

# Enterprising Exercises



## Credits and authors:

For Accounting Athletics

David Nanton, CA (2010 version)  
Financial Management Consultant, NFP sector  
davidnanton@shaw.ca

Bill Cox, CA (2007 version)  
Partner, BDO Dunwoody  
bcox@dbo.ca

For Cashflow Calisthenics and Financial Fitness

Catherine Ludgate  
Manager, Community Investment, Vancity  
catherine\_ludgate@vancity.com

For Enterprising Exercises

Elizabeth Lougheed-Green (2013 version)  
Manager, Community Investment, Vancity  
elizabeth\_lougheedgreen@vancity.com

Cam Brewer (2010 version)  
Restraint Consulting  
cam@web.ca

For Legal Limberness

Mary Childs, BA, LLB, BCL (2013 version)  
Ethos Law Group LLP  
mary@ethoslaw.ca

Richard Bridge, BA, LLB (2007 version)  
Barrister & Solicitor  
richardbridge@ns.sympatico.ca

Editing and content wrangling handled by:  
Donna Barker  
Principal, Donna Barker Communications  
donna@donnabarker.com

Layout and design provided by:  
Justin Ho (2010)  
justin\_ho@shaw.ca

Funding for the Financial Fitness series was originally provided in 2007 by the Community Development and Partnerships Directorate of Human Resources and Social Development (HRSD) Canada. Cashflow Calisthenics was subsequently developed by Vancity and in 2009, with the support of a Shared Success grant from Vancity, the entire suite of workbooks was updated. In 2010, Enterprising Exercises was added to the series. And, in 2013, Accounting Athletics and Legal Limberness were updated to reflect changes in the rules and laws that govern not-for-profit organizations and charities.

The views in these handbooks are entirely the authors' own, and may not reflect the views of HRSDC, Vancity or any other partner organizations.

Vancouver City Savings Credit Union © 2013



# Table of Contents

<b>1. Introduction</b>	<b>7</b>
<b>2. Stick to your purpose</b>	<b>11</b>
Clarity of purpose	11
The right business	14
Business plan	18
Focus	20
Risk assessment	21
Know when to stop	22
<b>3. Time for a structure review</b>	<b>25</b>
Separate or integrated?	25
<b>4. Implementation</b>	<b>27</b>
Update assumptions with actual experience	27
Project management	28
<b>5. Finances</b>	<b>31</b>
Capital	31
Cash flow	33
Revenue and profit	37
Management and reporting	38
<b>6. People</b>	<b>41</b>
Manager	41
Executive Director	43
Board	44
Staff	46
Organizational culture	47
Partnerships	48

<b>7. Communication</b>	<b>49</b>
Communication	49
<b>8. Conclusion – A Sailing Analogy</b>	<b>51</b>
<b>Bibliography</b>	<b>53</b>

# Financial Fitness by Vancity

The *Financial Fitness* series was developed by Vancity credit union to assist small and medium-sized not-for-profits and co-operatives to acquaint themselves, or reacquaint themselves, with the basics of operating a financially healthy and resilient organization. Not-for-profits always operate in the arena of change and uncertainty. The Sector Monitor published by Imagine Canada reported in October 2012 that charity leaders generally predicted increased challenges in the year ahead. Research done by the Ontario Trillium Foundation indicates the best way to support not-for-profits is to assist in developing resiliency, so not-for-profits can bounce from moment to moment and opportunity to opportunity.

The goal of the *Financial Fitness* series is to help with that resiliency, and in particular, to demystify some of the key financial, legal and accounting concepts which sometimes keep not-for-profits from feeling in control of their destinies, or speaking truth to power when dealing with allied professionals and funders.

*Legal Limberness* addresses the fundamental legal issues, from the duty of care to statutory obligations, for which the Board of Directors and senior staff (Executive Director and program managers) are responsible.

*Accounting Athletics* addresses the role and responsibilities of the Board and more specifically, the Finance Committee – the Treasurer, Executive Director, Accountant or Bookkeeper – in reading financial statements, what to look for and when to be concerned.

*Cashflow Calisthenics* focuses primarily on the roles and responsibilities of senior staff to maintain the financial well-being of a not-for-profit organization. It includes advice on cash flow planning and developing “what-if” scenarios, and provides guidance on how to work with allied professionals to improve cash position.

*Enterprising Exercises* supports the staff and board of organizations that are currently operating a social enterprise. It poses important operational questions, and provides tools and success metrics to help identify areas where a social enterprise could be made stronger or more focused.

Each of these four handbooks fits within the overall framework of *Financial Fitness*, an introductory course for improving the financial health and resiliency of not-for-profit organizations.

Canada’s not-for-profit and voluntary sector is the second largest in the world, according to Imagine Canada. The full charitable and not-for-profit sector (including hospitals and universities) is the 11<sup>th</sup> largest contributor to Canada’s gross domestic product (GDP) and plays a vital role in our country’s economy, in addition to providing critical services to people and strengthening communities.

## **Enterprising Exercises**

- **For support staff and board of organizations that operate a Social Enterprise (SE)**
- **Consider key questions, tools and success metrics**
- **Increase SE strength and focus**

In 2007, Statistics Canada changed the way it tracks not-for-profit organizations in Canada, breaking the sector into three industry sectors:

- non-profit institutions serving households (NPISH), about 22% of all not-for-profits by GDP (religious, welfare, arts, entertainment, recreation, educational services and 'other');
- corporate sector, about 13%; and
- government sector, 65% of all not-for-profits (hospitals, universities and colleges).

In 2009, the NPISH sector alone accounted for \$22.1 billion of GDP activity and employed almost 529,000 people. Overall, the not-for-profit sector in Canada employs two million people and accounts for \$106 billion of the GDP.<sup>1</sup>

That information alone is exceptional, but when layered with the fact that fully 54% of Canadian not-for-profits and charities are run entirely by volunteers – the collective accomplishments of these 161,000 organizations are truly awe-inspiring.

In British Columbia there are over 20,000 not-for-profit organizations, about half of which are also registered charities. Across BC, 1.5 million people volunteer, including on boards.

Common to all organizations are challenges of having stable funding (two-thirds of organizations experience this), planning for the future (55% of organizations experience this) and having enough volunteers, particularly at the board level (50% report this as an issue).

We hope these handbooks help build that core of financial health and resiliency of individual not-for-profits, and contribute to the collective financial fitness of the not-for-profit sector.

The *Financial Fitness* series is not meant to replace qualified financial, accounting or legal advice from professionals, but we hope these handbooks and the affiliated workshops will contribute to the collective financial fitness of the not-for-profit sector.

---

1 For more information and not-for-profit statistics see, [www.hrcouncil.ca/documents/LMI\\_moving\\_forward.pdf](http://www.hrcouncil.ca/documents/LMI_moving_forward.pdf) and [www.imaginecanada.ca/node/32](http://www.imaginecanada.ca/node/32)



# 1. Introduction

Social enterprises – those businesses run by not-for-profit organizations for the dual purposes of meeting mission and generating revenue – have become increasingly popular forms of organization in the not-for-profit sector over the past dozen years. While there have been social enterprises around for decades (such as the traditional thrift stores run by social service organizations), the past decade has seen much more interest in, focus on, and support for social enterprises.

From innovative ways to provide employment and training for individuals in communities, to new forms of organization to provide housing and health care, to the delivery of creative consulting services in the arena of sustainability – social enterprises are becoming an increasingly common method of delivering those dual purposes of meeting mission and generating revenue.

There is now an emerging body of contemporary experience from social enterprises and various supporting agencies, such as Social Enterprise Canada, which continues to adapt their technical and financial support to this subsector of the not-for-profit community. Other agencies, such as Demonstrating Value, are working hard to help not-for-profits articulate the multiple benefits they offer, and the multiple bottom lines they meet. And Vancity also focuses much attention in this area.

Since 1996, Vancity Credit Union (VCU) has incrementally taken on an ever larger role in supporting the development of social enterprises and social ventures, using our resources and expertise. We have learned that working in a very engaged relationship (a trusted advisor relationship) with our social enterprises from early in their development, through launch, financing and beyond, accelerates their long term success, and ours. We've learned that differentiating support is critical because as an enterprise moves along the development path, it requires different types of financing and support instruments to fulfill its evolving needs. As a result, we strategically support social enterprises at, and through, different stages of their development as a “navigator” focused on enhancing success.

## **Business vs. NFP sector**

### **First 2 - 3 years of operations**

- **For-profits: manage invested dollars to reach break-even AND profitability.**
- **Not-for-profits: work towards profitability and maintaining mission.**

## **Purpose**

### **Response to shifting funder environment**

- **Need for constant innovation**
- **Specific deliverables**
- **Restricted funding**

**Social enterprise can be a way to develop dependable, unrestricted revenue.**

In the current economic climate, as traditional supporters of the not-for-profit sector are less able to provide reliable support, many not-for-profits are considering how best to diversify their revenue streams, and social enterprise is one option that is the subject of consideration. And, there are some very successful social enterprises to emulate, both because of their own success and to avoid reinventing what is already learned. As important as the successful enterprises, it is instructive to also learn what hasn't worked, as those enterprises which have not succeeded can provide a helpful roadmap to the highlands and pitfalls on the path to success.

This handbook is offered as a complement to the terrific resources available through programs like Social Enterprise Canada and Demonstrating Value, and to the work of various funders and investors who are standing shoulder to shoulder with social enterprise operators. This is not a planning tool – excellent resources are available through the Canadian Social Enterprise Guide (revised edition released in 2010), and through hands-on technical assistance provided by a variety of Vancity's community partners e.g. Social Enterprise Canada, Radius and Vancity itself.

This handbook is meant for practitioners and their governing bodies (boards or advisory groups) who are post-launch and working through some of the operational issues that typically emerge at the two to three year mark. In our experience, it is at about that point that the love money which supported the first few start-up years is running out, and the revenue streams are now significantly relying on earned income, whether from service contracts, consulting fees, or product sales.

In the business sector, start-up businesses would have been managing a "burn rate" of invested dollars, to get them through the years of start-up to breaking-even and profitability. In the not-for-profit sector, without similar investment vehicles, not-for-profits will likely have relied on grant funds or other patient capital and can find themselves without a financial safety net at about the two or three year mark.

And so, this handbook provides some signals to watch for, at that mark, to help ensure your social enterprises are on the path to sustainability, and eventually profitability. And if the signs point that way, it is time for a celebration of success to date! If the signs don't all point in that direction, it will be a critical time to review, and revise, or perhaps dramatically alter your plans (which might include deciding not to continue).

Make no mistake, however. Launching and then maintaining a successful social enterprise is hard work, and is sometimes the wrong choice for a not-for-profit. In these depressed financial times, we have seen revenue diversification pressures on not-for-profits that have them trying on all manner of initiatives. And social enterprise, while a growing field, is still in its infancy in many ways, and is often misunderstood, mis-measured in its success, or mistakenly tried in the first place. It is not a panacea for financial troubles, and it is not appropriate for every organization.



While we have seen some laudable successes, including some managed by informants to this guide, we have also seen some spectacular crashes, for a whole range of reasons, many of which we explore in this guide. We have seen examples of

- unrealistic expectations from people within the organization that the new social enterprise will be the financial saviour,
- uninformed and unhelpful criticism from people outside (including donors and funders, the business community and other not-for-profits) that the not-for-profit is embarking on mission drift or selling its soul, and
- unclear direction at the operator and staff level about the success metrics – financial, programmatic, mission – that the social enterprise is meant to achieve.

Unless addressed, the combination of these challenges can create a perfect storm which could wipe out the fledgling social enterprise, and in the worst possible case, the not-for-profit organization itself.

To carry the metaphor further, a storm can be avoided by ensuring that the tools of proper planning, execution and clear expectations act as the tiller for the voyage, and that both operators and governors (board or advisory committee) are continuously both watching the horizon, and maintaining a look out for surprise deadheads, while adjusting the sails to take advantage of good winds and swelling seas.

By shining a light on the realities of operating a social enterprise and grounding expectations in the lessons of experience, this handbook and the accompanying workshop will provide your organization with the tools to clarify your social enterprise's purpose and to develop a focused plan to achieve that purpose. The advice and recommended actions offered here are based on the experiences of a team of authors and editors' interviews with a number of social enterprise managers and Directors<sup>2</sup> and a review of current information on legal structure, we hope we have created some general guidance about markers of success or concern. There is other guidance about legal, accounting, financing and budgeting issues in the companion volumes of the Financial Fitness series.

---

1 Heartfelt thanks go to the brilliant and generous social enterprise team at Vancity and Vancity Community Foundation, notably Sidney Sawyer, Liz Lougheed-Green and Irene Gannitsos for their editorial advice. They brought enormous volumes of experience to conversations about this guide, and helped remind us all that social enterprise requires the drive of creative, entrepreneurial and indefatigable personalities.

2 Interviewees included: Ed Whittingham, Pembina Institute, Calgary, AB; Tom Laviolette, Portland Hotel Society, Vancouver, BC; Rob Barrs, Smart Growth BC, Vancouver, BC; Caroline Bonesky, Fraserside Community Services Society, New Westminster, BC; Janice Abbott, Atira Property Management, Vancouver, BC; Sheila Adcock, Career Development Services, Trail, BC.

The intended audience for this handbook includes social enterprise managers, executive Directors, Board members, lenders, and business partners associated with social enterprises that are operating at the two to three year mark. If you are at the planning or start-up stage, we encourage you to familiarize yourself with the Canadian Guide to Social Enterprise, 2nd edition.

Running a social enterprise demands the hard work of running any business, but within the mission-attainment environment of a not-for-profit organization. It can be rewarding, invigorating, exhausting, frustrating, enervating and life-changing. It certainly requires a significant commitment from all those involved, and while there are risks to be mitigated, that mitigation comes from eyes-wide-open monitoring, a willingness to adapt and the nimble ability to so do, and a foundation of entrepreneurialism and a can-do attitude.

It is our great hope that *Enterprising Exercises* will help your social enterprise succeed and thrive, and meet the dual mandates of mission and money. Certainly, having your own revenue streams will make you feel like the captain of your own destiny in a way no other funding ever well.



## 2. Stick to your purpose

### Clarity of purpose

“[An entrepreneur] shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.” - Jean Baptiste Say, 18<sup>th</sup> century Economist

<u>Unhealthy Organization</u>	<u>Fitness Plan</u>
<p>Sally, Executive Director of the BC Beachcare Society, knew that foundation funding was drying up but that there were many unhealthy and litter-strewn beaches in BC. Rather than laying off staff, Sally sold her Board on a plan to launch a fee-for-service social enterprise that would sell beach-cleaning services to regional governments. As she told her Board, “The business will earn a profit so that we won’t have to lay off staff, and we’ll also be able to clean up many beaches.”</p> <p>After two years in operation, the business was losing money and the Society was using its reserve funds to keep the business operating. A decision needed to be made quickly about whether or not to shut down the business, but the Board was divided. Some felt that the business losses were less than it would normally cost to deliver a public education program designed to encourage citizens to keep their beaches clean, and therefore the business should continue. Others felt that even small losses were too much since the purpose of the business was to earn a profit, and therefore it should be shut down. Since there was no clarity regarding the purpose of the business, Sally and her Board could not make a decision.</p>	<p>This is a situation that the BC Beachcare Society should never have found itself in – and wouldn’t have had they done appropriate planning before launching their social enterprise. That said, this is not an unfamiliar situation for social enterprises to have to address two or three years into operation.</p> <p>To come to an informed decision that everyone could agree to, Sally and her Board needed to specifically agree on the purpose of the business: earn a profit to donate to the Society? Be self-sustaining financially as it carries out mission-related work? Incur a loss that is less than the cost of advancing the mission in other ways?</p> <p>Once the purpose was clear, Sally and her Board needed to agree on specific measures of success or failure: how much profit? How much of a loss? How many beaches? Are other programs positively or negatively affected?</p> <p>The purpose and definitions of success needed to be communicated to all stakeholders, and thoroughly embedded within the organization’s culture.</p>

**Dual-purpose mandate:  
Creating a Social enterprise profit  
and advancing the not-for-profit  
mission**

**Risks**

- **Unrealistic expectations**
- **Undermine consensus**
- **Muddle decision-making**

**Purpose statement**

- **Define SE purpose explicitly**
- **Consider primary and secondary reasons for SE**
- **Ensure all stakeholders are in agreement**

**“The primary purpose of the SE is to...”**

Not-for-profit organizations operate under considerable pressure to deliver on their mission in the context of uncertain revenues. This uncertainty is driven by many factors including the shifting priorities of funders and governments, the perceived relative importance of the mission and the organization’s ability to achieve it, and the overall economic climate. Uncertainty is further heightened by expectations that not-for-profits continually innovate, rather than simply delivering the programs and services that have worked in the past, and that grant funding is restricted to specific project deliverables rather than being generally available to cover overhead. Given these many uncertainties and expectations, it is no surprise that not-for-profits seek new sources of revenues that are dependable and unrestricted in their use to help them continue to meet their mission or expand their offerings.

This dual-purpose mandate – earning a profit, and advancing the mission – has the potential to create unrealistic expectations, to undermine consensus in support of the social enterprise, and to muddle decision making. It is critical that the social enterprise’s purpose is clearly defined, and agreed to by all stakeholders. There are excellent tools for planning a social enterprise, and we refer readers specifically to the *Canadian Guide for Social Enterprise*, 2<sup>nd</sup> edition and to various local initiatives at the post-secondary level, where courses on social enterprise are being taught.

Having a “primary purpose statement” can be of real assistance to provide a continuous test of whether your social enterprise is on track or is drifting from its original purposes. Not to be confused with the business plan, which you would have done pre-launch, a primary purpose statement can be a useful refocusing tool at the two to three year mark; essentially, a check-up and check-in.

The purpose statement helps bring all stakeholders together in shared understanding and can also help you test who is not a stakeholder, or what is not on mission. It also helps so that timely management decisions can be made if success is not being realized, or is not being achieved as planned: different understandings of the social enterprise purpose may lead to conflicts when some key stakeholders feel success is not being achieved, while others feel it is.

Not-for-profit organizations may have a number of reasons that are subservient to the primary purpose for starting a social enterprise, and it’s important to identify these. For example, increasing the visibility of the organization could be a valid secondary reason for launching a social enterprise, and this visibility may translate into funding and other benefits that flow to the organization. However, these secondary reasons must be understood as such so that achievement of them, in absence of achieving the primary purpose, is not understood as success. The work that is being done through the Demonstrating Value project is one very useful tool for identifying a number of success metrics, and their interrelationships.

Clarity of purpose is also helpful in avoiding confusion, frustration or missteps on the part of your social enterprise manager and Executive Director. The challenges of starting and running a business are enough even when the purpose of doing so is clear. However, if there are multiple purposes and expectations arising from different stakeholders, your social enterprise manager will inevitably disappoint some, and even heroic efforts will result in disappointment of some stakeholders.

For example, a funder that wanted your organization to be innovative might have tempted you to identify multiple potential benefits of your social enterprise when applying for start-up or expansion funding. If this has happened, but you aren't delivering on all the promised benefits, it is important to develop a more narrow set of expectations, and to ensure the funding partners have the same understanding of the social enterprise's primary purpose. As the faithful in service of social change and strengthening communities through our missions, we want to believe we are going to be able to deliver multiple positive outcomes, but it is not a sign of failure to narrow focus or to learn that a particular tool or service only delivers a few outcomes. And, as a watchword, it is better to under promise and then over deliver: it feels great for you and your staff, it builds trust with allies, and it gives you successes to celebrate.

Some examples of primary purpose statements might be:

- “The primary purpose of our social enterprise is to generate a profit that will be donated to the not-for-profit.”
- “The primary purpose of our social enterprise is to carry out consulting services that advance the not-for-profit's mission.”
- “The primary purpose of our social enterprise is to carry out mission-related activities in such a way that 25% of the costs of doing so are recovered from clients.”

---

### **Recommended actions**

- If your social enterprise does not already have a clear definition of its primary purpose, develop one now.
  - Ensure this purpose statement is understood and agreed to by all stakeholders, including your Executive Director, all social enterprise staff, Board members, funders and investors.
-

## The right business

### The right business?

- Evaluate core aspects
- Create competitive advantage
  - Social mission = competitive advantage
- Define brand and business advantage

Asking whether or not the social enterprise is the right business for the not-for-profit isn't just a question to be asked before the doors open – it's a question that must be continually asked. Over time the answer may change, depending on the economic or business climate, depending upon the activities of the organization, and depending upon the purpose of the social enterprise. Answering this question – again and again and again, against your primary purpose statement – requires evaluating all the core aspects of any business, reviewing financial performance to date, and evaluating the social enterprise's current fit with the not-for-profit.

The core aspects of any business include its products, market, customers, competition, pricing and operations. In combination, however, the various aspects of the business need to create a competitive advantage that will allow the social enterprise to be viable. A successful social enterprise must have a competitive advantage. In many cases this is confused with its social mission, or with the societal need that is being addressed by the social enterprise. While these rationales are essential for the organization to raise money, they do not necessarily translate into a competitive advantage that will help a social enterprise succeed as a business. The best practice here is to focus on the development of a business that competes in the market place while offering a “value add” (mission delivery). Having said this, it is important to be very careful about messaging as it can make the difference between success and failure.

Additionally, outsiders and competitors often argue that social enterprises have (an unfair) competitive advantage because of access to donations and grant capital. It's important that your leadership understands that this advantage is easily outweighed by the cost of multiple-bottom-line expectations and the demands of diverse stakeholders. It is not a sound base on which to build a social enterprise.

The best way to achieve this understanding is to practice true cost accounting within your business. This approach will allow you to understand and demonstrate to others the true costs of running your business while delivering on your mission. For more information on financial intelligence and true cost accounting for social enterprises, look to the extensive tools developed by Demonstrating Value.

There are two categories of competitive advantage, and ideally a social enterprise should have both:

**Brand advantage:** the not-for-profit organization's mission integrity provides the social enterprise with a marketing advantage in the form of trust. Potential clients and customers of many service-delivery organizations will trust that the social enterprise will do good work because the organization is demonstrably committed to its mission, and the social enterprise is understood as an extension of that mission commitment.

This is not necessarily true for those working in retail or product development. For example, according to research done by experienced social enterprises in these fields, the general agreement is that messages about being operated by a not-for-profit are detrimental and have an immediate negative connotation, as do messages about who produces the products and how. The trick is to do the appropriate homework to understand the messages that resonate best for your intended audience. This will change over time as the social enterprise builds a trusted brand.

Closely related to this advantage of trust is the implicit understanding that revenues to the social enterprise will, in part, contribute to the organization's ability to advance its mission or that the social enterprise will conduct itself in such a way that the mission is advanced by simply carrying out its business activities. For example, a social enterprise that provides community development facilitation services may be retained by a municipal client because the social enterprise and its parent not-for-profit are trusted to share the social development objectives being sought by the municipality.

**Business advantage:** the social enterprise secures an advantage over their competitors that will help them succeed, regardless of any mission-related brand advantage. Business advantages might include lower costs, higher quality of products or services, or stronger marketing partners (that may, in turn, flow from the brand advantage). For example, thrift stores have a competitive advantage over other retailers because they do not have to pay for their inventory.

Often a social enterprise's competitive advantage is a mix of both brand and business advantages. Social enterprises must operate using the same principles as their competitors if they are to run viable businesses. A social enterprise that attempts to under-price or deliver more service than its competitors will probably find itself in financial jeopardy quickly.



A social enterprise that attempts to under-price or deliver more service than its competitors will probably find itself in financial jeopardy quickly. Social enterprise typically costs more to run than mainstream businesses; therefore services must be priced and delivered on competitively. The most important principle here is that social enterprises pay attention to product and price. The social enterprise must deliver a competitive product and service and pay attention to the message that is delivered by pricing. Products priced below the market will generally be seen to be sub-standard. Price is a brand building strategy.

**Financial evaluation:  
Evaluate monthly and be specific**

**Consider:**

- **Performance and projections**
- **Mission attainment**
- **Strategy**
- **Partnership vs. competition**

---

**Recommended actions**

- List all of your social enterprise's competitive advantages.
- Communicate these to all social enterprise staff and your organization's communications and/or fundraising staff so they are intentionally leveraged in donor, funder, supporter and member outreach materials.
- Review your communications and marketing strategies to ensure that your messages resonate with, and do not confuse, your external audiences.

---

Financial performance should be evaluated at least monthly and is covered more thoroughly in Chapter Five (Finances). These monthly evaluations should provide clear answers regarding whether or not financial projections are being met, and whether or not financial performance is aligned with the primary purpose of the social enterprise. The more specific the financial projections, and the more specific the financial aspects of the primary purpose, the easier it will be for the Board to answer the financial performance component of the "is this the right business" question.

An important aspect of answering "is this the right business" is whether or not the work of the social enterprise could be done just as well, or better, by the not-for-profit parent organization. This is particularly true for a social enterprise that is structured as a separate entity from the parent organization. For example, if both the not-for-profit, and its stand-alone social enterprise, provide ecosystem sustainability advice to farming communities, then perhaps it would be more effective to have the not-for-profit provide all such advice but with both fee-for-service and foundation grant revenue streams for the same work. The social enterprise could then focus on pursuing business activities that are substantially different from the not-for-profit organization's activities. The point here is to ensure that all of the work done to set up a social enterprise is in support of value-added work, and not simply make-work for the parent organization.

Another important perspective for answering this question is that of mission attainment. If the primary purpose of the social enterprise is being achieved, how has this success affected the overall mission attainment



of the not-for-profit? Has the mission focus shifted? Do the activities of the social enterprise dictate organization-wide strategies? What are stakeholders (customers, other organizations, and funders) saying about the overall effectiveness of the not-for-profit? Have the organization's programs expanded or contracted because of the social enterprise? Undoubtedly the experience of running a mission-related business will provide the not-for-profit organization with a richer understanding of its mission – an understanding that offers a strategic opportunity to evaluate the efficacy of the social enterprise versus its other programs and campaigns.

The specific business strategy of your social enterprise must also be designed to achieve the primary purpose. For example, consider a consulting business whose primary purpose is to advance the sustainability agenda by getting involved with the technical details of sustainability planning. This social enterprise could either develop or advance a set of proprietary approaches to sustainability planning that are innovative and significantly advance standard practices. Or, they could respond to Requests for Proposals (RFPs) and do their best within the scope of each of the secured contracts to imbed innovative sustainability approaches.

Launching a social enterprise may also change the not-for-profit's relationship with external organizations, possibly from one of partnership to one of competition. Effective communication of this change is essential but it is important to evaluate the net mission-related effect of these changes.

- Have organizations and individuals dropped their historic levels of donations and sponsorships?
- Did the pool of potential Board members significantly diminish? Conversely, have you attracted new Board members with entrepreneurial skills?
- Have historic project partners disappeared and new ones emerged? Are new opportunities that wouldn't have seemed accessible before now coming within reach?
- Are strategic allies more or less willing to provide information or support, or has the kind of information and support changed?

---

### **Recommended actions**

- Hire or recruit someone other than your social enterprise manager to undertake a survey of external attitudes about and experiences with your social enterprise. Ensure that responses are anonymous.
- Contact clients, customers, partners and strategic allies to determine their perspectives on the effectiveness of your social enterprise at achieving your primary goal.

### Business plan

- **Assumptions determine projections**
- **Allocate expenses appropriately**
- **Use industry benchmarks**

- Have the researcher report the survey results to the Board, Executive Director, and social enterprise manager.
  - If results indicate that your social enterprise's primary purpose is not being as well-served as respondents believe it could be, address the areas of concern.
- 

## Business plan

An effective business plan is a living business plan – one that is continually referred to, integrated into decision-making, and updated. All the elements of a good business plan – products, market, customers, competition, pricing and operations – should be fully understood by the Board and management in order to hold effective discussions and make strategic decisions.

Underpinning every business plan is a set of assumptions. These assumptions are the essential determinants of projections; they must be made explicit to all decision-makers, rigorously tested by those with industry knowledge, and be compared to actual historic performance as it becomes available. For example, cash flow projections are influenced greatly by the timing of payments from customers. If your social enterprise is unable to collect on receivables in the way that was assumed in the business plan, there may be an unexpected cash crunch even if all else is going as planned.

Your budget – the business plan written in the language of numbers – should be updated annually, and monitored monthly. Variances between budget and actual results may lead to revised projections, but the budget should only be adjusted annually. Social enterprises should pay particular attention to understanding costs, their break-even scenario, and profit margins.

Social enterprises that are closely linked to their not-for-profit organization often struggle with appropriately allocating overhead and other fixed costs between the social enterprise and the organization. A reasonable share of these fixed costs need to be borne by the social enterprise in order to accurately evaluate the social enterprise's financial viability. There are a number of ways to allocate these costs – by square footage of office space, by employee, as a proportion of gross revenue – and the methodology chosen should be clear to both managers of the not-for-profit and social enterprise managers prior to commencing operations. If it is not clear, it is possible that managers may feel they are being taken advantage of, and decision-makers will not be able to consistently evaluate the financial performance of the social enterprise.

For example, an organization running a social enterprise consulting business

out of its office may allocate only direct social enterprise staff costs throughout the year, and then at year-end, allocate just enough of the organization's overhead costs to the social enterprise so that the social enterprise breaks even on the year. While this may be a useful exercise in the first year, as the experience of the costs of the business become known, it can also be problematic and after an initial period of naiveté and inexperience, borders on the unethical. The result of this will be that the social enterprise breaks even every year (assuming consulting billings more than cover direct staff costs), but this does not provide useful information to decision-makers, has no basis in the actual costs associated with running the social enterprise, and does not motivate social enterprise staff to properly cost their services when bidding on projects. It may be that the Executive Director and administrative staff are spending significant time supporting the social enterprise, and if these costs are properly allocated, the Board will understand that the social enterprise is not viable.

A proper allocation of overhead to the social enterprise is also necessary to conduct a break-even analysis on the social enterprise. Fixed costs plus all the variable costs associated with a particular endeavour must be at least covered by revenue for the social enterprise to be viable, and without a clear understanding of the costs the social enterprise cannot be properly understood or managed. When all costs are understood and properly allocated, the social enterprise is able to accurately bid on projects, price its goods and services, and grasp the financial viability of the social enterprise.

Closely associated with understanding costs is the concept of profit margins. Every social enterprise operates within an industry that has common benchmarks for gross profit, mark-up, billable rates, and net profit margins. How do the social enterprise's margins compare with these common industry benchmarks? If the social enterprise's margins are higher, what is the justification for this continuing? If the social enterprise's margins are lower, is it possible to improve them without losing customers? Are the social enterprise's margins fairly consistent over time and between projects?

A social enterprise is often likely to have lower margins because the mission delivery is theoretically done in the margins of the business. The key is to understand the cost of the mission delivery separate from the margins. This is difficult in the case of employment delivery social enterprises because they must calculate the efficiency costs associated with employing a population with barriers, as well as the costs associated with quality challenges, etc.

---

### **Recommended actions**

- Ensure all Board members have a copy of your social enterprise business plan.
- Add updates to the plan as part of regular management reports and planning discussions.
- Ensure all key business assumptions are clearly articulated in the

### Focus and flexibility

#### Entrepreneurial tension:

- SE opportunity vs. viability

#### *Use statement of focus to assess opportunities*

- business plan and have been reviewed by management.
- Clearly articulate the method for allocating shared overhead. Ensure this method is understood and accepted by all relevant staff and decision-makers.
- Determine how your social enterprise's gross and net profit margins compare with industry norms.
- Review how consistent your margins have been over time and across projects.

---

## Focus

Driven by the urgent importance of its mission and inspired by the broad horizons of potential action as a business, there is a temptation for social enterprises to try to do it all. This approach may be rationalized by the need to secure new clients, the desire to affect change in many areas, or the excitement of learning on the job. Nevertheless, significant danger lies in a lack of focus. If each new contract or product is significantly different from the previous one, the social enterprise may:

- continually encounter steep learning curves, and demands for specialized knowledge
- have difficulty accurately bidding on projects or creating accurate budgets
- be unable to apply knowledge gained from previous work in order to become more efficient, effective, and profitable
- be required to hire additional staff or sub-contract for specific expertise
- be unable to secure a reputation as a leader in a particular area
- chronically underbid projects in order to gain experience in new areas
- find itself drifting away from mission-related work in order to broaden offerings

The need for focus exists in dynamic tension with the need for entrepreneurial creativity in pursuit of opportunities that may arise by remaining flexible. This tension should not be erased by ceding to one side or the other but rather institutionalized with voices for both focus and flexibility. For example, an entrepreneurial social enterprise manager may frequently see new opportunities for the business and some of these ideas may be excellent. Rather than rigidly adhering to a focussed business plan, a process for vetting new ideas could institutionalize reviews by the Executive Director and by a Board committee. Through a formalized process, the tension between focus and opportunity can be leveraged so that the best ideas are implemented and all voices have an opportunity for being heard.

The conversation between focus and flexibility is most productively held in the context of ensuring follow-through and being proactive. If existing projects and business plans have not been implemented and moved to conclusion or viability, it is likely premature to launch a new business

direction. For example, consider a social enterprise landscaping business that employs and trains the previously incarcerated, and is considering expanding into the area of property management. If the landscaping business is not yet viable, the social enterprise needs to fully understand why it is not viable before embarking on a new line of business. If the viability challenges stem from poorly engaging staff (the previously incarcerated), then the move to property management is unlikely to succeed until these challenges are addressed. On the other hand, if the viability challenges stem from a competitive advantage that cannot be realized in the landscaping business but could be realized in the property management business, then the new business direction may be wise.

New business ideas that shift focus are best contemplated as part of a proactive approach, rather than in reaction to a specific opportunity. Developing an expertise in providing a specific product or service may allow a social enterprise to capture efficiencies, develop a reputation for a particular niche, and foster partnerships in support of that particular focus. For example, rather than bidding on one-off contracts, a social enterprise woodworking business may choose to build caskets for pets. Doing so will allow for production templates, a sophisticated understanding of production costs, and the proactive marketing of products. Similarly, a consulting business may be better off clearly defining their offerings and selling them, rather than responding to a wide range of requests for proposals (RFPs).

---

### Recommended actions

- Develop a statement of focus.
  - Create a list of areas that are not part of the focus.
  - Compare your existing work to this statement of focus.
  - Implement a process for deciding on possible expansion to create new areas that serve the business focus.
- 

## Risk assessment

A risk management plan can help decision-makers think through the potential worst-case scenarios, and prepare the organization for what might go wrong. Risk assessments also help decision-makers choose to either not pursue a social enterprise business venture, or to do so with a grounded understanding of what might happen. Risk management plans typically identify a number of areas of risk, and for each one propose both mitigation and contingency plans. These plans are useful at many points in the life of a social enterprise, from start-up, to expansion, to re-focusing and shutting down.

According to Industry Canada, 30% of small businesses (5-99 employees) fail

### Risk assessment

***30% of small businesses fail within the first five years.***

***64% of businesses with less than \$30,000 in revenue fail in the first five years.***

- **Scale the social enterprise to the NFP**
- **Develop and use a risk management plan**

within the first five years<sup>3</sup>, and this figure rises to 64% for businesses with less than \$30,000 in annual revenue. Risk exists, and social enterprises are not exempt from this. Given the additional expectations related to mission attainment, as well as the complexity of stakeholders, social enterprises are well advised to pay additional attention to the myriad of risks they face.

You cannot risk the whole organization on your social enterprise venture. An effective way to ensure you are not doing so is to scale the social enterprise appropriately to the organization. In other words, your social enterprise should initially be much smaller than the organization, so even if it fails financially it will not sink your not-for-profit. Your risk management plan should identify risks, mitigation strategies, and contingency plans in the following areas:

- cash flow, profitability, and capital
- professional and product liability
- reputation, mission attainment, and political leverage
- Not-for-profit funding and donor base
- staff and Board morale

---

#### **Recommended actions**

- If you do not have a risk management plan, develop one now.
- Ensure all Board members review and approve your risk management plan.
- Put in place the structures to ensure the plan is regularly updated.

#### **When to stop**

##### **Base exit strategy on:**

- **Social enterprise purpose**
- **Not-for-profit mission**
- **Risk management plan**
- **“Demonstrating Value” resource**

---

## Know when to stop

Given a certain level of risk, and a chronic inability to achieve the social enterprise's primary purpose, a point may come where your social enterprise needs to be shut down. The process of making this decision, and the ability to make it quickly when necessary, is greatly facilitated by pre-defined triggers and a well-resourced exit strategy.

Pre-defined triggers for shut-down should flow from the primary purpose of your social enterprise, the mission of your not-for-profit, and the risk management plan. The more specific these triggers are, the easier it is for the Board to make timely decisions. In practice, however, it's often a combination of more than one trigger and numerous subjective judgements. Further, these judgements are made over a period of time as the social enterprise moves down a continuum from target performance measures that would define success, to significant failures that trigger shut-down.

---

<sup>3</sup> Industry Canada. 2009. “Key Small Business Statistics, January 2009.” [<http://strategis.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/rd02345.html>].

The following table provides some example indicators both in terms of social enterprise success and failures that would trigger shut-down. Note that this table does not take into consideration many of the ethical decisions that might trigger a shut-down, such as how much of your investor's, donor's, lender's and partner's money you, your Board and organization are willing to lose if the social enterprise does not succeed. When determining your own organization's indicators it will be important to keep this in mind.

<b>Indicator</b>	<b>Success</b>	<b>Failure (Shut-down social enterprise)</b>
Cash Flow	Lowest level of cash over past 12 months = 3 months operating costs	Unable to pay 100% of debts as they come due
Profit	Meet or exceed profit level in business plan	Cumulative losses in excess of 1 or 2 months operating expenses
Debt	Start-up loan is repaid in five years	Additional debt financing is required to continue operations
Client Satisfaction	NFP reputation is strengthened by social enterprise	Pattern of clients being disappointed with services
Mission	200 clients are trained annually	No more than xxx clients trained annually (after assessing if the target needs revising, relative to the population being trained)

An approach to evaluating whether or not to continue your social enterprise's current activities is to use a framework such as Demonstrating Value. Demonstrating Value provides support to social enterprises to help them with management and planning decisions by analyzing operational information to support daily decisions, big-picture information to help adapt and plan for the future, and convincing information about the value of a social enterprise to attract investment and community support. Because every social enterprise is different, Demonstrating Value has been designed to be flexible enough to work with social enterprises that are at different stages of development, are in different lines of business, and pursue different social and environmental missions.

If the difficult decision has been made to shut down your social enterprise (or a component of it), subsequent actions are greatly facilitated by an exit strategy and the availability of adequate resources. An exit strategy should include plans and resources (both human and financial) for:

- paying off all creditors, including trade payables, loans, lines of credit
- paying staff severance, and assisting staff in their transition
- covering legal costs associated with wind-up, including government fees and filings
- completion of all outstanding contractual obligations with clients and partners
- communicating the decision so as to protect the not-for-profit organization's reputation and ability to continue its mission
- assisting clients and project partners, as appropriate, with transition to new arrangements
- subletting leased space or otherwise removing contractual obligations
- selling inventory or transferring intellectual property rights to the not-for-profit

---

#### **Recommended actions**

- Develop Board-approved definitions of success and failure that would trigger shut-down.
  - Develop a Board-approved exit strategy that covers at least all the elements listed above.
-





### 3. Time for a structure review

#### Separate or integrated?

You've already made the initial planning decisions about the form of structure your social enterprise will take, and now you are at the two to three year mark, it will be a good time to check that you are still operating in the right structure, and within the appropriate rules, for your enterprise. The Canadian Guide to Social Enterprise, 2nd edition, and Legal Limberness both have suggestions for how to make sure you are on track. If you have been operating your social enterprise in an integrated structure, it might be time to set up a separate legal entity, particularly if your enterprise is experiencing strong growth.

Structure	Advantages	Disadvantages
Integrated	<ul style="list-style-type: none"> <li>• social enterprise revenue is not subject to corporate income tax (although GST must be collected and remitted. See <i>Accounting Athletics</i> for details)</li> <li>• allows for mixing of revenue sources on any given project</li> <li>• project staff teams can easily be drawn from all parts of the NFP</li> <li>• may improve internal costing and time-tracking systems for entire NFP</li> <li>• staff from all parts of NFP learn how to manage projects and work on business side</li> </ul>	<ul style="list-style-type: none"> <li>• NFP exposed to social enterprise's liabilities</li> <li>• NFP exposed to social enterprise's losses</li> </ul>
Separate Division of NFP	<ul style="list-style-type: none"> <li>• social enterprise revenue is not subject to corporate income tax (although GST must be collected and remitted. See <i>Accounting Athletics</i> for details)</li> <li>• allows marketing of a focused product or service</li> </ul>	<ul style="list-style-type: none"> <li>• NFP exposed to social enterprise's liabilities</li> <li>• NFP exposed to social enterprise's losses</li> <li>• may cause internal divisions among staff</li> </ul>
Separate Legal Entity	<ul style="list-style-type: none"> <li>• NFP protected from social enterprise's liabilities</li> <li>• NFP protected from social enterprise's losses</li> </ul>	<ul style="list-style-type: none"> <li>• social enterprise revenue is taxed</li> <li>• additional legal and administrative requirements</li> <li>• may cause internal divisions among staff</li> </ul>



## 4. Implementation

### Update assumptions with actual experience

A coherent business plan is self-referencing both in terms of its underlying assumptions and in terms of each component of the plan. Once a social enterprise is launched, the assumptions may prove to be inaccurate and specific sections of the plan may need to be abandoned. As actual experience modifies portions of the plan, other sections will also need to be modified and practices updated. For example, if an unexpected set of customers emerges, then the competitors may also be different and the pricing model may need to change; additionally, cash flow assumptions may need to be updated. Through this process of business plan evolution, the social enterprise can move from a solid business plan to a solid business.

Updating your business plan based on actual experience helps reveal opportunities and hazards, affords a robust conversation about your social enterprise's ability to achieve its primary purpose, and help you make explicit the implications for the entire not-for-profit organization. Questions for consideration include:

- Can your product mix be focussed to better achieve the primary purpose? Are the least profitable / least effective products being replaced or improved?
- Are you targeting the right market? Is your market interested in your product mix?
- What are your customers saying (formally through a survey, and informally through their behaviour)?
- Has the competition responded to your presence in the market? Has this opened up new opportunities or closed existing ones? How are you different from competitors and what can you learn from them?
- Is the price right? Are you losing customers because of over-pricing or under-pricing? Does your pricing model provide the return you need? Is there room to improve this?
- If you are submitting bids on projects, are they turning out as expected? Do you regularly do a post-mortem analysis on projects, and incorporate the lessons into the next project? Is there a

#### **Implementation**

##### **Update assumptions with actual experience:**

- **Reveal opportunities and risks**
- **Opens conversation**
- **Address implications for organization**

- process for reviewing project bids before they are submitted?
- How are you reaching customers? Is there a more cost-effective way to do your marketing?
- How do the specific details of operations align with original expectations? Is there a process for continual improvement? Are you capturing economies of scale, utilizing templates, and capturing the value of your experiences?
- Do you have the right social enterprise leader? Is incumbent staff covering the necessary qualifications?

## Project management

### Project management

#### Essential for success:

- **Steward limited resources**
- **Meet deadlines**
- **Deliver on contracts**

*Time • Money • Quality*

Many social enterprises are involved directly or indirectly with project management. Whether this is in the form of consulting services, production of a product for sale, or delivering on a service contract, adhering to the basic principles of project management may make the difference between success and failure and between profits and losses. Project management is the stewarding of limited resources, meeting deadlines, and delivering on contractual obligations.

Project management is often the function that acts as a control to the organization's impulse to "do it all" – to sacrifice budget and timelines in favour of perceived mission attainment. As a result, project management may be discounted as "too corporate" or as not a good fit with the not-for-profit's culture. In fact, it is precisely this resistance to strong project management that makes it all the more necessary.

There are many approaches to project management, a range of project management software solutions, and many industry-specific tools. And, the local chapter of Project Management Volunteers is offering really great overview training of project management skills for not-for-profits. Regardless of the approach used and by whom, successful project management should include the following:

- Clearly defined timelines, budgets, and deliverables
- Accountability for all the key components of a project
- Strong internal project team communication
- Strong external communication with partners and customers
- Commitment to project deliverables (including quality and mission-attainment features) within the prescribed timeline and budget
- Feedback to sales and marketing functions to ensure alignment of expectations.

There are three inter-related and relative aspects to any project: time, money, and quality. There are trade-offs between all three, and it is impossible for customers to have all three. For example, a customer interested in a less expensive product, must sacrifice either product quality or delivery timeline, or both. Your social enterprise should never promise a fast, inexpensive, and high-quality product – doing so will lead to losses. As

intuitive as this relationship may appear, it is often the source of significant struggles for social enterprises because mission deliverables are part of “quality,” and there is a temptation to provide significant quality (mission-related deliverables) without adjusting the price or timeline. Regardless of where you end up in the tradeoffs between time, money, and quality, it is essential that the final mix is communicated to all parties so that expectations are aligned. It is the role of our project managers to ensure the mix doesn’t change and there is not any “scope creep” – even in the area of mission-related deliverables (quality).

---

**Recommended actions**

- Evaluate the level of project management training and experience your social enterprise manager has.
  - Review his/her decisions related to time, money and quality (including mission-related deliverables).
  - Determine if the current decision-making process is meeting the needs of the social enterprise and the not-for-profit. If not, clarify expectations with the social enterprise manager.
-





## 5. Finances

### Capital

One of the most tricky starting positions for any business – for profit or social enterprise – is for it to be under-capitalized. As your social enterprise works towards viability, your cash balance may be dwindling as it is spent on ramping up and gaining experience. In the for-profit world, a business would have the advantage of investors, or accumulated surplus, on which to draw. This is not usually the same for a social enterprise, regardless of structure or relationship to the not-for-profit. Now is the time to evaluate the real capital requirements for sustainability and viability and what types of financing may be available. At the two to three year mark, a social enterprise has probably depleted any sources of start-up grant funds or innovative funds, and will be now mostly reliant on earned income, from whatever streams are appropriate for the services or goods it delivers.

“Patient capital” is financing that is willing to wait for repayment over realistic but long timelines, and is low-cost as your social enterprise secures its footing. Unfortunately, there are few sources of this kind of patient capital available – this kind of investment is typically from community loan funds or consortiums of investors. It’s worth asking your local community futures organization, your local community foundation or a collection of social venture investors if they might be interested in a very patient loan to your social enterprise. Patient capital takes patience to organize, and absolutely requires establishing supportive partners.

Foundation support may be available for your social enterprise’s establishment or expansion, either as a grant or a very patient loan. These sources of funds provide your social enterprise with the time to learn the early-stage business lessons, but they must not be confused with revenue or ongoing financing. Grant funding for your social enterprise should be understood to cover operating costs, or as capital asset gift to purchase fixed assets that will provide an ongoing business benefit. Analysis of your social enterprise’s viability should be based on revenues and expenses before grant funding, and a plan should be in place to move your social enterprise away from reliance on grant funding. Is self-sufficiency possible without grant funding? Are there milestones in place to move from

### Finances

#### Be realistic about capital requirements:

- **“Patient capital:” will wait for repayment**
- **Foundation support: establishment or expansion**
- **Assuming debt: repayment and risk issues**
- **Equity investment: SE separate from NFP**

grant funding to self-sufficiency? Grant funding may be tied to achieving viability, and this should be understood as an opportunity for you to push and test the business plan assumptions, so that when grant funding is no longer available you have a proven plan.

Depending on your history as a social enterprise, and the financial history of the not-for-profit with which you are aligned, you may be able to borrow funds from a financial institution. As you are moving towards sustainability, this might be the time to invest in equipment or facilities for your operations. In this case, a term loan might be appropriate, and you can ask your financial institution if it can structure payments so that you pay interest only for a period of time, so you can start with low repayments now and build to larger repayments as your enterprise grows. It is important to note, however, that the delay of principle payments on any kind of loan is more costly in the long term, as you'll be paying more interest than you would if you started principle payments immediately. If your not-for-profit can demonstrate two to three years of solid financial history, and will take out a loan for you, this might be a route to explore. Alternatively, a few credit unions will consider financing start-up social enterprises, so even without a strong financial history, you may be eligible for term financing if your credit union will lend to start-ups.

Also depending on your financial history, and your current financial needs, a line of credit may be appropriate and available to you. Used primarily to manage cash flow ups and downs, a line of credit can be invaluable for making payroll while waiting for a good account receivable to be paid. It is an error, however, to undertake a line of credit and run it up, if you don't have a known source of income to repay it. That's called the never-never plan, and no wise financial institution will lend you money for that, and you shouldn't consider asking. When thinking about a line of credit, typically you should consider asking for one to two months operating expenses – that covers the usual payment cycles of payables and receivables, which is the purpose of these loans. So, if your annual budget for your social enterprise is \$300,000 you should consider a line of credit for \$25k (one month's worth of expenses) or up to \$50k (two months' worth). Ask for more and you'll run the risk of getting in over your head.

An integrated social enterprise, or one that is structured as a division of the not-for-profit organization, will not be able to take advantage of equity investment. However, a separate company may be able to sell equity while still ensuring the organization retains control of its primary purpose and mission. Selling equity could take the form of common or preferred shares



(see *Legal Limberness* for definitions of these), or the form of a partnership agreement, and there are countless variations to serve the purposes of the NFP, the social enterprise, and potential investors. For social enterprises that are facing high capital costs, either to capture economies of scale or to expand operations, selling equity may be a powerful strategy.

Assuming debt must be done with caution and very carefully, especially if the debt is to cover unexpected losses or to give the social enterprise a second chance. Not-for-profits are accustomed to receiving grant funding and donations in order to carry out activities, but are not accustomed to having to repay these funds. As a result, a number of key issues need to be clarified, and commitments need to be secured before the social enterprise assumes debt:

- How will the organization repay the debt if the social enterprise fails?
- Will the social enterprise be able to make loan payments and still meet all other cash-flow requirements?
- If the loan is to cover losses, what is different now to ensure additional losses don't occur?
- What is at risk if the loan cannot be repaid by the social enterprise?
- What is the opportunity cost of taking this loan (for example, could these funds be made available for another purpose)?

If the social enterprise is not a separate legal entity, then losses (deficit) and debts will appear on the consolidated balance sheet of the not-for-profit. It is important to anticipate the consequences of having to explain debts and deficits to funders and donors interested in ensuring their support goes directly to mission-related activities rather than to cover business losses. Just as your own board may need an education around the value of short-term debt while you grow your enterprise, your funders and donors may also need some schooling on why short-term debt is part of growth.

## Cash flow

“Revenue is vanity, margin is sanity, and cash is king.”

Not-for-profits are accustomed to grant funding and project-specific funding that provides very little “unrestricted” income. In the context of CRA’s disbursement requirements for charities along with the donor expectations that income be spent fully on mission-related programs, there is a structural and cultural resistance to maintaining reserves or surpluses. In fact, the expectation of not-for-profits is that they take donations and use them as soon as possible for charitable purposes rather than invest them in the organization. It is this “hand-to-mouth” approach that precludes the creation of a cash-strong organization to backstop business losses or

### Cash flow

- **Primary indicator of financial health**
- **Allows for the unexpected**
- **Asset to be protected**

***Develop scenarios:  
Best, Expected, Worst***

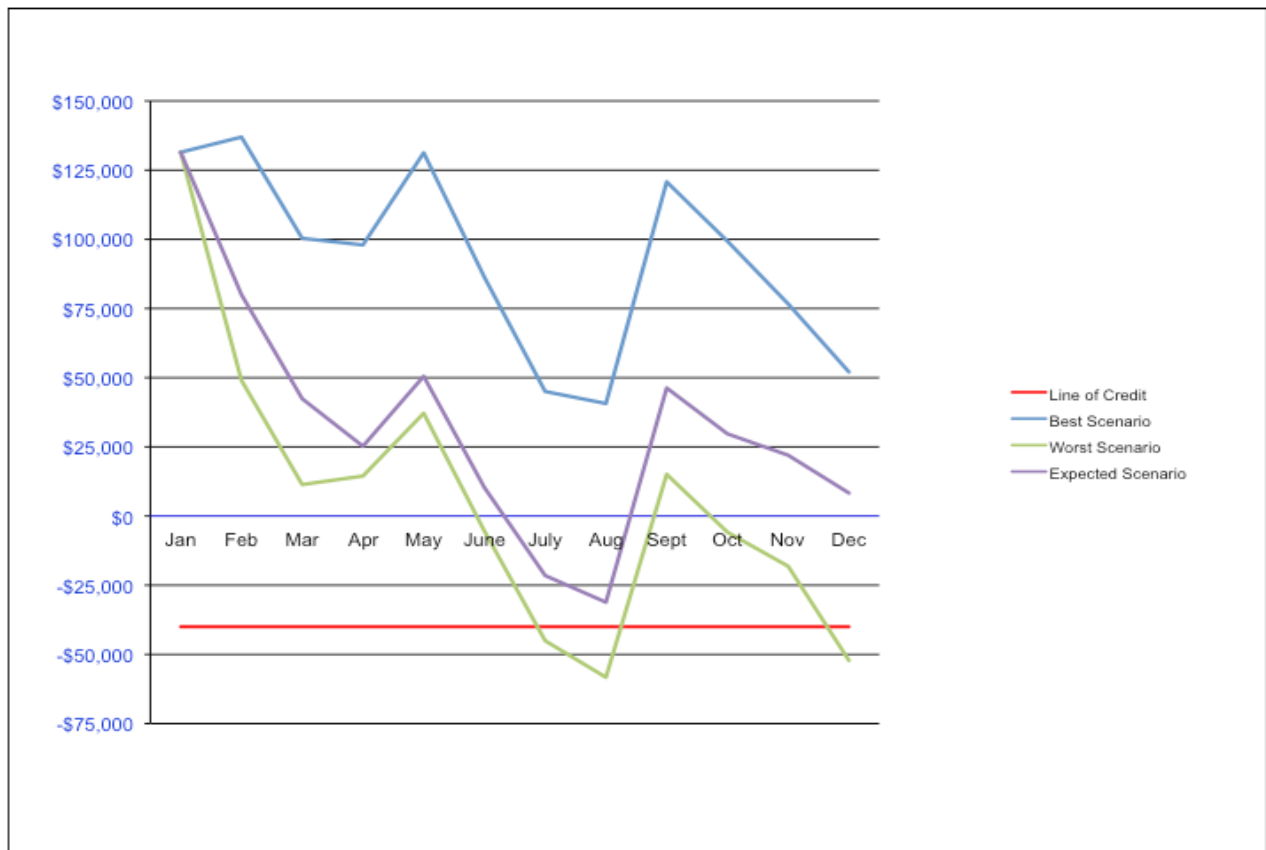
unexpected events, bridge the cash requirements of an extended business cycle, and invest in expansion or seize opportunities. It is essential that a social enterprise is operated within a healthy relationship with cash – one that monitors cash as the primary indicator of financial health, allows for the unexpected, and sees cash as an asset to be protected rather than a liability to be spent.

Cash is infinitely flexible, can be utilized to address almost any situation, and is the purest indicator of an organization's financial strength. A social enterprise can survive for a while without revenue, it can sustain losses while it gains experience, and it can struggle to advance its mission objectives but it will cease operations if it runs out of cash. Furthermore, the point at which a social enterprise runs out of cash may come sooner than it would for a not-for-profit that may be accustomed to being paid in advance by grant funding and then relying on volunteer labour, low overhead, or delivering on grant obligations in creative ways that do not demand cash. Social enterprises generally operate on a different business cycle – one that requires up-front cash payments for inventory and production in order to create accounts receivable which in turn require cash reserves while awaiting payment.

Cash flow needs to be monitored as the most critical indicator of a social enterprise's financial health, and there needs to be full agreement to this from senior management and the Board. Cash flow projections are not spreadsheets of secondary importance, crafted by a business consultant and buried in a business plan. They are a tool for monitoring the most vital sign of social enterprise health, and should be updated and reviewed on at least a monthly basis. Cash flow projections should have three scenarios (best, expected, and worst), should be discussed by the social enterprise manager, the Executive Director, and presented to the Board committee responsible for the social enterprise.

In the example cash-flow projection below, the social enterprise had a \$40,000 line of credit (LOC), and a current (January) cash position of \$130,000. Under all three scenarios (best, worst, expected) the social enterprise anticipated making a profit in the coming year. However, cash-flow projections associated with these scenarios resulted in very different fates for the social enterprise. Of particular note:

- It is expected that the year-end cash position will be positive, but the worst case scenario is negative, and is beyond what can be covered by the LOC both during July and August and at year end.
- It is expected that the social enterprise will be in a negative cash position in six months, and will be very close to exceeding its LOC by August.
- The cash position fluctuates by approximately \$150,000 and the LOC is only \$40,000.



While this sample social enterprise has a currently positive cash position of \$125,000 and anticipates a profitable year, there are other factors leading to a potential cash crunch. It is essential that management monitors these cash projections and is familiar with the various factors that drive cash position, including: the business cycle, annual sales fluctuations, ability to collect receivables, timing of payables, the reliability of margins, and the predictability of sales volumes. All these assumptions need to be robustly tested with actual results, and a cash buffer (through a line of credit or reserves) needs to be established well in advance of a cash crisis.

As well as monitoring cash projections, there are a number of helpful financial ratios to be monitored:

- Current Ratio (current assets / current liabilities): this measures the ability of your social enterprise to pay its debts over the next 12 months. A ratio greater than 1 is sought.
- Quick Ratio (cash + accounts receivable / current liabilities): this is a stricter measure than the current ratio because it does not include inventory. Again, a ratio greater than 1 is good news.
- Days in Receivables ((average accounts receivable / annual sales) x 365 days): tells you how many days it takes on average to collect your receivables. A common reason for cash flow problems is that it takes too long to collect from customers, so the actual days in receivables should be compared with assumption underlying your cash flow projections and business plan.

#### Ratios

##### Current Ratio

**Current assets / Current liabilities >1**

##### Quick Ratio

**Cash + A/R / Current liabilities >1**

##### Days in Receivables

**(Avg. A/R / Annual sales) x 365**

Even when your social enterprise has enough experience to accurately predict cash requirements, it is important to have a cash reserve to cover the unexpected. The amount necessary for this purpose varies by industry and should be correlated with your risk management plan, whether or not customers pay on credit, and the timing of your longest business cycle. Take all this into account, along with the general guidance of having one or two months' coverage on hand.

An underlying challenge for not-for-profits is altering the view of cash from something to be spent on programs into something to be protected and invested. There are a number of systemic reasons why not-for-profit organizations do not build up cash reserves: grant funding requires that all the funds be spent on specific projects rather than used to invest in the organization, CRA disbursement requirements; expectations of donors, and the focus on immediate mission-based actions rather than on developing an organization. Businesses, however, need to build up cash reserves and your social enterprise will be vulnerable if it does not do so. Explore opportunities to build reserve targets into your current budgets and contracts so you can save towards a surplus, or at minimum, build reserves to be spent on capital acquisitions that can free up ongoing operating costs. Monitoring cash flow, committing to and attaining cash reserve targets, and feeling comfortable about holding a strong cash balance should be embraced whole-heartedly by your social enterprise management team and the not-for-profit Board.

---

### **Recommended actions**

- Develop three separate cash flow projections: one for best case, one for expected and one for worst case scenarios.
  - If needed, review the Financial Fitness handbook, *Cashflow Calisthenics* for detailed advice and support in creating cash flow projections.
  - Identify your social enterprise's current ratio, quick ratio and days in receivable.
  - Seek opportunities to build cash reserves.
-

# Revenue and profit

“We’re losing money on all of our sales, but we’re making up for it with volume.”

A primary purpose of earning a profit should be taken just as seriously by your social enterprise as the not-for-profit takes its primary purpose of achieving its mission. Accordingly, you should strive for a sophisticated understanding of the various elements that combine to determine profitability, and should be increasingly more capable of predicting profitability. As you, the Board, and your staff become more conversant with the specific elements that determine profitability for your social enterprise, a more robust conversation about your financial status and future can take place, you will be able to flag problems early, and creative ideas may begin to emerge.

Since profitability, at the highest level, is about the relationship between revenues and expenses, it’s important to focus on the dynamic relationships rather than individual factors (such as sales). Getting into these relationships will mean having conversations with all the people in your social enterprise that are responsible for different elements. It also means both immersing yourself in the details of your business, and allowing this immersion to inform your planning for profitability.

As your team’s sophistication related to profitability grows, here are some key areas to look at:

- Common-size income statements in which all line-items are expressed as a percentage of sales. This approach reveals trends related to costs and margins, and allows for easy comparison over time periods and to business plans and financial projections. Please see *Accounting Athletics* for more on income statements.
- Gross sales should be understood in the context of profit margins (\$100,000 in sales at 10% margin, is the same as \$50,000 in sales at 20% margin)
- Watch trends over various time intervals (month-to-month, compared with the same month last year, etc.)
- Test the underlying assumptions in business plans and financial projections, by comparing them to the actual results.
- Compare budgets to actuals, and develop monthly projections for the remainder of the current fiscal year.
- Understand the key costs drivers (labour, materials, overhead, etc..) and develop management accounting reports to track this information
- If there are different categories of customers, or different types of products or services, you should be analyzing the profitability for each category and be adjusting your business plan accordingly
- Find out if and where problems have arisen in the past, and track indicators to ensure these problems are not repeated. For example, if your customers have been unsatisfied because of late delivery, then you should be closely tracking delivery times and reporting results on a monthly basis.

## Revenue and profit

**SE must earn profit and achieve NFP mission:**

- **Common size income statements**
- **Gross sales**
- **Trends**
- **Assumptions**
- **Budgets & actuals**
- **Key costs drivers**
- **Customer or service categories**
- **Problem indicators**

## Profit ratios

**Gross Profit Margin =**  
**Gross profit / Total sales**

**Net Profit Margin =**  
**Net profit / Total sales**

Profit margin ratios are particularly helpful in understanding profitability. They can be used to compare projections with actuals, different time periods, and your social enterprise with industry standards.

- Gross Profit Margin = Gross Profit / Total Sales. This ratio indicates the gross profit that is available after paying the costs of goods sold (or the direct costs associated with delivering a product or service).
- Net Profit Margin = Net Profit / Total Sales. This ratio can be compared to the gross margin to see how overhead is being managed. For example, if the gross margin remains the same but net margins are down, then the cost issues faced by the social enterprise are related to overhead rather than direct product costs.

---

## Recommended actions

- Determine your social enterprise's gross profit margin.
  - Determine your social enterprise's net profit margin.
- 

## Management and reporting

### Management and reporting

- Accounting systems
- Financial controls
- Timely reporting

**SE follows for-profit GAAP**  
**(Generally Accepted Accounting Principles)**

Supporting a strong analysis of your social enterprise's financial position should be a proper accounting system, appropriate financial controls, and timely reporting. Like the related not-for-profit, the accounting system needs to follow Generally Accepted Accounting Principles (GAAP). However, it should follow the guidance intended for profit-seeking enterprises rather than for not-for-profit organizations. These differences relate primarily to reporting on a social enterprise's profit objective rather than the organization's service objective. A not-for-profit organization allocates revenues and expenses in order to provide information related to its efficiency (the relationship between resources brought in, and outputs achieved) and effectiveness (accomplishment of the not-for-profit goals). Businesses allocate revenues and expenses in order to report on profits made, the return on assets, and shareholder's equity.

### Management accounting

#### Appropriate accounting system:

- Implemented by qualified staff
- Tailored to business type
- Separates SE from NFP funds
- Limits NFP exposure to SE losses

The accounting system should be implemented by a qualified staff person that is regularly available to management, rather than by an external accountant that "does the books" on a periodic basis from their own office. Financial information must be regularly updated and provided on a timely basis to decision-makers. The accounting system should be tailored to the type of business you manage, in order to provide relevant financial information. For example, a manufacturing business will require detailed information about inventory and cost-of-goods-sold, whereas a service business will need to integrate time-tracking software with the accounting system and job costing programs.

The funds available to your social enterprise should be separate from those available to the rest of your organization. A separate bank account, and controls limiting fund transfers, help safeguard against an unplanned use

of not-for-profit funds to support your social enterprise. Annual budgets and line of credit limits should be established in advance, so that decisions to tap into extra credit in order to cover unexpected losses are not made during a moment of financial stress. As a famous eco-forester once said, “the time to make a decision about cutting down a tree is not when you’re standing next to that tree with a chainsaw in your hand.” Budgeting and planning needs to be reinforced with control systems that limit your not-for-profit’s exposure to potential losses from your social enterprise.

Management accounting is the preparation and analysis of financial information for your internal social enterprise audience – management and the Board. This broad suite of tools and approaches uses the same financial information that is prepared in accordance with GAAP for external audiences and reporting, and compiles and arranges it in order to provide relevant financial information in support of internal decision-making and planning. Management accounting reports should be tailored to the industry, the questions related to operations, and the audience. For example, consider a social enterprise involved with selling boxes of mixed organic vegetables. If there is significant cost associated with packing the boxes, then management accounting reports may address the cost elements associated with packing and trends pertinent to the various options being considered by management. It is essential that your social enterprise has the capacity to create timely, accurate, and relevant management accounting reports, and that decision-makers use this wealth of information to help inform strategy.

---

### **Recommended actions**

- Develop customized management accounting reports to illuminate the most important issues facing your social enterprise.
  - Update and share this information with the Executive Director and Board at regular management meetings.
-







## 6. People

“If I were running a company today, I would have one priority above all others: to acquire as many of the best people as I could.” – Jim Collins, author of *Good to Great*<sup>5</sup>

### Manager

Running a social enterprise is no different from running any other small business in terms of the demands it places on the person in charge. While running a business can be a great deal of fun, it demands long hours and personal sacrifice. Unfortunately, the compensatory motivations and benefits of ownership that are available in a private-sector entrepreneurial setting do not transfer easily into the context of a social enterprise. This creates a number of challenges related to recruiting and retaining social enterprise staff.

Your social enterprise manager must be someone who is a strong champion for the social enterprise. If the primary purpose is mission attainment, the manager must be passionate about the mission and be an entrepreneur. If the primary purpose is generating a profit, the manager must be an entrepreneur and the mission alignment may be important. It is through the manager that the social enterprise's primary purpose will be most strongly articulated, and their skills and personality need to align with the social enterprise's primary purpose. The manager will be the defender of the primary purpose and needs to ensure all decisions – from overall strategy to day-to-day operational decisions – are made in support of the primary purpose.

The manager of a social enterprise with a mission-attainment primary purpose may be similar to other not-for-profit staff in their understanding of and passion for the mission. However, they must also bring a business discipline to operations and they must be an entrepreneur and be unapologetic about that bent.

### People

- **Manager: Champions SE purpose**
- **ED: Balances SE and NFP needs**
- **Board: Provides arms-length, big picture**
- **Staff: Require compensation and job satisfaction**

<sup>5</sup> Collins, Jim. 2001. “Good questions, great answers.” <http://www.fast-company.com/magazine/51/goodtogreat.html>

The importance of that entrepreneurial hardwiring cannot be underestimated. Consider a social enterprise customer that has asked for something for free (more time, more product, more deliverables, etc.) It would be good for the mission, but bad for the social enterprise's profit. A mission-attainment only manager would be inclined to say "yes," and an entrepreneurial social enterprise manager would be inclined to say "no." Variations on this situation arise daily, and it is critical that your social enterprise manager is hardwired to provide a gut response that aligns with your social enterprise's dual primary purposes. It's the aggregate of responses to these situations that will define the leadership of your social enterprise, which in turn will define the results of your social enterprise.

It can be a challenge, given the absence of a personal rewards plan, to always effectively compensate and motivate within a social enterprise. In absence of ownership, you could provide commissions or profit sharing, however such an approach may be seen as unfair by other social enterprise and not-for-profit staff that aren't given the same opportunity. There is also a risk that your bonus structure might encourage actions in only a subset of the overall business. For example, bonuses paid for achieving targets related to new customers may lead to many signed contracts but incomplete projects.

A driven entrepreneur may also demand a higher base salary and be unaffordable by the social enterprise. Further, there is a danger that an entrepreneur that is successful within the social enterprise may be tempted to strike out on his or her own, taking along customers and relationships. Even beyond these dangers, there is an absence of risk motivation within a social enterprise: a private sector entrepreneur has their personal assets on the line, but a social enterprise manager risks only losing his or her job.

There may be other ways to encourage a social enterprise manager, through investments in professional development: think of subscriptions to the business press, or conference attendance, or the occasional event at the local board of trade. Perhaps there is room in the budget for a small expense account, to allow the social enterprise manager to do some travel to visit other social enterprises, or take a mentor to lunch from time to time. There may be an executive MBA program to which you can pay partial tuition, or provide some paid time for study. Sometimes simple investments in better tools – a blackberry, a laptop – can both make a job easier and make the manager feel supported.

The social enterprise manager should ideally be involved with writing the business plan. This provides a sense of ownership over at least the idea, and ensures that they are familiar with assumptions and tradeoffs that led to the business plan. The manager can also help contribute to the thinking about "just rewards."

---

### Recommended actions

- When doing the annual performance review of your social enterprise manager, add a review of and conversation about their alignment with your social enterprise's primary purpose
  - Also, review your performance incentives to align with operating a social enterprise
  - Discuss the career planning of your social enterprise manager: are there options for professional development to keep him or her encouraged to stay with your social enterprise over the long term?
- 

## Executive Director

In some cases, your organization's Executive Director (ED) is the person best suited to be the social enterprise manager. If this is the case, then an analysis of how s/he is spending time may reveal this to be an expensive and inefficient use of a very limited resource – your ED's time. However, your ED may be the driving force behind your social enterprise, and it is essential that s/he is involved during early stages of establishment and growth. Be clear about the opportunity cost of your ED's involvement in the social enterprise, and look for ways to support them with a strong management team and other staff positions. Succession planning, including a strong internal staff development and training commitment, may facilitate your ED to move out of a position of direct responsibility for the social enterprise.

If your ED is not also the social enterprise manager, then it is important that s/he is committed to delivering on the dual primary purposes of the social enterprise and knows what questions to ask to make sure it is on track. Your ED needs to hold the social enterprise manager accountable to both purposes of mission and money. Your social enterprise cannot be treated the same as your grant-funded programs, and it is essential the ED understands how to identify and respond to business risk. Many of the issues identified in this handbook point to the importance of monitoring early-warning signs, and your ED must take the lead on watching for these signs.

While the social enterprise manager may be an advocate for the social enterprise, your ED needs to balance this enthusiasm with a commitment to the organization that understands the social enterprise as having role to play within the not-for-profit, rather than it being an end unto itself. Your ED needs to watch for possible organization-wide effects the social enterprise has on finances, leveraging of limited resources, programming relevance and effectiveness, internal culture and workplace health, mission attainment, external relationships, and brand. In short, your ED needs to

monitor the tangible and intangible effects your social enterprise is having on the not-for-profit organization.

And, as the body of experience around managing successful social enterprises grows, we are starting to see true social entrepreneurs achieve great success in both their social enterprises, as well as their parent not-for-profit, and in some cases, spin out the social enterprise to successful stand-alone agencies. That spinning out and off can be the hallmark of success of both the enterprise manager and the (former) parent not-for-profit executive director.

---

### **Recommended actions**

- Whether or not your Executive Director acts as the social enterprise manager or is simply support to another individual, undertake an opportunity-cost analysis of the hours the Executive Director spends each month supporting the social enterprise.
  - Ensure the ED understands, and can monitor, all the financial reporting tools that the social enterprise is using, and can ask for and read those reports.
- 

## Board

The Board skills needed to run a successful business do not fully mirror the Board skills required for a not-for-profit organization. As both the not-for-profit Board and the social enterprise committee or Board have essential roles to play beyond legal compliance, it is advisable to conduct a Board skills audit. This process compares a list of ideal skills, experience, and connections – along with diversity criteria – to the existing roster of Directors. Gaps are then targeted for recruitment.

In a well-functioning team, your social enterprise manager is an advocate for the social enterprise, your Executive Director balances this enthusiasm with a commitment to the entire organization, and your Board provides the big picture from a distance. While your ED is immersed in the details, the Board needs to look at the social enterprise in both its broader organizational context, and in the external context of delivering on the not-for-profit's mission. In doing so, your Board plays two important roles related to the social enterprise's success: advice and assistance; and, risk limitation.

Your Board should help provide business expertise and advice, as well as industry-specific knowledge and connections. At the same time, your Board is the final level of approval for business decisions that may affect

the entire not-for-profit, and the last check in the internal controls system designed to identify and mitigate risk. These two functions may be separated either formally through committee roles, or informally by ensuring the right individuals are involved with social enterprise Board discussions.

In terms of the “advice and assistance” role your Board plays, your social enterprise committee (if the social enterprise is not a separate legal entity) or Board (if it is) will benefit from strong business skills and perspectives. These include someone involved in your social enterprise’s particular industry, an entrepreneur, a business lawyer, and an investment or finance professional. If you are having trouble recruiting these skills to your Board, it may be valuable to establish an advisory committee. An advisory committee is often a more attractive option for external advisors willing to provide valuable expertise, but not interested in assuming governance responsibilities or taking on financial risk. Advisory committees are also a way to reach out to key partners, and may help communicate the purpose of the social enterprise and build trust with external stakeholders.

Balancing the “advice and assistance” role is the “risk limitation” role. Your Board should approve a risk-management strategy that is implemented by the ED as a tool for balancing the enthusiasm of your social enterprise manager. A risk-management strategy should identify the major areas that Directors need to watch, and should institutionalize a culture in which the Board asks the “hard questions.” In practical terms, this often means ensuring the Board includes personalities that are inclined to do so. However, it is as important that the Board sets out a risk management strategy and framework that allows the enterprise operator the freedom to make quick and nimble decisions, in their daily operations. The social enterprise committee cannot slow down the work of the enterprise, but be there to coach, comment and correct on a policy and strategy level and not in the daily work.

---

### **Recommended actions**

- Undertake a comprehensive Board skills audit and determine if there are areas where the current Board is weak.
  - If the Board is not the right place to provide the full suite of skills, set up an advisory committee.
  - If weaknesses are identified, develop a strategy to fill the knowledge and experience gaps
  - Create a formalized structure for ensuring “the hard questions” are asked, including Board roles and responsibilities related to “advice and assistance” and “risk limitation”.
-

## Staff

Not-for-profit organizations and start-up small businesses are both inclined to demand long hours from staff in return for less competitive pay. Ergo, a social enterprise run by a not-for-profit organization is predisposed to greater risk of burning out staff and suffering through high employee turnover. You should explicitly explore a strategy for attending to this risk in light of your social enterprise's need to retain qualified staff and the structural impediments to competing with the private sector.

If you do not intend to provide remuneration that competes financially with the private sector, you need to compensate your staff in some other manner, such as enhanced mission-based job satisfaction, outstanding opportunities for learning or professional development, or exciting and unique experiences. Some social enterprises may focus on hiring younger or less experienced staff but doing so must be balanced with the type of products or expertise the social enterprise is able to provide.

Social enterprises that are providing consulting services and which are not integrated into the not-for-profit face a small risk of social enterprise staff leaving to run a competing business. From one perspective, this may be seen as success for the not-for-profit but from another perspective it may undermine the ability of the social enterprise to achieve its primary purpose. Alternatively, staff may want or need to “moonlight” on the side to compensate for their low pay in their day job. Social enterprises involved with intellectual products, such as consulting businesses, may include “non-compete” clauses and conflict-of-interest stipulations in the employment contracts for all staff.

---

### Recommended actions

- Develop a clear list of the benefits of working for your social enterprise.
  - Create an equally honest assessment of the areas where your social enterprise could be seen as lacking, such as long hours to start, work on weekends, lower salary than a comparable for-profit position, etc.
  - Carefully consider the skill and experience level needed by your social enterprise manager to be successful.
  - Proactively develop policies around conflict of interest, non-competition, intellectual property, and moonlighting.
-

# Organizational Culture

The incorporation of a business enterprise into a not-for-profit will invariably alter the organizational culture. Managing this change properly both avoids pitfalls and encourages strengthening of all parts of the organization. A successful social enterprise requires an entrepreneurial approach, “bottom-line” instead of “top-line” thinking, and an inside perspective on an industry or social issue that the not-for-profit may not have previously enjoyed. The entrepreneurial approach may inject energy and creativity into the organization, leading to new mission-attainment strategies. Regardless of how much of this benefit is felt by the not-for-profit, the entrepreneurial spirit is essential to the social enterprise and must be protected.

The social enterprise, “bottom-line” approach to finances sees funds-on-hand as an asset to be protected. In contrast, the not-for-profit, “top-line” approach to finances sees funds-on-hand as an obligation calling to be met through program expenditures. Allowing the social enterprise to operate with a “bottom-line” mindset may require some internal cultural development both at the staff and Board levels. As with so many aspects of social enterprise success, clarity on the social enterprise’s primary purpose is the touchstone for developing an appropriate organizational culture.

Operating a social enterprise allows the not-for-profit organization to gain an entirely new perspective on the industry or issue – that of a competitor, advisor, or service provider. This new perspective has value for the entire organization as well as for the successful operation of the social enterprise. For example, a social enterprise that provides consulting services to the energy industry will undoubtedly gain valuable insights that will strengthen the effectiveness of the not-for-profit’s advocacy work on energy issues. In fact, this insider-perspective on the industry may provide enough value for it to be the primary purpose of the social enterprise. As this insider perspective is gained, there will be a natural inclination for the social enterprise staff to act and operate like insiders, and this may cause friction with the not-for-profit staff. Managing this requires strong internal communication and understanding of the links between the social enterprise’s primary purpose and the organization’s mission.

---

## Recommended actions

- Develop strategies on ensuring that the social enterprise culture

is understood and articulated to the parent organization and vice-versa, that the social enterprise remains rooted to the overall mission.

- If there is an arising tension between social enterprise staff and program staff that cannot be managed internally, consider hiring an outside consultant to facilitate a staff retreat.
- 

## Partnerships

Success for both the social enterprise and the not-for-profit may depend significantly on strong external partnerships, however, the nature of partnerships for each may be quite different. At the two extremes, not-for-profit partnerships are about external organizations helping to advance the mission, while social enterprise partnerships are about mutually-beneficial business relationships. While some partnerships fall into these categories, a social enterprise may be able to pursue unique partnerships in which a clear business advantage is obtained in exchange for allowing the partner to claim support for the mission. For example, a thrift store that accepts “rejects” from a clothing manufacturer may be able to sell some very attractive and new articles of clothing in exchange for allowing the manufacturer to be publicly recognized for their support of the not-for-profit organization’s mission. And, like a gift horse, sometimes you need to look a partnership in the mouth and say no: it is important to be purposeful and clear and proactive in the selection of partners with whom you will engage and to be equally clear about with whom (and why) you will not partner.

---

### **Recommended actions**

- Do some creative thinking about possible new partnerships for your social enterprise. Involve the entire staff (including those of the not-for-profit) in a blue sky, brainstorming activity. This will serve the dual purposes of bringing fresh ideas to the table and help non-social enterprise staff feel more connected to the business side of the organization.
-





# 7. Communication

## Communication

A social enterprise is more than just another program for the not-for-profit – it represents a fundamentally different way of achieving its purpose and funding its work, and it places your organization into a different landscape of stakeholders, responsibilities, and opportunities. Accordingly, your involvement with a social enterprise must be communicated clearly, proactively, and continually to both external and internal audiences. Closely associated with this communication is the alignment of expectations across all stakeholders, and demands for brand integrity need to be heeded.

Effective communication begins with a clearly understood primary purpose. Any ambiguities or contradictions will place your not-for-profit on shaky ground with regards to the social enterprise’s integrity. For example, a social enterprise consulting business, launched to “make a bit of money and do some good work,” lacks a strong purpose and may confuse stakeholders on all fronts with its weak objectives. Contrast this with a social enterprise with a primary purpose of “making strong profits to return to the not-for-profit.” In this case, its primary purpose is about being financially successful – a clearly understood objective – without confusion related to any social or environmental benefits inherent in its products or services. While the former social enterprise may have a more ambitious agenda or interesting product mix, the latter social enterprise has an easier purpose to communicate.

Communication must be addressed to all the stakeholders: funders, lenders, investors, staff, Board, organizational partners and clients, social enterprise partners and clients, competitors, and the media. Your communication strategy should run parallel to your business plan and proactively build external and internal support. Doing so effectively will ease many of the challenges identified in this handbook, and should align expectations with all your constituents. External criticism of not-for-profits running social enterprises often comes from a lack of understanding of social enterprises and some confusion about the role of not-for-profits in

### **Communication**

#### **SE = NFP Program**

#### **Communicate to align expectations:**

- **Clearly**
- **Proactively**
- **Continually**
- **Externally and internally**

the marketplace. Proactively communicating your purpose and the story behind your social enterprise will help diffuse this criticism before it causes any potential business or reputational problems.

Internal communication is necessary to align expectations related to the full breadth of social enterprise activities, including:

- How much time the ED and Board members will need to spend on the social enterprise
- Programmatic changes for the not-for-profit caused by those activities conducted by the social enterprise.
- Social enterprise competition with private sector firms that have historically donated to the not-for-profit.
- How long it will take for the social enterprise to break even and thereafter require external financial support.

Internal communications are also necessary to ensure that both the not-for-profit and the social enterprise staff are providing consistent messages to external audiences. If your organization is involved with advocacy, then it is important that your social enterprise navigates the shifting external political environment in ways that align with your not-for-profit's advocacy work.

---

### **Recommended actions**

- Using the information gathered and gleaned in the “Active Planning” section of this handbook, create a communication plan.
  - Share the communication plan with all staff, including your admin staff, your bookkeeper, and any other staff who have no direct connection to the operation of the social enterprise or your not-for-profit programming. All staff should be advocates of the social enterprise and need to be clear on how to communicate about the social enterprise externally, in both official and personal conversations.
  - Share the communication plan with your Board.
  - Ensure one person has the responsibility to oversee the recommendations in the communication plan; and make that an official part of their job.
-



## 8. Conclusion – A Sailing Analogy

If you are at the two to three year mark in your social enterprise operations: congratulations! You've beat the challenge of the first few years of learning how to operate and grow a social enterprise, and you're on your way to sustainability and profitability. You've learned how to harness the passion for mission with an entrepreneurial drive, and you are captain of your destiny. Running a social enterprise is challenging, rewarding, frustrating, enervating, and game-changing for many not-for-profits, and you've already demonstrated your commitment.

Rough waters along the way are to be expected, but remember, you have your eyes on the far distant horizon and a bit of tacking to and fro along the way not only are expected, but make the journey much more interesting. Use the recommended actions throughout this handbook to help you navigate and remember to keep a sailor's log – the experiences you have can help inform your future decisions about your social enterprise and will also be useful to share with other hearty sailors.



# Bibliography

- Bridge, Richard. 2010. More Reflections on Legal Structure for Community Enterprise. Vancouver: BC Center for Social Enterprise.
- Canada Revenue Agency. 2003. Policy Statement CPS-019, "What is a Related Business?" [www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-019-eng.html](http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-019-eng.html).
- Canada Revenue Agency. 1999. Guidance paper RC4143(E), "Registered Charities: Community Economic Development Programs." [www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cgd/cmtycnmcdvpmt-eng.html](http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cgd/cmtycnmcdvpmt-eng.html).
- Collins, Jim. 2001. "Good questions, great answers." [www.fastcompany.com/43811/good-great](http://www.fastcompany.com/43811/good-great)
- Corriveau, Stacey. 2010. The fine print: Vital information for Canadian charities operating social enterprises. Vancouver: BC Centre for Social Enterprise.
- Enterprising Not-for-profits Program (enp), 2010. The Canadian Social Enterprise Guide, 2nd edition. Vancouver. [www.socialenterprisecanada.ca/en/learn/nav/canadiansocialenterpriseguide.html](http://www.socialenterprisecanada.ca/en/learn/nav/canadiansocialenterpriseguide.html)
- Industry Canada. 2009. "Key Small Business Statistics, January 2009" [www.ic.gc.ca/eic/site/061.nsf/eng/Home](http://www.ic.gc.ca/eic/site/061.nsf/eng/Home)
- NESsT. 2000. Commitment to Integrity: Guiding Principles for Not-for-profits in the Marketplace. Turlock, CA: Not-for-profit Enterprise and Self-Sustainability Team.
- Nichols, Jeremy et al. 2009. A Guide to Social Return on Investment. London: Cabinet Office, Office of the Third Sector.
- Seedco. 2007. The Limits of Social Enterprise: A Field Study & Case Analysis. New York: Seedco Policy Center.
- Zannese, Lisa. 2009. "Can a Canadian not-for-profit earn a profit? CRA's views on the subject." [www.canadiancharitylaw.ca/index.php/blog/comments/can\\_a\\_canadian\\_non-profit\\_earn\\_a\\_profit\\_cras\\_views\\_on\\_the\\_subject/](http://www.canadiancharitylaw.ca/index.php/blog/comments/can_a_canadian_non-profit_earn_a_profit_cras_views_on_the_subject/)