing:** Each homeless person in America costs society approximately \$41,000 per year. With an average of 670,000 sheltered and unsheltered homeless persons nationwide on a given night -- \$27.47 billion in costs per year -- eliminating homelessness at its roots can create considerable savings for state and federal budgets. But homelessness is often symptomatic of larger life challenges such as substance abuse, mental illness and chronic disease, which is why social enterprises are a much more effective solution than shelters. Supportive housing social enterprises offer a *combination* of housing and personal services that address the core causes of homelessness. For example, Housing Works has provided housing, medical and job-training skills to more than 20,000 homeless New Yorkers living with HIV/AIDS since 1990 and operates numerous social enterprises that employ the people it serves. Housing Works and social enterprises like it also cost society far less than publicly funded institutions such as prisons, jails and mental hospitals. In New York City, as an example, the daily cost of housing a person at a hospital is \$1,185, while supportive housing costs a mere \$41.85.
- **Substance abuse recovery centers:** For every dollar federal and state governments spend to prevent and treat substance abuse and addiction, they spend nearly \$60 dealing with its consequences, a total of \$510.8 billion each year. However, investing in market-based treatment and prevention services provided by social enterprises such as Hazelden yields high returns: Every dollar spent in treatment at a social enterprise reduces future public sector costs by \$12 or more in diminished criminal justice and health care costs, and every dollar spent on prevention yields a ten-to-one return. Hazelden alone operates in five states and provides treatment services to 9,000 patients per year.
- **Supplemental Educational Services (SES):** The current rate of 7,000 high school dropouts each school day will cost the country \$3 trillion over the next decade. Each high school dropout alone costs the nation approximately \$260,000 over the course of his/her lifetime due to projected lower wages and an increased likelihood of incarceration or dependency on government assistance. But social enterprises have been successfully attacking the problem for years. As an example, Ombudsman Educational Services has absorbed potential dropouts from local high schools and helped more than 100,000 graduate since 1975; the company now has 60 schools in 13 states and 77% of its program participants graduate.

ORIGINS OF THE SOCIAL ENTERPRISE MOVEMENT IN THE UNITED STATES

Private sector: Although there had been isolated incidents of private sector companies addressing social needs through their products and services, William C. Norris, founder of Control Data Corporation, codified the principles of social enterprise for the private sector when his Fortune 100 company

responded to the torching of American cities during the inner city riots of 1967. Norris immediately built plants in five inner cities and two depressed rural communities -- and then proclaimed his company's new strategy would be "to address the major unmet needs of society as profitable business opportunities." Control Data began to use its expertise in computing services to revitalize urban and rural neighborhoods, incubate small businesses, promote alternative energy sources, create jobs, deliver education, and respond to other social needs.

During the next two decades, Control Data's example prompted other companies to follow its lead, and, in 1982, the management expert Peter Drucker and the economist John Kenneth Galbraith, as well as more than 250 chief executives from around the world, joined Norris at Control Data's headquarters in Minneapolis for an international conference to promote the concept.

Drucker spoke about simultaneously "doing good and doing well," Galbraith debunked the business bromide that "our social responsibility begins and ends at the bottom line," and Norris repeated the message he had been trumpeting for years: The transformative power of business, he told his colleagues, is the ability to merge two often opposing forces -- the profit motive and moral imperatives.

Norris and his admirers were creating something new, something the business world had never seen. Their social enterprises went beyond the traditional concept of corporate social responsibility by *directly confronting social needs through the businesses themselves* in addition to grappling with them indirectly through socially responsible business activities.

Nonprofit sector: It took nearly a generation before most people in the nonprofit arena grasped the power of the social markets. Once they did, in the mid-1990s, nonprofits around the country began to pursue sustainability by adding business activities to their traditional mix of volunteers, charitable donations and government grants. A few have even abandoned dependency on donors and government subsidies entirely, achieving self-sufficiency by focusing exclusively on profits from their businesses.

A series of tectonic shifts occurred during the last 30 years of the 20th century that changed the rules of the game for nonprofits and prompted them to join the private sector in the social enterprise arena:

- Operating costs began to escalate and nonprofit reserves eroded: In 1977, the average nonprofit in the United States had more than three months of operating capital in reserve at any given time – by 1989 it had less than four days, not enough to cover even a single week's payroll
- Annual support from individual, corporate and government sources all declined or flattened
- More nonprofits began to compete for the available charitable funds (there are three times as many nonprofits in the U.S. today than there were 30 years ago)
- More people needed help with the basics of food, clothing, shelter and health care
- Donors and government officials began calling for nonprofits to do more with less, insisting on greater accountability and better results

By the late 1990s, we began to see a response to this pincer movement closing in on the sector, especially a shift in mindset away from viewing service recipients as objects of charity toward one that viewed them as capable individuals who could benefit more from opportunity and empowerment than from handouts. That led to the expectation that programs should intervene in people's lives in ways that create growth and independence rather than dependence, and earned revenue initiatives – especially affirmative businesses -- met that expectation perfectly.

Severe cuts in government funding for human services during the 1980s (federal and state support for human services alone plunged by 23%, in real terms, during the decade) also forced nonprofits to either find new ways of doing business (*e.g.*, leaner, meaner, more self-sufficient) or watch their organizations disintegrate. Simultaneously, at the close of the 1980s, the triumph of capitalism over communism in Eastern Europe ushered in a new respect for the power and legitimacy of the marketplace, even among the liberals who were managing most nonprofits -- and not just as a transactional environment but as a transforming one.

In addition, throughout the latter half of the 20th century, the “entrepreneur” had emerged as the hero of the new economy in the United States, leading to greater tolerance for informed risk-taking and innovations, even among staid nonprofits: In 1967, only eight American universities and colleges were offering even a single course in entrepreneurship; by 1984 there were more than 250, including 212 business schools and 41 engineering schools.

And, as we neared the end of the century, volunteers and Board members who came from the business world began importing new philosophies and management theories. Coupled with escalating demands for superior leadership and accountability, these new ways of thinking and behaving led nonprofits inexorably toward strategies for improved performance and sustainability, which in turn pointed toward social enterprise.

Increasingly, then, nonprofit leaders began embracing the concept of social enterprise and started working individually to change their organizations and collectively create a movement. We began to see the emergence of social enterprise heroes and role models in both the private and the nonprofit sectors, authors and activists who paved the way, people who provided the practical models and “proof of concept” that helped push recalcitrant Board and staff members to do what had previously been unthinkable -- endorse earned revenue initiatives.

In the United States today, nonprofits that adopt social enterprise strategies typically pass through three stages:

- Nonprofits in **STAGE ONE** are not yet seeking to make a profit from their earned revenue strategies, but do use them to reduce dependency on philanthropy and government subsidies. Earned revenue typically covers less than two-thirds of their operating budgets and may or may not be the driver for their strategic planning, but it still plays a significant part in the organization's financial framework.
- Nonprofits in **STAGE TWO** have at least a five-year track record of aggressively pursuing self-sufficiency, defined as being fully committed to social enterprise, with earned revenue the

driving force for strategic planning, and at least two-thirds of the organization's operating expenses covered by earned revenue. Prominent examples include Melwood in Maryland, Skookum in Washington, Esperanza Unida in Milwaukee, Rubicon Programs in San Francisco, and Triangle Residential Options for Substance Abusers in North Carolina.

- Nonprofits in **STAGE THREE** are businesses that retain their nonprofit status but in every other respect operate as for-profit businesses. They have at least a five-year track record of self-sufficiency, defined as consistently hovering around break-even or achieving profitability through earned revenue alone. Well-known examples include Pioneer Human Services in Seattle, Housing Works in New York, Minnesota Diversified Industries, Delancey Street Foundation in San Francisco, and Gulf Coast Enterprises in Florida.

CURRENT CONDITIONS AND OPPORTUNITIES

Across the globe, social enterprise today has moved into the mainstream and is no longer an isolated experiment. For example, during April 2010, more than 700 people from 28 countries attended the 11th Social Enterprise Summit in San Francisco; the co-sponsors were the Social Enterprise Alliance, the largest membership organization for social entrepreneurs in North America, and the Social Enterprise World Forum, which is rotating through six continents from 2008 through 2013.

In addition, federal and state officials around the world are awakening to the potential of social enterprise, including an increasing number of public servants in the United States. A dozen international conferences each year tout the benefits of social enterprise; for-profit and nonprofit social enterprises are proliferating; the Social Enterprise Alliance is developing a social enterprise certification process; academic institutions are offering courses and degree programs; social investors are knocking at the door; the subject appears everywhere in the news media; and a rising generation of young people is energizing the field: The "best and the brightest" are increasingly seeing this as a viable and exciting career path, and the nation's top business schools have responded by developing case studies, offering courses and featuring guest lectures about social enterprises.

We have an emerging lexicon, a rapidly growing community of social enterprise practitioners, an expanding pool of knowledge, new support systems (communications networks, conferences, consultants), a heightened expectation that nonprofits will apply business practices, evidence of more sophisticated business planning, an increasing flow of human and financial capital, and an eroding gulf between nonprofits and for-profits.

What we didn't have in the United States, until very recently, is any significant involvement by the federal or state government, and certainly nothing like the interventions of the British government during the first decade of the 21st century. That is slowly beginning to change. The U.S. government has long been a purchaser of products and services produced by nonprofits through such federal set-aside programs as AbilityOne, but today it is also stimulating social investors by creating new legal forms such as low-profit, limited liability corporations (L3Cs) that make it easier for nonprofits to raise money for their social enterprises. As a result, a new breed of social investors is rising that has very different

priorities than traditional investors or those who are interested in corporate social responsibility *per se* (please see appendix D), and two additional government interventions are worth considering:

- Government seed capital to create Social Enterprise Investment Funds that would provide both debt and equity financing to emerging and expanding social enterprises. Once government dollars are committed, institutional and individual investors will follow. Government could even require that its seed money for the funds be matched on a one-to-one or three-to-one or other formulaic basis. In this way, government will be playing to its strengths as a catalyst and convener.
- Significant expansion of preferential government purchasing programs such as AbilityOne that would make federal, state and local markets welcoming to social enterprises of all types, not just those that employ people who are physically disabled.

CONCLUSION

Social enterprises are a natural fit for the priorities of the Obama Administration because they are a powerful engine for highly leveraged economic and social development.

Customer-focused social enterprises provide a wide range of products and services that improve the lives of people who are disadvantaged -- and employee-focused social enterprises, with their emphasis on workforce development, job creation and career development, create sustainable jobs in rapidly proliferating numbers for those most difficult to employ.

Both types of social enterprises help transform individuals into productive citizens and simultaneously deliver a significant economic stimulus to the American economy. Overall, a net drain on tax coffers becomes a net contribution to the economy while meeting social needs and restoring hope, dignity and self-reliance to millions of Americans.

APPENDIX A: SUCCESSFUL EMPLOYEE-FOCUSED SOCIAL ENTERPRISES (SELECTED LIST)

- **CO-ARC** is one of 55 chapters in the NYSARC family (formerly the New York State Association of Retarded Citizens) – its affirmative businesses had total sales of \$21.1 million during 2008 and employed more than 400 people.
- **Cooperative Home Care Associates (CHCA)** is a South Bronx-based worker-owned cooperative with 100 employees and \$14 million in annual sales. It was founded in 1985 to provide home care services (personal care assistance, light housekeeping, companionship) for the elderly and people who are chronically ill or disabled – and to simultaneously employ African American and Latino women who had previously been unemployed. Today CHCA anchors a national cooperative network generating more than \$60 million in annual sales and creating jobs for more than 1600 individuals.

- **Delancey Street Foundation** is a residential self-help organization for former substance abusers, ex-convicts and homeless individuals. Founded in 1971 with four employees and a \$1,000 loan, it currently operates 12 different businesses and has graduated more than 10,000 former convicts, drug addicts and prostitutes into the mainstream economy.
- **Envision**, which began in 1931 as a state school for the blind in Wichita, is today the largest employer of people who are blind or have low vision in a six-state area; with 175 employees, it registered \$56 million in sales during its most recent fiscal year, with a net profit of 14 per cent.
- **Esperanza Unida** has been serving the Latino community in Milwaukee since 1971. During the past 20 years, it has created 12 training businesses and trained nearly 2,500 people.
- **Gulf Coast Enterprises**, founded in 1986, is today a \$60 million business primarily employing 1,400 people, more than 1,000 of whom have severe disabilities such as cerebral palsy, mental retardation, blindness and hearing impairment). Based in Pensacola, it works in 10 states and the District of Columbia. It contracts with a range of governmental and commercial entities, including a large number of U.S. military installations. The company engages in everything from janitorial and housekeeping to health services and administrative and clerical support.
- **Housing Works** has provided housing, medical and job-training skills to more than 20,000 homeless New Yorkers living with HIV/AIDS since 1990. Its entrepreneurial business subsidiaries -- including upscale thrift shops, book stores, cafes and catering services, and property management, among others -- generated \$15 million in revenue during FY09, with a net profit of nearly \$4 million.
- **JUMA Ventures** in 1993 became the first nonprofit in U.S. history to receive a corporate business franchise. Its historic partnership with Ben & Jerry's ice cream was designed to give Bay Area young people the job experience they needed to transition from living on the streets to a sustainable livelihood and stable adulthood. Today, Juma operates seven social enterprises employing more than 160 youth annually in cart, vending and storefront operations at AT&T and Candlestick Parks in San Francisco, Oracle Arena and the Oakland-Alameda County Coliseum in Oakland, Memorial Stadium in Berkeley, and Qualcomm Stadium and PETCO Park in San Diego.
- **Melwood**, founded in 1963, currently employs more than 1,000 people with disabilities working at more than 70 contract sites around the Washington, D.C., region. The company specializes in three primary businesses: Facility management, landscape and horticultural services, and custodial and janitorial services.
- **Minnesota Diversified Industries (MDI)** started in 1968 with \$100 and 14 employees who were developmentally disabled. Today the company operates in three industries (plastics manufacturing, packaging and assembly, and fulfillment services) and registers annual sales of more than \$11 million.
- **Northwest Center Industries**, which abandoned the philanthropic model during the economic recession of the late 1970s, today operates 15 affirmative businesses in the Seattle area that employ more than 350 people who are disabled – FY08 sales were \$43 million.
- **Peak Performers** is a temporary staffing business based in Austin, Texas, that employs more than 200 people who have a variety of intellectual and other disabilities and has annual sales of more than \$6 million.

- **Pine Street Inn** serves more than 1,300 homeless individuals daily in the city of Boston and more than 10,000 annually, providing permanent supportive housing, emergency and transitional shelter, food services, street outreach, job training, mental health support, and substance abuse treatment. Since 2000, Abundant Table, Pine Street Inn's food service social enterprise, has prepared and delivered more than one million meals to nonprofits, schools and other organizations; its newest social enterprise, HandyWorks, offers home repair and maintenance services. Both social enterprises employ people participating in the organization's job training programs.
- **Pioneer Human Services** has been named by *FAST Co.* magazine as a model for all nonprofits. Annual revenue exceeds \$60 million and the company serves more than 11,000 people in 48 locations. Among many different business activities, Pioneer serves as a sub-contractor to major corporations such as Boeing, Starbucks, Hasbro and others.
- **PRIDE Industries**, which has annual sales of more than \$145 million, employs more than 2,700 people who have a variety of physical and intellectual disabilities (about 65 per cent of its workforce) and is the third largest manufacturing and service company in the greater Sacramento region.
- **Rebuild Resources** is a nonprofit social enterprise founded in 1984 by a recovering alcoholic. Rebuild owns and operates businesses in St. Paul, Minnesota, that provide transitional employment for men and women who want to become sober and self-sufficient. Seventy-one per cent of its employees have previous felony convictions, 35 per cent are African Americans and 17 per cent are Native Americans. During FY08, 72 per cent of Rebuild's costs were covered by \$1.089 million in sales through its custom apparel and promotions division.
- **TROSA**, the largest residential therapeutic community in North Carolina, has returned more than 800 recovering substance abusers to mainstream society. The company employs more than 300 people at any given time (93% of whom have had a criminal record), and generated FY09 sales of \$11 million from its eight affirmative businesses (including \$3.6 million from its independent moving company alone). Revenue from the social enterprises covers approximately 60% of TROSA's operational costs.

APPENDIX B: SUCCESSFUL CUSTOMER-FOCUSED SOCIAL ENTERPRISES (SELECTED LIST)

- **America Works** is a welfare-to-work program training and placing people in private industry – and it has served more than 175,000 people since its founding in 1984. The average trainee has spent five years on welfare and has an eighth grade education. Eighty-eight per cent of the company's graduates remain off welfare during the first three years after placement. The company has offices in four states, with headquarters in New York City.
- **Benetech** has developed social enterprises that address literacy, human rights and environmental challenges around the globe, matching the creativity of the high-tech sector with the efforts of grassroots activists. Bookshare, Benetech's pioneering online digital library for people with print disabilities, serves more than 80,000 users who cannot read traditional books. The company's human rights business uses the power of statistical analysis to reveal the truth and offer a chance for reconciliation in conflict zones across Asia, Africa and Latin America. And Benetech's new software application, Miradi, transforms the way environmental groups plan and manage conservation projects. Benetech had total revenue of \$9.67M in FY08, with \$6.46M coming from earned revenue.



- **Common Ground** provides supportive housing for homeless and low-income individuals in New York City, Connecticut and upstate New York. The company has more than 3,300 units of permanent and transitional housing. Common Ground's Street program is credited with reducing homelessness by 87% in the 20-block Times Square neighborhood and by 43% in the surrounding 230 blocks of West Midtown.
- **Deborah's Place** is the largest provider of supportive housing for women in Chicago. In FY09, 385 women received services and the organization achieved more than \$800 million in revenue from rent and rent subsidies and from merchandise sales generated by their for-profit business, WomanCraft, Inc.
- **Eco-Cycle** is one of the largest nonprofit recyclers in the United States. Created more than 30 years ago, it processes recyclables from 15 drop-off centers in Colorado as well as from residential curbside programs, businesses, government offices and schools. It also operates the Boulder County Recycling Center, a county-owned drop-off and processing facility on 19 landscaped acres, including eight acres of protected wetlands. The company defines its social mission as "sustainable resource management."
- **Edna L. Roker Social Adult Daycare Center**, winner of the Forbes Enterprise Award in 2006, provides care and activities for individuals handicapped by various physical conditions. It operates in upstate New York and serves 30-45 clients per day up to a maximum of 60, maintaining a 5-1 client staff ratio.
- **Hazelden** provided substance abuse treatment services to 9,000 patients in FY09 and sold more than four million prevention, treatment and recovery products. The organization gave \$5.6 million in financial aid to those who couldn't afford its services and reported more than \$100 million net revenue in patient fees, product sales and tuition fees.
- **The Magnolia School** operates 19 group homes for people with disabilities, plus supported independent living and vocational and other services in Jefferson, Louisiana, within the New Orleans metro area. It is a private nonprofit serving adults with intellectual and other developmental disabilities. Among other ventures, the school created The Dream Factory (an arts studio), a retail store, a kitchen and catering business, and 14 vocational centers offering training in cooking, horticulture and other fields. Crews from the school also perform janitorial work at community sites and in Magnolia-owned enterprises.
- **Mental Health Centers of Central Illinois** provides behavioral health services to more than 9,000 individuals each year. Founded in 1947, its full range of services includes outpatient therapy and employment services. The company reported more than \$10 million in revenue for FY08.
- **Minnesota Public Radio** operates a 37-station network serving more than 800,000 regional listeners each week – and its programs for national syndication reach more than 14.3 million people. It is the second largest public radio organization in the United States.
- **Network for Good** is a nonprofit social enterprise that leverages the internet to increase giving and drive more awareness and dollars to thousands of small charities. Through online fundraising and social media for nonprofits, easy giving options for donors during disasters and throughout the year, and technology solutions for corporations doing cause related marketing, Network for Good has driven \$400M to date. It does this with an underlying financially sustainable business model that covers more than 90 per cent of its expenses with revenue earned from transaction fees and subscription fees -- and it's built to scale to another \$1B in the next five years.
- **New Community Corporation** was founded by Newark residents in the aftermath of the 1967 summer disorders and is today the nation's largest and most comprehensive community development

corporation. It owns and manages more than 3,000 units of housing and employs 2,300 people. The corporation engages in housing, early childhood education, transitional housing for the homeless, job training, education, health care, community arts, youth programs, and a host of social services for children, families and senior citizens. It touches the lives of 50,000 Newark and Essex County residents every day and has total assets of more than \$500 million.

- **Ombudsman Educational Services (a division of Educational Services of America)**, provides a supplementary, alternative route to graduation for students at risk of dropping out of school. Since it was founded in Libertyville, Illinois, in 1975, Ombudsman has helped more than 100,000 youth graduate and today has 60 schools in 13 states; 77% of its program participants graduate. Ombudsman's parent company, Educational Services of America (ESA), has been providing services since 1999 to students who are autistic or have severe behavioral or learning problems (ESA has 1,500 employees teaching 6,000 students); it acquired Ombudsman in 2005 and reports consolidated annual revenue of more than \$80 million.
- **Sylvan Learning Centers** is the largest private provider of educational services in the world, offering tutoring and supplemental education services to students of all ages and skill levels. With more than 900 learning centers in the U.S., Canada and abroad (including Latin America, Asia and the Middle East), the company has served more than two million students since its founding in Portland, Oregon, in 1981. Its parent company, Educate Inc., reports \$354.7 million in sales.
- **Ten Thousand Villages**, founded in 1946 by pioneering business woman Edna Ruth Byler, is one of the world's leading Fair Trade companies, working with more than 130 artisan groups in 38 countries in Asia, Africa, Latin America and the Middle East to sell their products in the United States.
- **Visiting Homemaker Service of Hudson County**, based in New Jersey, has been providing a full spectrum of home care services for 50 years. A staff of more than 350 homemakers served 2,378 people in 2009, providing 455,763 hours of care and 159,242 home visits. Ninety-five per cent of clients received financial assistance that paid or helped pay for their care.
- **VITAS Innovative Hospice Care** started in 1978 as a volunteer organization created by a United Methodist minister and an oncology nurse – with one patient in the basement of a Miami church. Today it is the nation's largest provider of end-of-life care. VITAS cares for more than 11,000 people each day (63,000 separate individuals in 2006), primarily in the home but also in 25 inpatient hospice units and in hospitals, nursing homes and assisted living communities and residential care facilities. It provided 4,372,729 days of care in 2009 and employs some 7,000 trained personnel. The company reported net income of \$18.4 million on revenues of \$222.9 million for the first quarter of 2010.
- **The Wisconsin Women's Business Initiative Corporation (WWBIC)** is a statewide economic development corporation that provides business education and financing to Wisconsin entrepreneurs and small business owners. The organization provides access to capital (including direct lending and one-on-one individualized business assistance) and business education programming, with an emphasis on women, people of color, and people of lower wealth and income. In addition to its \$3.2 million operating budget, WWBIC also manages a \$5 million loan portfolio.

APPENDIX C: SUCCESSFUL HYBRID SOCIAL ENTERPRISES (SELECTED LIST)

- **Goodwill of Southwestern Pennsylvania**, whose motto is “building our community . . . one job at a time,” reached \$17.5 million in revenue from its 24 regional thrift shops during FY07 and employed more than 900 people who previously had barriers to employment, 550 of them full-time.
- **Missouri Home Care** started life as a nonprofit in 1975 and converted to for-profit status in 1983. Today it serves more than 2,500 frail elderly people in 40 rural counties and creates 600+ second income jobs for farm spouses. It merged in 1999 with seven other non-medical home care companies to form a multi-state company called Auxil Health.
- **Nuestras Raices Inc.** is capitalizing on the agrarian roots of the Puerto Rican immigrants who flooded into western Massachusetts in the 1960s and 1970s by operating eight community gardens and two youth gardens. On average, each of the 100 families taking care of the gardens is producing \$1,000 worth of organic produce each year. The company created Centro Agricola as a home for ag-related small businesses, including a restaurant and bakery owned and operated by community members, a commercial kitchen, a greenhouse operation, and a youth-designed plaza modeled after the town centers of Puerto Rico and Latin America. It also has a homegrown business that installs and maintains saltwater fish tanks and raises and sells tropical corals and fish. In addition, Nuestras Raices owns and rents small plots of agricultural land for ag businesses including a farm store, pig roasting operation and horse barn.
- **Workforce Inc.** came into existence when a computer refurbisher moved out of a building occupied by a welfare-to-work provider and left behind several tons of electronic waste, including keyboards, monitors, hard drives and more. Since 2004, Workforce Inc. has helped 225 ex-offenders transition back into the community while working in jobs recycling electronic parts in the burgeoning “e-waste” business. The recidivism rate for employees in the program for at least six months is just 15%.

APPENDIX D: INVESTMENT PRIORITIES

	Businesses with a single bottom line (financial)	Businesses with a single bottom line that practice corporate social responsibility	Social enterprises legally structured as for-profit entities (double bottom line)	Social enterprises legally structured as nonprofit entities (double bottom line)
TRADITIONAL INVESTORS seeking financial returns	FIRST PRIORITY	SECOND PRIORITY	THIRD PRIORITY	NOT A PRIORITY
SOCIALLY RESPONSIBLE INVESTORS seeking both social and financial returns	NOT A PRIORITY	FIRST PRIORITY	SECOND PRIORITY	THIRD PRIORITY
SOCIAL INVESTORS seeking both social and financial returns	NOT A PRIORITY	THIRD PRIORITY	FIRST PRIORITY	SECOND PRIORITY
SOCIAL INVESTORS primarily seeking social impact	NOT A PRIORITY	THIRD PRIORITY	SECOND PRIORITY	FIRST PRIORITY

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