Charity in Business

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Social entrepreneurialism has a long and vibrant history in Canada. It addresses definition and outlines best practices; why and how charities should and can establish commercial oriented earned income or social enterprise activities. Much of the content is applicable to charities in the UK. Note there is also overlap in definitions. This article, one chapter of 'Excellence in Fundraising in Canada Volume II', scheduled for release in the autumn of 2014, is reprinted with permission of the publisher, Civil Sector Press http://hilborn-civilsectorpress.com

Introduction

For many, the terms charity and business might seem somewhat contradictory. In the Canadian context, a charitable organization is one that benefits the public within the four pillars recognised within the income tax act – that is: (i) alleviation of poverty; (ii) the advancement of education; (ii) the advancement of religion; (iv) or other purpose that benefits the community. Business, on the other hand, is an organization that trade goods and services to consumers – with an implied motivation of profit. Social enterprise combines the two above.

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There exists, however, some convergence between charity and business that has lead to new terms and concepts including:

- **Social entrepreneurship** – building upon the definition of entrepreneurship provided within Chapter 18, Entrepreneurial Fundraising (the pursuit of opportunity without regard to resources currently controlled), social entrepreneurship is the pursuit of social change (the opportunity) without regard to resources currently controlled. It should be noted that this is only the authors definition as there in no general agreement on specific definitions.

- **Earned income** (and earned income activity) - Imagine Canada defines earned income as the sale of products, services, processes, expertise and intellectual property for monetary return.
- **Social enterprise** – while there is no common definition though for the purposes of this chapter, Social enterprises are "businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas"[1] -Social Enterprise Alliance, USA.

  Venturesome[2] proposes three social enterprise models, defining them from a social impact perspective. These include: (i) enterprise activity that focuses on maximising profit, with the profits going to support social ends ('profit generator model'); (ii) enterprise activity with social impact, with a balancing of commercial activity with social mission ('trade-off model'); and (iii) an enterprise activity that has a social impact generating financial returns that grow as the social impact grows ('lock-step model').
- **Social purpose business** – used interchangeably with Social Enterprise.

  Another aspect related to this convergence is social investment; defined as being the supply of finance and non-financial support with the objective of strengthening an organization's social, economic, environmental or cultural impact whilst potentially seeking a financial return on capital and/or community or organisational financial sustainability and viability. Venture philanthropy may be categorised as a form of social investment seeking a social return at the same time as attempting to achieve organisational and/or community sustainability and viability. Investing for financial gains alone would not fall within this definition.
- **Venture Philanthropy** – often also referred to as 'high engagement giving'- is continuously evolving in practice and definition. Venture philanthropy is defined as:

  'Capital and human resources invested in charities and social enterprises by various types of investors in search of a social return on their investment; involving high engagement over many years with fixed milestones and tangible returns and exit achieved by developing alternative, sustainable income'.

This chapter will provide some background to this convergence and highlight best practices that will assist in navigating successfully the convergence of Charities in business. As suggested in Chapter 18 on Entrepreneurial Fundraising, this convergence is the natural extension of the entrepreneurial spirit inherent in the voluntary sector.

Historical and current context

In its most recent survey of the sector, Imagine Canada reports that somewhere between 55 and 77% of voluntary sector organizations engage in earned income activities. These earned income activities range from fee for service models to membership dues to a full range of market-based activities. The larger the organization (by budget size) the more likely the organization engages in some form of business activity and most engaged in running more that one. While earned income is an important part of the revenue mix, it is not the dominant form of revenue for the voluntary sector.

Canadian voluntary sector organizations operating business and conducting business like activity have been common for many years going back well into the last century – Good Will Industries, Salvation Army and Girl Guides of Canada have been engaged in business-like activity for a very long time. While not a new form of revenue for voluntary sector organizations, reduced government funding, increased competition for fundraising dollars/grants and a general increase in the numbers of voluntary sector organizations competing for revenue, there is an increasing interest in entrepreneurial activities.

Of note in the UK a number of charities have fully owned subsidiaries (trading companies) with a small minority establishing a holding company (share capital), the holding company creating a number of profit generating mission related businesses. This has led to some charities taking their intellectual capital and experience re-packaging it and selling to a completely different market place such as the corporate sector.

The resulting increase in interest has encouraged the development of new terms and practices within the sector. Some of the terms that dominate discussion include:

- Social entrepreneurship
- Earned income
- Revenue diversification
- Social enterprise

- Social innovation
- Social purpose business
- Social return on investment
- Social finance
- Impact investment
- Social franchising

This chapter will discuss some of these concepts and offer best practice observations for the fund raising professional who might advise a voluntary sector organization as they seek to embark upon or grow entrepreneurial activities. And while definitions are an interesting point of discussion and debate, a limited amount of this chapter will be dedicated to these definitions. The root concepts in this discussion (business, enterprise, entrepreneurship, innovations, return on investment, finance etc) are somewhat well understood and defined. The art lies in the application of these concepts to address social issues - what ever these social issues may be.

The case for entrepreneurship in voluntary sector organisations

1. What is social entrepreneurship?

As the overarching concept, social entrepreneurship may include starting an earned income business, but this does not need to be the only definition. Entrepreneurship is really an attitude, rather than an activity. Social entrepreneurial organizations have a different style of leadership from traditional voluntary sector organizations. Social entrepreneurs are consumed by delivering the maximum social return on the investment, as measured by their community vision and specific mission, and they deliver this value through an attitude that sees market change as an opportunity.

Social entrepreneurs create, but not in order to blindly follow the latest 'treat-of-the-week' trend. Creation is analyzed relative to criteria deeply integrated with an organization's strategic plan. Finally, while social entrepreneurs are consumed by their mission, they are not consumed by their ego, and they actively seek partners in their quest to improve their community.

So yes, social entrepreneurship often does include the creation of earned income ventures, but not all earned income is social entrepreneurship, and not all social entrepreneurs operate earned income ventures. This chapter talks a lot about issues facing earned income ventures, but we urge you to not consider these concepts in isolation. Social entrepreneurship is the application of entrepreneurial attitudes to voluntary sector organizations.

Studies in the UK have indicated that:

- Social enterprises are recession-busters
- Social enterprises are optimistic
- Social enterprises are profitable
- Social enterprises vary widely in scale
- Scale is important
- Profit reinvestment for social goals is a reality
- The scope of operations is mainly, but not universally, very local
- The public sector is a key customer

2. Characteristics of social entrepreneurs

Being entrepreneurial does not necessarily mean starting or owning a business, or even operating a commercial venture. As mentioned within the introduction, entrepreneurship is the pursuit of opportunity without regard for resources controlled. Entrepreneurship exists in very large and mature organizations, and it can also be absent in start-ups. It can be found in non-profits without any earned income, and it can be missing in for-profit companies. We like to define entrepreneurship as an attitude towards change. The following are elements of this attitude:

- **See change as the norm and as healthy.**
  Entrepreneurs thrive in a changing marketplace. They do not fear change – they embrace it.
- **Be responsive to and embrace change.**
  More to the point, an entrepreneur exploits change and is able to benefit from it. Entrepreneurial organizations respond to change by providing better solutions for their clients.
- **Always search for change.**
  Being able to respond to change requires that you discover it early, or lead the change. Entrepreneurs monitor their customers, suppliers and competitors for new developments, needs and solutions. Entrepreneurs also monitor other sectors and industries to get ideas.
- **Be client focused.**
  Ultimately change is about the client. The organizations most able to leverage change, whether in the for-profit or non-profit sector, are those who think about change from the perspective of their customers.
- **Shift resources from lower to higher areas of productivity.**

An entrepreneur manages the use of resources carefully. If you offer a portfolio of products or programs, constantly evaluate which are the most effective either in terms of profit and/or in terms of mission effectiveness. Entrepreneurs are not afraid to stop poor performing programs and move resources to high performing ones.

- **Take calculated risks.** Contrary to popular belief, entrepreneurs do not seek risk. Entrepreneurs, especially social entrepreneurs, should act to reduce unnecessary risk. However, if the potential is strong, entrepreneurs are willing to take calculated risks to achieve extraordinary results.
- **Create something new.** Entrepreneurs push boundaries to create new solutions for their clients.
- **Strive for transparency.** In order to be effective at allocating resources, strive to be transparent in everything you do. To make entrepreneurial decisions, you need to have good information and controls.

3. Benefits of social entrepreneurship

A social entrepreneurial approach is the most effective way to stimulate innovation in and income in the voluntary sector e.g. social enterprises create unrestricted funds while fulfilling a charity's mission. Reasons are noted below. Please keep in mind that this list is for the broad concept of social entrepreneurship, rather than the specific application of earned income ventures.

- **Encourages the evaluation of resource effectiveness.** True social entrepreneurs are consumed by the concept of social return on investment, or perhaps even 'mission return on investment'. Social entrepreneurship means always considering whether resources are most efficiently allocated to addressing the social problem the organization is created to address. Nothing is sacred, except the vision/mission itself.
- **Reflects and responds to a dynamic market environment.** Social entrepreneurship recognizes that organizations are part of a system and a marketplace that is changing. Social entrepreneurs thrive as markets change.
- **Encourages innovative solutions.** The processes encourage new approaches to old problems. The processes suggested following describe a way to discover new initiatives and opportunities, and screen these opportunities so that the most effective are pursued.
- **Reduces barriers.** Traditional organizations face and create many barriers. Entrepreneurial approaches reduce these barriers, especially barriers towards: Realizing financial value, reating new initiatives, partnering with others and rewarding success.
- **Leads to organizational sustainability.** Entrepreneurial approaches encourage organizational sustainability.
- **Encourages holistic approaches.** Social entrepreneurs look at root causes and systems – not just isolated issues. Although a social entrepreneur may directly only contribute to addressing one component of a social problem, they are acutely aware of their role in the system and partner with others to address solutions from a holistic perspective.

4. Benefits of generating earned income

Most commonly when people speak of social entrepreneurship they are thinking earned income and more recently social enterprise. While social entrepreneurship is the broader concept, commercial activity and earned income remains the dominant forms of the entrepreneurial attitude. As a subset of social entrepreneurship, generating earned income is distinct from fundraising. Consider the following benefits of integrating commercial activity into a voluntary sectors organizations revenue mix:

- **Diversifies funding sources.** An organization that is reliant on a few funders is vulnerable to changes in market conditions or 'hot issues', particularly when funds primarily come from government or foundations. A diversified funding base provides insurance.
- **Funds overhead.** It can be difficult to fund the development of a strong management team and support tools, despite their importance to organizational effectiveness. Earned income is unrestricted income and can be used for administration.
- **Funds innovation.** An organization that generates its own funds can afford to experiment with riskier (but potentially revolutionary) approaches to social change.

- **Supports unpopular causes.**
  Earned income can fund the mission of an organization that does not have a strong donor constituency.
- **Creates an entrepreneurial spirit.**
  The rigor and spirit of building a business can also be applied to building strong social programs.
- **Enhances understanding of clients**
  A business must be customer-centric to survive. Developing a business is a source of feedback about customer needs.
- **Tests social value**
  A test of whether you have created value is asking someone to pay more than it cost you to create a product or service.
- **Adds skills and competencies to the organization.**
  Marketing, financial, managerial and research skills can also be applied to core social mission delivery and organizational development.
- **Enhances the profile of the organization.**
  Strong social businesses make news and attract the support of new funders and collaborators.

5. Risks

There are risks to be managed though the process of setting up and developing a social enterprise. Generic risks from an organisational perspective include:

- **Process risks** – Dedicated resources/ investment, support of the champion, and a systematic approach are essential.
- **Experience** – Developing a culture of business is important so commercial decisions are made using commercial criteria.
- **External conditions** – Competitive issues must be addressed.
- **Core mission** – ethos and services must be protected throughout the process.
- **Focus** – Confusion of ends may occur, understanding and balancing the financial return with the social return should be considered.
- **Legal** – an inappropriate legal structure may work against achieving the ends of the social enterprise, so choose carefully.

Best practices – Charity in business

1. Strategic Planning

Being entrepreneurial requires a deliberate effort from the Board, executives and staff of voluntary sector organizations. In many organizations, acting in a business-like fashion can threaten established organizational culture, norms and values. Preparation, with an emphasis on building a robust strategic plan, enables an organization to fully realize its potential while protecting and supporting its core culture and values. The strategic plan provides a framework for decision-making that guides the choices you make in developing and running your organization in an entrepreneurial fashion.

There are numerous strategic planning processes used by voluntary sector organizations that will assist in building business activity. A good strategic plan should create an organizational direction that reflects the changing environment and the goals of the organization within that environment. At its core, the planning process should consider the link or purpose of entrepreneurial/ business activity within the overall intent of the organization. Further the success of entrepreneurial activity is linking the strategic plan to the day-to-day activity of the organization through annual business plans that clearly state the annual objectives, resource implications and workflow relationships.

Too often voluntary sector organizations are unable to answer the following questions:

- Where, specifically, is entrepreneurial/ business activity contemplated and supported within the strategic plan?
- What is the specific purpose of the entrepreneurial/business activity as it relates to the mission of the organization?

If an organization is unable to answer these simple strategic questions, entrepreneurial activity will be without a strategic sponsor – an orphaned and under-resourced activity within the broader organization.

2. Good Process

As a voluntary sector organization embraces entrepreneurial activity, it becomes important to use processes that are effective at selecting and developing ideas that are then supported by the organization. Effective process has the following characteristics:

- **Simple.** A good process does not need to be complex. Indeed, experience has been that complex rating systems rarely provide an answer that is different from a simple 1-3 scale.
- **Not onerous.** If you want to encourage entrepreneurship, you cannot stifle it

through onerous process. A process should be justifiable and fair, but it should also be quick. Generally, the level of due diligence required should increase as you become more comfortable with an opportunity. At the earliest stages, the bar should be set relatively low to allow an opportunity to be considered further. There will be an opportunity for more rigor after some priorities have been set.

- **Fair and transparent.** Transparency prevents second-guessing and encourages commitment. Agree to the process and criteria up-front, then live by it.
- **Continuous (works outside of schedule) Innovation comes at inconvenient times.** There should be a mechanism to consider ideas outside the formal process.
- **Provides feedback.** The contributor of an idea should be able to find out its status and why it was accepted or rejected.
- **Recognizes resources and limitations.**

Important elements of a business plan in addition to the content:

Determine who the business plan is for

- Oneself, to get a clear focus re one's own thinking as well as for monitoring and controlling future progress.
- Team, to involve them, gaining commitment.
- External funders or investors, the plan providing a case for support and investment.
- Internal funders, to persuade senior executives or the trustees to support you.
- Shareholders, members or boards, to reinforce confidence of them in you and the plan.

Evaluating a Plan

When a management's business plan is assembled, there are a number of yardsticks that can be used to evaluate it. These include:

- Having a clearly articulated strong business case
- Is there a market need? What is the extent of that market today and into the future (including an understanding of the industry and the specific market segment you are addressing)?
- Do you have a product to meet the market need? Who are the competition and how do you stack up against the competition? What is your unique selling point (USP)?
- How does the business work – the business strategy and the business model?
- Do you have the people to make it work in terms of the mission related activities as a commercial-type enterprise?
- How do the finances stack up – profit and loss over a three to five year time frame, cash flow, investment needs and return on investment (social and financial)?
- Is the financial investment available to support the initial start-up costs and cash flow needs?
- Comparison of objectives and projected performance with other companies and social enterprises - Does the plan make sense in the light of what others have achieved in similar businesses?
- Profile of financial projections - Does the time to breakeven make sense? Are the margins realistic? Do the terms of business and working capital requirements tie up with each other?
- Sensitivity to and impact of variations in plan - What shocks and variations can the plan withstand before the business is in difficulty?
- If the business requires external capital does its profile fit with a recognisable source of capital?
- Parallel motivation and objectives as between potential investors and management - Do the management and potential investors agree on the issues of major importance? Would the potential investors understand the business and will management and investors be able to communicate when things go wrong? Does the pattern of likely funding requirements fit with the profile of potential investor? Has management actually invested in the business demonstrating their own commitment to the plan?
- Has the management assembled a team that incorporates the experience to develop the business profitably in its chosen market? It must be clear that the management team will make the transition to good performance in the private company sector.

The process needs to be doable in your organization. The level of rigor should in part depend on the amount of time available.

- **Encourages creativity**. Out of the box thinking should be encouraged. Have a forum (such as brainstorming) for outrageous ideas.
- **Respects intuition, bound by logic.** There is a balance that needs to be maintained between intuition and logic. Intuition is incredibly powerful in the early stages of idea generation and screening. It needs to be respected. But at some point, the idea needs to be able to be justified through the logic of clear criteria.

3. The Idea

If you put a group of people familiar with an organization or its clients in a room for 30 minutes, they can easily generate dozens of ideas for initiatives that might be applicable. This is true whether looking for strategic initiatives, business ideas, or fundraising concepts. Yet the hard reality of entrepreneurship is that the majority of new ideas fail. This following offers how the most compelling new initiatives might be identified.

The starting point of any business development process should be brainstorming and freewheeling. While there may already be a few ideas worthy of consideration, process is stronger when all ideas are put on the table first. Even if you are already pretty clear about what you want to do, brainstorming (and subsequent screening) provides a check. If an idea is really that strong, it will do well in the screening exercise. A good brainstorming and screening process protects the organization from second-guessing after a decision has been made. It gives confidence that the full range of alternatives was fairly considered. A good process will identify opportunities likely to be successful and that share the following characteristics:

- It is consistent with the social mission
- Meets a defined customer need with a specific competitive advantage
- Leverages the assets of the organization
- Can be developed into a credible business plan
- Risk can be managed and an exit plan can be defined
- Has growth opportunities
- Can be piloted on a small scale to reduce and does not have high fixed costs

Once selected, long-term success of any opportunity is then dependent upon running the initiative with a strict eye on the business outcomes defined within the business plan (guidelines are available through numerous web sites noted at the end of this chapter).

4. Marketing

Some studies have claimed that the difference between business activities that succeed and fail is primarily one of implementation, rather than the product. In particular, sales and marketing are critical to developing a sustainable business model within voluntary sector organizations. These are unusual concepts for voluntary sector organizations that must be understood by them as they embrace entrepreneurial activity.

The key marketing concepts include:

- **Identify a target customer segment.** Be specific. What are the characteristics of your customer? How do you identify who they are? How big is this segment? What are their primary needs?
- **Develop your position within the segment.** What need will you address within the segment? Why will your target customer gain from buying your product?
- **Develop a product strategy.** How will you differentiate your product from the others within the segment? What will be your competitive edge – price, quality, service accessibility?
- **Develop a pricing strategy.** How will you price reference to the prevailing market rate and to the value that you are creating for customers? What do you want your price to say about your product (cheapest, best quality, best value)? It is not about how much it took to make the product but rather what is the customer prepared to pay for the product. Too often voluntary sector organizations seek to compete on price.
- **Develop a promotional strategy.** What is the best mechanism to raise awareness of your product within your segment? How will your target customer find out about your product? Options might include broad-based advertising, web-based advertising, referrals, trade shows or partnerships. Relying on mission to sell is not a promotional strategy.
- **Develop a sales strategy.** What sales channels will you use to sell your product into your segment? How will your customer connect with your product and purchase it?

Options might include a direct sales force, a distributor, other third parties, retail stores or e-commerce. Chose the channels that your segment is most likely to buy from. When possible, leverage others who are already talking to the target customer about the problem the product addresses.

5. Human Resource Considerations

Human capital is the single most compelling challenge in entrepreneurial activity within the voluntary sector. Entrepreneurial skills and business competencies are specific to those engaged in business and some argue are difficult to learn within the voluntary sector. Sound human resource strategies that clearly identify skill and competency gaps within the business activity will guide the organization to filling the gaps. Hire those that have business sensibilities and knowledge – and then teach the social context/outcome. While the reverse is possible – it is far more difficult.

6. Structuring the Venture

Capital structure refers to the governance, legal form, and ownership of the business idea. Traditionally, the sector views the business activity from strictly not-for-profit or for-profit structure perspective and a strategic concern. Success in business activity might better consider these structures as tactical concerns – responding to the question – what capital structure bests serves the business intent/outcomes of the activity? This section explores several topics related to capital structure.

a) Some legal guidelines

- **There is usually a way to make it work.** With appropriate legal advice, almost anything can be achieved from a business perspective. There is generally a way to structure a venture that is legal, transparent, ethical, and risk managed.
- **Get advice from legal counsel.** The issues, however, are complex and specialized. Without legal advice, an organization may set itself up for future problems. Almost any business can be run by voluntary sector organization when properly structured, but a poor structure can jeopardize tax-exempt status or put the organization at significant financial risk.
- The right time to get advice is after you know what you want to accomplish. Legal counsel works best when business objectives are clear, capital needs are identified, business operating parameters are developed and risks are identified. Until these questions are answered, legal advice will have limited utility.

There are some general legal principles that should be kept in mind as the venture is developed. These are generalizations only and should not replace legal advice.

- Commercial income generated by a non-profit/charity that is directly related to the mission is generally acceptable. Raising money is not the mission – what matters is the nature of the activity itself.
- If properly structured, the typical worst-case scenario for a commercial activity is to create a for-profit subsidiary and pay taxes on profit.
- Ownership and anything that looks like ownership is not generally possible in a non- profit structure. If ownership/shares offers are necessary for the success of the activity, a for-profit/share capital structure is the only viable form.
- Transparency and simplicity is generally a good strategy. There is no need to get complex in structure – it is better to be clear.

NOTE – This analysis is not intended to be legal advice and any decisions on corporate structure should be made with the assistance of a qualified lawyer.

b) For-profit vs. non-profit

Voluntary sector organizations, particularly those based on earned income, often struggle with the question of what legal structure is the most appropriate (for-profit, not-for-profit, charity or a hybrid). In many cases, there is not a regulatory requirement to be one or the other, and the question is more strategic. Legal structure is an operational decision, which is driven by the business plan. Form follows function, rather than the other way around. At the core of this decision is the type of capital that is required to fund the business plan of the organization.

Becoming a non-profit closes the door to the capital markets and market mechanisms for rewarding performance. Raising large amounts of capital can be much easier in a for-profit environment than through grant writing and fundraising. For-profits also give the potential to sell a successful spin-off and immediately capture the financial value. Non-profits cannot be sold. On the other hand, being a for-profit makes the government a financial partner without a corresponding investment. And few philanthropists will give money outright to a for-profit without the tax advantage of a donation status. Another consideration of a for-profit is that investors seeking a financial return may force the organization to compromise on its mission at times; however there are a number of mechanisms that may be used to maintain control over the enterprise and its mission and ethos including: clear decision making rules in a shareholders agreement; the articles designed to make it difficult to change the objects and ethos of the social enterprise; Board representation; etc.

i. Reasons to spin-off a subsidiary

In many cases, there is not a regulatory requirement to spin-off commercial activity as a for-profit company. CRA permits some commercial activity in the non-profit structure. While not necessarily legally required, there are some good business reasons to consider creating a separate for-profit for your business:

- **Avoids management distraction.** The business can be run to maximize profit. The non-profit can be run to maximize social benefit. Neither management team is distracted from their primary purpose.
- **Reduces bureaucracy.** A small independent venture can be nimble and focused. A small program in a big charity can be forgotten.
- **Aligns talent, both at the management and Board levels.** Managing a charity requires a different skill set than managing a business. A separate business can attract a Board of experts in the industry.
- **Achieves transparency and simplicity.** Donors or investors can support the organization that is the right fit for their needs. Regulators have a clear picture of each organization.
- **Shields the voluntary sector organization from business risk.** As the owner of a separate corporation, the non-profit can limit its potential loss to the initial investment it makes. Outside investors can be sought to further limit risk.
- **Enables investment in the business.** A for-profit has more options for raising investment capital since it can offer ownership.
- **May be sold to investors, employees or another company**. A separate business can be sold outright as an exit strategy.

A for-profit subsidiary is not appropriate for all business concepts. There are some downsides. The benefits should be weighed against the following:

- Some infrastructure will be duplicated, leading to extra expenses.
- Mission-related business activity may be tax-free if structured in the non-profit.
- A for-profit cannot directly accept charitable donations.
- Social focus may be lost. A for-profit has a fiduciary duty to shareholders.

ii. Financing

Funding innovation does not need to rely solely on donations or cash reserves. This section explores non-traditional financing options, other than earned income, grants, events and contributions. Depending on the capital structure, access to other forms of funding may be:

- **Venture philanthropy.**
  Philanthropists are increasingly using the strategies of venture capitalists to make their donations more effective
- **Shares.**
  A for-profit company can sell shares to venture capitalists, angels, employees, other charities, foundations, and association members or the donor base. Social venture capitalists evaluate their investments from a social and financial lens.
- **Distributor / Partner investment.**
  A business partner may make an investment to help the partnership succeed.
- **Licensing / Franchising.**
  Funds can be raised and the required investment reduced by selling intellectual property through licensing or franchising agreements.
- **Bank loans / Other debt.**
  Non-profits increasingly borrow money from banks and suppliers, or even issue bonds. This is appropriate for projects that have a predictable long-term cash flow structure.

- **Guarantee Pledges.** Some innovative organizations ask a supporter to pledge assets as security on a loan or as a down payment on a mortgage. The guarantee enables access to financing that the organization may otherwise not qualify to receive, and the donor can expect their assets to earn a market return before being returned.
- **Program-related investments (PRIs) (CRA CG 014 dated 26 July 1012).** A PRI is not an investment in the conventional financial sense. While PRIs may generate a financial return, they are not made for that reason. A PRI usually involves the return, or potential return, of capital (funds or property) within a set period of time, but this is not a requirement. A PRI may also yield additional revenue for the investor charity (such as interest), but the yield of additional revenue can be below market rates.
- **Corporate partnerships / Cause-related marketing.** Building strategic partnerships with companies can lead to financial and non- financial benefits. The best deals leverage the strategic plan of both partners to create unique value. Similarly, 'affinity' deals work best when there is a strong strategic fit.
- **Planned giving / Legacy vehicles.** Some planned giving vehicles offer the donor cash flow before their death. Strategic use of planned giving can change the donor/recipient relationship.

7. Portfolio Planning

It is important to develop a social enterprise trading portfolio investment plan for organizations that have more than one enterprise. This type of planning:

- Supports informed decision making about strategic investment, reducing investment risks.
- Improves enterprise portfolio performance, creating greater enterprise value and returns.
- Provides a transformational vision supporting change and growth.
- Develops a clear enterprise portfolio growth action plan with a clear milestone driven change management plan.
- Reinforces benchmarking and performance measurement.

A portfolio plan answers the following questions:

- Where are we now?
- Where do we want to be?
- What will it look like when we get there?
- What do we need to do?
- When do we need to do it?

It provides a process for keeping the enterprise portfolio vibrant, diversified and balanced; for planning and priority setting including criteria to:

- Evaluate existing enterprises re which ones to grow/invest in; maintain and defend because they are profitable but further significant investment may not achieve greater returns; or wind down because they are no longer achieving acceptable social and financial returns.
- Identify cross marketing opportunities.
- Plan resource allocation (effort, finances, expertise, staffing) for new enterprises to add to the portfolio.
- Develop and implement exit strategies.
- Evaluate and prioritise new enterprise ideas (see box below for an approach to encourage enterprise idea generation with an organisation).

Current and future developments/trends

Imagine Canada reported in 2003 through its National Survey of Nonprofit and Voluntary Sector Organizations that:

- Big organizations are getting bigger.
- Larger organizations are more dependent on government funding.
- Resources although not declining may remain inadequate.
- Capacity problems may prevent many from fulfilling their mission.

Recent developments include government retrenchment (reduced government funding), increased competition for philanthropic dollars and a general increase in the number of organizations are causing voluntary sector organizations to seek more business-like alternatives to addressing their issues.

Some argue that the Canadian expectation that Government step in where markets fail has caused Canada to lag others in developing the alternatives that will better support the voluntary sector. Certainly

Canada lags United Kingdom and United States in specific innovations that may better support entrepreneurial and business activity in the voluntary and social enterprise sectors. Emerging conversations include:

- New legal forms
- Social Finance
- Social Return on Investment
- Integrated fundraising

These are briefly discussed below.

1. New legal forms

Some argue that there are insufficient legal forms (current legal forms include share capital companies, non-share capital companies, charities etc) in Canada to properly support the development of business activity with the voluntary sector. International examples of emerging legal forms include Limited Liability Low-profit Corporations (L3C USA) and Community Interest Corporations (CIC UK). Verifiable audit process like B Corps (USA and Canada) are also emerging.

Given the complex nature of federal and provincial responsibilities associated with business incorporation there are a number of regional conversations ongoing but none yet have moved to the development of any new legal forms.

For the most part, voluntary sector organizations 'find a way' to achieve business outcomes that support their missions through existing legal forms.

2. Social return on investment (SROI)

Somewhat immature in Canada, there are some early pioneers in the practice of measuring SROI including Social Capital Partners in Toronto, Atira Property Management Service in Vancouver and Inner City Renovation/Community Ownership Solutions out of Winnipeg.

SROI is an attempt to quantify the social value being generated by an organization as a function of an investment made in that organization. The concept is intended to provide an evaluation strategy to determine which organizations and programs are delivering the 'best' social returns. This approach is gaining popularity as competition for charitable dollars continues to increase and social organizations recognize the need to report on the social value of their work.

There is no common metric for all social outcomes but rather a diverse set of tools designed using a common set of principles:

- **Involve stakeholders.** Stakeholders should inform what gets measured and how this is measured and valued.
- **Understand what changes.** Articulate how change is created and evaluate this through evidence gathered, recognizing positive and negative changes as well as those that are intended and unintended.
- **Value the things that matter.** Use financial proxies in order that the value of the outcomes can be recognized.
- **Only include what is material.** Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
- **Do not over claim.** Organizations should only claim the value that they are responsible for creating.
- **Be transparent.** Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.
- **Verify the result.** Ensure appropriate independent verification of the account.

3. Social finance

Social Finance is the emerging field encouraging the use of private capital for public good. The conversation is somewhat more mature in the United Kingdom – while the conversation has just begun in Canada. Sponsored by the Government of Canada, recent consultations include the gathering of concepts that should be considered within the emerging field of Canadian social finance. The resulting government summary identifies some fifteen current programs worthy of further study (*www.esdc.gc.ca/eng/consultations/social_finance/report/index.shtml*).

Concepts in social finance include such tools as Social Impact Bonds(SIB). The SIB is a bond offering generally backed by government where the-like financial returns offered is linked to to those who invest in programs designed to address measurable social return – like recidivism, youth unemployment and homelessness. Private investment in the bond is encouraged by government guaranteeing a specific return contingent upon specific social returns being met. If targets are not met, no return on the investment is made.

Any number of provinces are also entering the consultation/pilot project phase of social finance development. *www.Socialfinance.ca* is the preferred reference for these developments.

SDONOR/ SOCIAL INVESTOR	PITCH	RESULTS
DONOR A (A TRADITIONAL PHILANTHROPIST)	**CASE FOR SUPPORT APPROACH USING TYPICAL CHARITY LANGUAGE** Case for Support 1. Mission – what you want to achieve 2. Introduction/overview summarising the main points 3. The needs you are meeting · Use statistics, case studies, authoritative sources · Give a sense of urgency, importance and potential impact 4. How you will meet the needs – describe the project(s) 5. Why support the charity? · Organisational credibility, USP, accomplishments, impact, and other donors 6. Detailed budget 7. Who's involved – Board, staff, partners, donors	Tax efficient donation
DONOR B (A SOCIAL INVESTOR DONOR)	**BUSINESS CASE APPROACH USING SOCIAL INVESTMENT LANGUAGE** Taking a social investment approach with no financial return to the donor/ social investor; the social investor seeking a societal return on their investment (outcome, impact, social return on investment) Business Case 1. Problem/market need 2. Your solution · Description of the service/enterprise, activity and business model · Unique Selling Point (USP)/competitive difference · Strategy and people to make it work · Finances 3. The ask: investment needed (money/resources) 4. Societal returns: financial return on investment (FROI)/Social return on investment (SROI) (triple bottom line) 5. Your organisation – you are a winner (effectiveness/impact, financial stability, successes, other social investors)	Tax efficient donation
DONOR C SIMILAR TO DONOR B; HOWEVER, THE DONOR, A GROUP OF DONORS OR CORPORATIONS AND THEIR EMPLOYEES WISH TO GET INVOLVED E.G. VENTURE PHILANTHROPY TYPE MODEL. THEY ESTABLISH OR CONTRIBUTE TO A FUND(S) WHICH ARE AN IN-HOUSE SEMI-INDEPENDENT FUND CO-MANAGED BY THE SOCIAL INVESTORS AND THE CHARITY; AND FOCUSED ON AND INVESTING IN THE CHARITY	· **BUSINESS CASE APPROACH USING SOCIAL INVESTMENT LANGUAGE** · **OUTLINES WAYS THE SOCIAL INVESTOR MAY ENGAGE** Venture philanthropy is defined as: Capital and human resources invested in charities by various types of investors in search of a societal return on their investment. Venture philanthropy involves a high engagement over many years with fixed milestones and tangible returns/impact and exit achieved by developing alternative, sustainable income. As social investors, venture philanthropists seek the most efficient use of their money in achieving a desired social goal. Like venture capitalists, venture philanthropy investors seek to maximise their return by adding value beyond the monetary contribution through the contribution of expertise and strategic guidance.	Tax efficient donation and donor expertise applied over a number of years
PERSON D, THE SOCIAL INVESTOR SEEKING A FINANCIAL RETURN FOR THEMSELVES ALONG WITH ACHIEVING A SOCIETAL IMPACT	**SOCIAL INVESTMENT IS DEFINED AS THE SUPPLY OF FINANCE AND NON-FINANCIAL SUPPORT WITH THE OBJECTIVE OF EITHER STRENGTHENING AN ORGANISATION'S SOCIAL, HEALTH, ENVIRONMENTAL, ECONOMIC OR CULTURAL IMPACT (SEE DONOR B AND C ABOVE); OR, ACHIEVING THE ABOVE WHILST CREATING A FINANCIAL RETURN FOR THE SOCIAL INVESTOR. INVESTING FOR FINANCIAL GAINS ALONE WOULD NOT FALL WITHIN THIS DEFINITION.** There are three basic categories of social investors: · Wholesalers who fund intermediaries · Intermediaries: retail funders who invest in charities and social enterprises · Investees: charities/social enterprises who receive the investment	Tax Efficient investment in the charity's social enterprise activities or into a social venture capital investment fund (i.e. the charity's intermediary fund)

4. Integrated fundraising campaign - combining a major donor/social investment

Voluntary sector organizations, when wishing to raise significant sums of money often embark on a major donor campaign – a traditional approach that uses a case for support to attract donations from high net worth individuals, corporations and trusts; these usually in the form of tax efficient donations. Some institutions like universities may raise investment funds for specific commercial ventures. These two approaches are usually separate activities; generally not leveraging relationships with each other.

An integrated fundraising campaign brings the two together, combining traditional major donor approaches with social investment making it an integrated campaign – the campaign funding/investing in investable propositions, that is, lists of items that the charity is raising funds for e.g.

- Programme/service quality enhancement, growth, and new service development to meet emerging or unmet needs; capital campaigns; research.
- Social enterprises new product development and growth; supporting external partners/key stakeholders.
- Creating an infrastructure that will support greater organisational effectiveness, efficiencies and growth.

This approach allows for the leveraging of relationships, cross marketing and upselling. In the simplest terms there are different approaches to different donors, depending on their perspective. For example:

In order to achieve the above it is important to be investable ready, creating a social entrepreneurial context and address organisational readiness issues.

General Tips

- Strategic Planning is important - without it business and entrepreneurial activity will struggle.
- Entrepreneurial activity will change the culture of an organization – accept it and prepare for it
- The discipline of multiyear planning that connects the strategic plan to the day to day life of the voluntary sector organization is essential.
- Use robust processes to develop and screen business ideas – it reduces risk.
- Recognise that good ideas can come from anywhere and at the most inconvenient times – be ready with process.
- Marketing (customer) perspectives are key – charge for value created in comparison to the competition.
- Hire business people that understand the industry or activity that you are pursuing.
- Form follows function – first understand the intent and plan for the business – then get legal advice.
- Seek to understand the social return involved in the business activity - what social outcome is produced at what price.
- Find new financing tools.
- Consider creating an integrated fund raising campaign.

Resources/Case Studies

While there is no central resource for case studies of business activities within the voluntary sector in Canada, the most robust in North America is Centre for Advancement of Social Entrepreneurship http://caseatduke.org/knowledge/casestudies/index.html.

In Canada, there are a few resources that discuss the concepts mentioned within this Chapter.

- http://tricofoundation.ca/wordpress/category/canadian-social-enterprises/ The sponsors of The Social Enterprize Award, Trico Foundation provides a lengthy list of Social Enterprise case studies.
- http://innoweave.ca/en/resources. Social Enterprise examples include St John's Bakery (Toronto), Have Culinary Training (Vancouver). Social finance case studies include Atira Property Management Services (Vancouver) and The Centre for Social Innovation (Toronto)

Conclusion:

While at risk of becoming the latest 'flavour of the month', entrepreneurial activity within the Canadian voluntary sector appears to be accelerating. The concepts mentioned within the chapter are the subject of numerous regional and national studies and initiatives – and the subject matter can easily fill a volume of its own. Within the limits of this chapter, an attempt has been made to provide some context and some frame of best practice for the fundraising professional to consider – it is simply an introduction. The material is by no means exhaustive – there are consulting professionals and academics involved full time in the study and application of these concepts. The essence remains the delicate balancing social and business outcomes.

Charities in business can provoke the extremes of debate – on the one hand some claim that the secret is for voluntary sector organizations to be more business like. On the other - if only businesses were more socially minded we could solve all the world's problems. The truth and the future lies somewhere between.

Resources

1. Selected websites

- Aperio *www.aperio.ca*, the website includes a number of our own publications, templates, a current list of links and books, and case studies of social entrepreneurs.
- Social Enterprise Canada *www.socialenterprisecanada.ca* is the network for Social Enterprises nationally and contains a full range of resources for enterprise activity within the voluntary sector.
- Social Finance Canada *www.socialfinance.ca* offers a collection of resources material and conversations respecting the current issues around social finance in Canada.
- Social Enterprise Alliance *www.se-alliance.org* is a network of support connecting entrepreneurial non-profits with learning opportunities, technical assistance and resources to further their efforts.
- Government of Canada *http://www.esdc.gc.ca/eng/consultations/social_finance/report/index.shtml* summarizes the recent federal consultations
- New Profit Inc. *www.newprofit.org* is a venture philanthropy firm committed to the practice of venture philanthropy and the evolution of a new market for social change. Its goal is to effect large-scale social change by applying venture capital practices to philanthropy.
- The Roberts Enterprise Development Fund *www.redf.org* is a venture philanthropy firm focused on building job and training social enterprises in the San Francisco area. It has published several guides and reports for social entrepreneurs, and is considered the leading expert on Social Return on Investment (SROI).
- Social Returns *www.socialreturns.org* provides educational and financial support for non-profit enterprise through its business plan competition. Social Returns was inspired by the Partnership for Nonprofit Ventures, which is no longer active, but still hosts a website with significant resources *http://www.ventures.yale.edu/*
- Community Wealth Ventures *www.communitywealth.com* has a directory of non-profit organizations with business ventures and has published a number of reports offering an overview of social enterprise in the United States, including essays, case studies, practical lessons, and survey results for organizations seeking to diversify their revenue streams.
- Center for Social Innovation *http://csi.gsb.stanford.edu* is the publisher of the outstanding Stanford Social Innovation Review and also offers other resources of interest to the field.
- Canadian Social Entrepreneurship Foundation www.csef.ca supports social entrepreneurship in Canada.
- Social Edge *www.socialedge.org* is a resource for social entrepreneurs.
- Peter F. Drucker Canadian Foundation *http://www.druckerinstitute.com/drucker-nonprofit-innovation-award* celebrates and shares innovative practices found in non-profit organizations in Canada.
- Canadian Social Economy Hub – Centre Canadien d'économie sociale *http://socialeconomyhub.ca/* is a portal for resources impacting the social economy in Canada.

Resources (continued)

2. Selected Associations

- Canadian Social Entrepreneurs Network
- Réseau de développement économique et d'employabilité *www.rdee.ca*
- Canadian Community Economic Development Network
  http://ccednet-rcdec.ca/en/node/11605
- Chantier de l'économie sociale *www.chantier.qc.ca*
- Fondation de l'entrepreneurship *www.entrepreneurship.qc.ca*
- Canadian Society of Association Executives – Société Canadienne des directeurs d'association *www.csae.com*
- Association of Fundraising Professionals www.afpnet.org Local chapters across Canada, including Association des professionnels en gestion philanthropique (QC) www.apgp.com
- Imagine Canada *http://www.imaginecanada.ca*
- Canadian Community Economic Development Network – Le réseau Canadien de développement économique communautaire www.ccednet-rcdec.ca
- Pan Canadian Community Futures Network – Réseau pancanadien des société d'aide au développement des collectivités www.communityfutures.ca
- Voluntary Gateway – Portail communautaire www.voluntarygateway.ca

3. Selected references

- Bornstein, David, How to Change the World: Social Entrepreneurs and the Power of New Ideas; Oxford University Press
- Brinckerhoff, Peter, Social Entrepreneurship: The Art of Mission Based Innovation; Wiley
- Oster, Massarsky, Beinhacker, Generating and Sustaining Nonprofit Earned Income; Jossey-Bass
- Pepin, John, A Guide to Revenue Diversification for Directors of Non-Profit Organizations; Canadian Society of Association Executives
- Shore, Bill, The Cathedral Within; Random House
- Steckel, Simons, Simons, Tanen, Making Money While Making a Difference; High Tide Press
- Steckel, Richard, Filthy Rich: How to Turn Your Nonprofit Fantasies into Cold, Hard Cash; Ten Speed Press
- Boschee, Jerr, The Social Enterprise Sourcebook – Profiles of Social Purpose Businesses Operated
  by Nonprofit Organizations; Northland Institute
- Boschee, Jerr, Migrating from Innovation to Entrepreneurship: How Nonprofits are Moving toward Sustainability and Self-Sufficiency; The Institute for Social Entrepreneurs
- Dees, J. Gregory; Emerson, Jed; and Economy, Peter. Enterprising Nonprofits: A Toolkit for Social Entrepreneurs; Wiley
- Dees, J. Gregory et al., Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit; Wiley
- Larson, Rolfe, Venture Forth! The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization; Amherst H. Wilder Foundation (Wilder Publishing Center)

[1] *https://www.se-alliance.org/what-is-social-enterprise*

[2] *Three Models of Social Enterprises: Creating social impact through trading activities*

https://www.cafonline.org/charity-finance--fundraising/borrowing/social-investment.aspx