

A Promising Practices Guide for Reducing Risk in the Creation of Employment Development Social Enterprises

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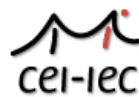


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Executive Summary

Social enterprises whose social mission is employment development face unique challenges in using an income generating business as a vehicle for employment. **This paper presents a Promising Practices Guide to mitigating business risk in start-up business planning due to the social mission of employment development social enterprises.** This guide is meant to supplement the resources already in existence for starting social enterprises. It was developed specifically for the Vancouver/Burnaby branch of the Canadian Mental Health Association (CMHA/VB) but it is expected that the steps outlined will be relevant to any non-profit hoping to create a social enterprise to better serve its target population of individuals with barriers to traditional employment.

The guide is broken into three sections with recommendations to reduce the risk of your social enterprise failing at any of the initial stages of developing the new social enterprise:

1. Assessing your parent organization's readiness
2. Identifying a business opportunity in an appropriate industry
3. Developing a business plan

1. Organizational Readiness

Non-profit parent organizations will experience stress while attempting to align their goals to a social enterprise which is fundamentally focused on its financial bottom-line. If the parent organization has experience with social enterprises then it must assess its fitness to attempt a new one. Among its considerations should be a realistic assessment of how much support current enterprises still require as well as an understanding of what has been learned from those that have failed to succeed.

2. Identifying Business Opportunities

When your organization is prepared to undertake an employment development social enterprise, your next step is identifying a business opportunity with which you can effectively compete and carve out a place in the market. Your employment development mission complicates this process since your costs are likely to be higher than your competitors. To address this and to mitigate the risk of your business failing to reach breakeven you are looking at industries with as many of the following characteristics as possible:

- Low hourly wage (due to PWD status)
- Part-time workers (due to PWD status)
- High labour to capital ratio (due to mission and low initial capital resources)
- Minimal upfront capital outlay
- Scalability due to mostly variable costs
- High employee turnover (because your enterprise will have less)

- Low training costs (or you will partner with a training partner)
- Low employee morale due to repetitive jobs
- Already employing the target population
- Low fluctuations in seasonal demand
- Healthy industry profit margins

In addition, you must consider the tradeoffs in your decision between having your business run by a committed individual from inside your organization and hiring a manager with industry experience.

3. Business Planning

Once you have identified an opportunity that you are well positioned to exploit, the details of the business need to be thoroughly planned.

- Incorporating your business as a separate non-profit entity will afford your new venture several advantages including clarity of goals, the ability to raise grant money, a separate board dedicated to your business and a clear message to customers about the sincerity of your social mission.
- Being customer focused is important to your business plan and every effort should be made to develop sympathetic initial customers. You should focus on offering a quality product in order to give your employees a good work experience and to show that your employment development mission does not undermine your final product. The more easily customers can confirm the quality of your product, the more prominently your social mission can figure in your marketing.
- Your employment development mission has a big influence on your operations since maintaining competitive efficiency and supporting your staff can tax your resources. Planning can mitigate some of these concerns by identifying processes that will minimize training expenses, focusing on long term contracts and developing an efficient mix of professionals and your target population. Management time that will be spent counseling your staff should be considered as well as whether a manager from your target population adds too much risk to an already difficult model.
- An accounting system that is suited to your industry is very important in monitoring your enterprise's success and in running your business effectively.
- Social enterprises are likely to need outside funding for their early years. In addition to your parent organization, Vancouver has multiple funders who are willing to support employment based social enterprises. Be sure that once funding is obtained that you have a plan for cash management and that your managers stick to your business plans.

- Despite the necessary focus on the business side of your enterprise, be sure to have clear goals for achieving and evaluating your employment development social mission. Many systems exist for evaluating social impact and some locally developed ones are being developed but regardless of which system you use it is important that all stakeholders are aligned on how success will be measured.

A social enterprise can be a valuable tool for a parent organization in helping members of its target population secure employment that is sensitive to their support needs. However, the business needs of the enterprise are equally important and must be balanced with the social mission in order to allow for success and growth. This guide offers practical ideas that should be incorporated during the planning stages of your social enterprise to increase its chance of success.

Introduction

While social enterprises have existed in various forms for decades, the last ten years have seen the model receive unprecedented attention and support from individual entrepreneurs, non-profits and funding organizations. The definition has been debated and continues to evolve but the Social Enterprise Alliance succinctly defines Social Enterprise as “An organization or venture that advances its social mission through entrepreneurial, earned income strategies.”¹

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Many resources already exist to help organizations and individuals understand and prepare to start social enterprises. Two guides are particularly helpful and easy to read.

1. Enterprising Non-Profit's *The Canadian Social Enterprise Guide*² provides a thorough overview of the preparation and planning that should go into launching a successful enterprise including inspiring case studies and an easy to follow guide for ensuring that no big gaps exist in your organization's planning.
2. REDF in San Francisco is a leader in social enterprise funding and study in the US and has many publications that would help in the planning of a new social enterprise. In particular, an easy to read overview which makes a good companion piece to the ENP guide is Kristin Majeska's *Growing a Social Purpose Enterprise*.³ It lays out relevant planning principles and considerations that should be undertaken to allow your social enterprise to grow and reach financial self-sufficiency.

The clarity and thoroughness of these documents argues against the need to replicate them. Instead this guide aims to add value to their work by focusing on the challenges unique to an employment development social enterprise with a particular focus on the additional considerations that must be made in the industry selection and business planning stages.

This guide was created using the following resources:

- Individual interviews with Vancouver-based managers, founders, funders, supporters and employees of employment development social enterprises.

- A review of internal documents of CMHA's three social enterprises to date: The Eastside Coffee Bar Cooperative, Lunch à la Carte and the Cleaning Solution.
- A considerable but by no means exhaustive review of the current literature on social enterprises
- The author's experience in UBC's Sauder School of Business MBA program and his management experience in businesses of varying sizes including both non-profit and corporate.

The appendix of this paper includes a list of those who participated in interviews. While the individuals involved influenced the direction of this paper, the conclusions and opinions offered in the text are those solely of the author. In some cases an interviewed participant might disagree with the paper's conclusions so readers are urged to note that all omissions, errors and opinions are solely those of the author and are not meant to reflect a consensus, majority or individual opinion of any of the other parties.

Is this model right?

While the guide's focus is on the business side of planning, it must be acknowledged that some valid questions remain regarding the principles of employment development social enterprises. The concerns among those working in the field are whether creating an environment and business in which most or all of the employees come from the same population is too similar to the widely discredited "sheltered workshop" model of employment. The less risky (and therefore more successful) the social enterprise business model, the greater is the need to employ individuals who are fairly high capacity; the high end of your target population. That group, however, includes those who are the most likely to succeed in the regular employment marketplace; especially with a little extra support. The question then becomes whether a social enterprise is inhibiting better integration of its target group into society than another program would. There is no easy answer to this debate as it is always dependent on the needs of the particular individuals involved. It does seem however that employment based social enterprises serve as a valuable piece of the support puzzle for larger non-profits with the resources to create multiple programs to serve their large and varied base of clients. The thing to consider is whether social enterprise makes sense to your organization and whether it draws resources that could be better used to serve your mission.

Are you Ready?

Before embarking on the question of which type of business to start or how to run a business, a non-profit needs to ask *whether* it should be getting into a new business at all. One of the first things to be sure to understand is the difference between an income generating social enterprise and an employment based social enterprise and the high unlikelihood of effectively blending the two. Some

non-profits start social enterprises with the hopes of using the profits of a new business to lessen their reliance on grants and donations. Thrift shops affiliated with a non-profit organization are the standard and ubiquitous example of the income generating model. An employment development social enterprise, by contrast, is one whose mission is to employ individuals who are not easily employed due to one or more barriers to employment such as mental illness, developmental disabilities, addiction, extreme poverty or poor job skills. The challenges inherent in this model makes financial self-sufficiency difficult to achieve which means there are unlikely to be any profits to channel back to the parent non-profit. While this guide focuses on the employment development model, your choice of social enterprise should reflect an understanding of which objective your organization is working to accomplish.

First attempt?

If this is your organization's first foray into creating a social enterprise, then you should expect a steep learning curve in regards to understanding and handling the likely changes and stresses. The change in perspective for a non-profit that is skilled at creating, funding and operating various programs to incorporating a bottom-line driven business can be unsettling. The ENP guide offers a chapter on "Readiness for Social Enterprise" that goes into detail about the steps an organization should take in order to go into the process with its eyes wide open. Knowing the process will be difficult and properly assessing whether your organization is financially, structurally and mentally prepared to weather the changes will ease (but not eliminate!) the inherent stress. Simply put – it will not be easy.

Ready to try again?

If, as is the case with the Social Enterprise Team at CMHA/VB, your organization has been through the process of creating one or more social enterprises, there are other issues to consider. If one or more of your social enterprises are still in operation, how much ongoing financial and staff support do they require? Can these social enterprises handle less attention since a new start-up venture is likely to engross the current parent organization's resources in much the same way that the last one did? Is your ongoing social enterprise stable or is it about to undergo major changes? For example, the replacement of a founder, a period of dramatic growth or the loss of a major customer could all be reasons to assume that the parent organization would be unwise to remove its attention from the ongoing venture at this time.

If on the other hand, your organization has attempted and shut down its past social enterprises; what have you learned? Many failed social enterprises have much to teach about pitfalls that new ones should avoid. Consider whether the failings were entirely those of the enterprise itself such as the choice of industry, the business plan or the management team or whether the parent organization contributed. Lack of support, unclear expectations and unreasonable demands are all possible problems that a parent organization can put on a fledgling

enterprise. As one example - some parent organization's refuse to allow a fledgling social enterprise to pay market rates for a professional manager because it is above the staff pay structure of the parent non-profit.⁴ This can lead to attracting inexperienced or ineffective managers which in the case of a business failure may be overlooked as an initial cause. In addition, consider whether your staff and board have grown gun-shy or disillusioned with the idea of starting a social enterprise and be sure that any concerns are properly addressed. The task of starting a successful business is difficult enough without internal issues undermining the hard work that will be involved.

Identifying a Business Opportunity

If your organization is ready to undertake an employment development social enterprise, the next step is to find a business opportunity. The act of identifying a business opportunity is a creative one and requires an understanding of what makes a successful business, of the capabilities and skills of your parent organization and of current market trends and needs. A basic goal is to identify a business opportunity in a niche area of an industry in which you have or can develop a competitive advantage. Again the ENP guide tackles this step with very good advice that should be considered for any non-profit starting a social enterprise. But when planning an enterprise whose primary goal is to create employment opportunities for individuals with barriers to employment – additional considerations should be included in identifying an appropriate business and industry strategy.

Social Goals

Consider your ultimate goals in creating a business. Do you want to set up a business where individuals can be employed long term or do you see it as a training ground for employees to move into the wider employment market? Most social enterprises find that the goal of training an employee in order for them to leave runs counter to their goal of creating a successful business. In the for-profit world, most businesses work hard to keep their employees since training them is an investment in their future productivity. If your business is already planning to take the extra time (which likely means extra costs) to train a group that is harder to employ, then adding a goal of high employee turnover will increase your difficulties (and costs). Even worse, your business would only be able to move on its most productive employees and these would go to your competitors. From a business point of view, this is a poor and dangerous strategy. Traditionally the task of providing employee training in preparation for the job market has been undertaken by non-profits as programs that are underwritten by grants and other funding. It should likely remain that way. Be extremely circumspect before adding this seemingly innocuous “training” goal to your new enterprise.

What then is a reasonable goal for creating an employment development social enterprise? Many of the existing ones choose to offer job opportunities to

individuals with barriers to employment while respecting and supporting their needs but still holding them accountable to performing their job responsibilities. Individuals living with mental illness have found that a job opportunity in a CMHA supported social enterprise removes some of the anxiety that accompanies employment. This comes from the knowledge that they will not need to hide their illness and that their manager is more likely to understand their limitations and work with them to make sure the job is suitable to their needs. For some individuals, this supportive environment goes a long way towards empowering them to be productive employees. The benefits to the target population include:

- A sense of purpose from contributing to society a valued service as an employee. Getting paid reinforces this value.
- A sense of normalcy in that they have a job and its attendant responsibilities
- An ability to earn a fair wage to supplement their government benefits which provides an opportunity for the individual to gain some purchasing freedom.

Undoubtedly if the business is successful and lasts for many years, some employees who are doing well may move on to other jobs outside of the supportive environment of social enterprises. This would be a success for the individuals involved and would be a natural part of any business's growth but is a far cry from the purposeful goal of training people to move them on. In fact, the hope would be that the business environment would encourage an individual to stay and that the natural growth of the business would be the way to expand the social mission by hiring even more employees from the target population.

Business goals

Keep in mind that balancing these social goals with business goals is essential and is what makes a social enterprise different from a similarly intentioned non-profit program. Your basic business goal is to understand the product or service you will provide and calculate the costs of making or providing it against your customers' willingness to pay for it. This difference is your profit margin and your goal as a manager will be to build a business that can avoid negative profits while still achieving your social goal. This is no easy feat as a large percentage of new ventures fail to achieve profitability. With an employment development social enterprise the social goal makes achieving profitability even harder due to the extra costs that are incurred by the business in comparison to its for-profit competitors. These extra costs can range from more training per employee to more supervision to lower worker productivity. By choosing an industry and business that minimizes your cost disadvantages while maximizing your advantages, your business has a much better chance of surviving and reaching profitability. While your social mission costs will be specific to your actual target population, many groups share similar concerns. The following sections are factors that can affect a business's cost structure and competitiveness and should therefore influence an organization's choice of industry.

PWD limitations

CMHA supported social enterprises face a major regulatory obstacle in pursuing their mandate to employ individuals with severe and persistent mental illness. In British Columbia, most of these individuals have a PWD (persons with disability) designation and are receiving provincial benefits which include a basic income of \$856/month. This classification currently only allows individuals to earn an extra \$500 of income per month after which every dollar results in a dollar reduction in benefits (in effect, a 100% tax on any earnings over \$500/month). In addition, many individuals with this designation incorrectly fear that along with the benefit claw back, earning above \$500 will jeopardize their other PWD benefits including access to subsidized housing and medication. For all intents and purposes this limits a business venture aimed at employing this population to using primarily part-time employees. Even at minimum wage (\$8/hr) this means that no individual employee from the target group could work more than 14 hours a week. Since higher hourly pay rates would mean even fewer hours available per employee, the new venture is also limited to an industry with lower hourly wages in order to maximize the value from employee training. (An industry that requires little or no employee training is an alternative but would also offer low wages for that very reason.)

Labour vs. capital

An industry characterized by a need for hands on labour will best serve the goal of employing as many individuals as possible. Many industries with high ratios of manual labour to capital investment (automation and the like) have high turnover due to the repetitive nature of the jobs. Employing individuals with barriers to employment actually conveys a competitive advantage to the new venture since employee turnover is typically significantly lower than industry norms among employment development social enterprises. This is due to the fact that employees have fewer options in the job market since they value the supportive environment offered by a social enterprise and employees often feel a sense of loyalty to a manager and enterprise that took a chance in employing them when few else would.

A labour intensive industry also has the advantage of requiring less upfront capital investment on behalf of the parent corporation. This is usually ideal as most non-profits would prefer to spend as little as possible while setting up a new social enterprise. But when identifying your industry, be wary of technological shifts that may allow competitors to make it less labour intensive. Some employment development social enterprises have struggled to compete in industries where new machinery or technology has been employed giving competitors big cost advantages. For example, UDAC Mailing in Duluth, Minnesota runs a direct mail assembly and shipping business to employ individuals with barriers to employment. The company has struggled to remain competitive as its competitors have switched from manually collating and stuffing mailings to automated machines that can do so faster and cheaper.⁵

An industry with high variable costs (usually labour) and minimal fixed costs (machinery, equipment, long leases, etc.) also allows the business to grow to scale organically and remain flexible. This means that the nature of the business can evolve to suit new opportunities that emerge since there is less financial commitment to the original plan by way of fixed investments. Many businesses find flexibility essential in taking advantage of opportunities that they were unaware of during the planning stages. Roy Soards of the St. Vincent dePaul Staffing Services in Oregon echoes this advice:

Start small. Use the garage model. Every time we've dumped a big bunch of infrastructure into the game up front it hasn't worked. And start with something in hand. Go out and sell something, create the demand first, then prepare to deliver. Don't go out and set up a staffing business or a call center or whatever and then say, okay, let's go sell something . . . you've got to be nimble enough to create the demand first and then produce the supply.⁶

Training

Training is a difficult financial issue for employment development social enterprises as this is a place where costs are usually disproportionately high in comparison to their for-profit competitors. On the other hand, training individuals who require more time than usual is completely in keeping with the social goals of the enterprise. This means that the obvious solution when choosing an industry for your business is to focus on one where training is minimal and job duties are easily taught.

Another option, however, is to look to your community partners or inside your parent organization and see what types of job training programs are already in place for your target population. This type of partnership is ideal since it allows another non-profit to absorb most of the training costs and affords you an opportunity to compete in an industry with more highly skilled workers. Careful thought should be put into this arrangement however as your workforce may be limited to the supply of employees coming out of these programs. Important questions to ask are:

- How many employees of the appropriate caliber graduate from the program?
- How stable is the funding for that program and is it likely to continue indefinitely?
- Is that program dependent on a single person who does the training? How likely is it that that person will continue?

Be sure to consider your options if the program shuts down or does not keep up with your demand for employees. Will you hire individuals from outside your target population? Does your enterprise have the resources to train some employees and can it absorb the added costs? If you plan to do on the job training, determine the industry average of trainees per skilled worker and expect that your harder to train target population will require you to have the same or lower average.

Productivity

Along with training, the productivity of your labour force compared to your competitors' should be a prime concern when identifying an industry. Many individuals with barriers to employment are significantly less productive and/or comfortable in one or more of the following situations:

- New and frequently changing routines
- Complicated customer interactions
- Fast paced, strict deadlines
- Confrontational situations
- Handling cash
- Either working independently or
- Working in groups

This is a sample list and is far from comprehensive. It should be customized to your target group of employees which will eliminate numerous industry choices and help narrow your search focus.

While in most job situations your target population is likely to prove less competitive in productivity than your competitors' employees, you may find that there are industries where you regain some competitive advantages.

- When a business employs people in low wage, repetitive jobs, it can be difficult to instill pride in and attention to the quality of their work. Your target population may have a higher tolerance for repetitive work, less burnout due to fewer working hours a week and a higher loyalty to a supportive employer. This could provide an advantage especially if it leads to tangible quality improvements that increase a customer's willingness to pay for your product or service.
- Some industries already employ individuals with mental illness or other barriers to employment simply because employees are hard to find. A social enterprise coupled with a parent organization that has skills in supporting that population, should be able to achieve a competitive advantage in employee productivity. For example, the recycling depot industry frequently employs individuals with traditional barriers to employment. Vancouver-based social enterprise, United We Can has succeeded in this industry because their employee productivity compares favorably with that of their competitors.

Get your inputs for free!

With a non-profit business structure and a social mission that benefits the community, you may have the option to build a business around free supplies. A reliable supply of free items are likely those that are of little value to the donating party and are a useful way to recycle what might otherwise be waste. Maybe you have a business idea that will allow you to reprocess this waste into a

new product or you can make a profit on handling a large quantity of low value items. There are many examples of this including:

- thrift stores reselling donated clothes
- a recycling depot profiting from the large number of deposit bottles and cans that individuals leave (donate) for binners to collect
- Coast Social Enterprise Foundation's Sewing with Heart creates bags from fabric scraps donated by the for-profit Flag Shop⁷
- COPE, a British social enterprise is making biodiesel from used domestic and residential cooking oil⁸

In all of these cases, the donations have little financial impact on the donor and they are freely given because the recipient is a non-profit. It is a win-win situation for both parties and is a way to add sustainability and recycling into your business model.

Business cycles

An industry with high swings in its customer demand is likely to be difficult for a business with an employment development mission even if the swings are seasonal and predictable. Ramping up the number of employees quickly is likely to be difficult due to training costs and difficulties in finding appropriate employees. On the other hand, laying off employees even if only for the off-season, risks losing those employees for good and the sunk costs involved in training them. In addition, if work is considered a stabilizing force in the lives of your employees, eliminating jobs for parts of the year may go against your social mission despite the genuine financial need of the business to do so.

Industry profit margins

An industry with generous profit margins offers a better chance of having your business be able to cover its added social costs through earned revenue. While profit margins alone cannot be a reason to enter an industry, an awareness of the industry standards is important since these margins will likely be the percentage of extra costs you can absorb to pursue your social mission.

The bottom line

To summarize, in order to mitigate the risk of your business failing to cover its expenses you are looking at industries with as many of the following characteristics as possible:

- Low hourly wage (due to PWD status)
- Part-time workers (due to PWD status)
- High labour to capital ratio (due to mission and low initial capital resources)
- Low capital outlay
- Scalability due to mostly variable costs
- High employee turnover (because you will have less)

- Low training costs (or you will partner with a training partner)
- Low employee morale due to repetitive jobs
- Already employing the target population
- Low fluctuations in seasonal demand
- Good industry profit margins

These points should be part of your planning and calculations at all stages of business identification and planning. While no industry is likely to feature all of these aspects, your awareness of any disadvantages will allow your business plans to attempt to compensate for them. In addition, these factors will give you a rough idea of how your social mission will affect the typical industry profit margin. This process is as much of an art as a science since solid numbers will be hard to apply but the attempt should aid you in identifying promising industries and business opportunities. As you progress further in the planning process the need for accuracy in how these factors affect your costs and your customers willingness to pay (your profit margins) will increase. To reiterate, be sure to combine these points with a structured process to identify an industry (as laid out in the ENP guide or similar resource) since this guide is meant to supplement the traditional process of opportunity recognition.

“Support a Founder” vs. “Find a Manager”

Identifying an opportunity is best done with an understanding of which individual (or individuals) will likely be responsible for leading and championing the new enterprise. One method is to identify someone in your organization or target population with the experience and/or passion to lead your new enterprise. This founder may be the one who first had the idea or was involved in the process of identifying the opportunity. Having your founder involved from the earliest stage will be advantageous since it will instill a sense of ownership and commitment which will prove invaluable in weathering the ups and downs of the start-up process. The downside is that this person (or group) may lack some of the crucial skills needed. If this is the case, an honest plan for how to address those shortcomings with paid support staff (accountants, consultants, social workers, etc.) or additional training would be prudent.

Another option is to identify the business opportunity and then recruit a manager with industry experience to help with the business planning. The risk with this is in finding a professional who is committed to your social mission, has the appropriate business experience and has the flexibility to run a start-up. These three skills can be hard to find in one individual and will likely require a salary that the social enterprise cannot afford at an early stage. In a for-profit business someone with these skills would be attracted by an equity stake but with the non-profit model this is not possible. This means that funding from the parent organization or outside funders will likely be needed to make this option work.

Business Planning

Once an opportunity has been identified and researched, a thorough business plan needs to be developed. The importance of a business plan is to ensure that everyone involved is working toward the same goals and understands the activities and strategies that will be taken to achieve them. Many resources exist to develop a business plan and your choices will depend on the strengths and experiences of your planning group. Several options for how to tackle the plan are:

- Tap into the experience on your board and/or staff to write a plan.
- Many books exist on how to write a business plan. Find one you like and follow its advice. The ENP guide has a chapter dedicated to “Planning for Your Social Enterprise” which is a very good place to start. The chapter also has several books listed in the “Resources” section at the end.
- Hire a consultant to help you through it. Be sure that they *help* you create a plan and don’t simply *do* it for you. The decisions that go into creating the plan are as important as the final product.
- Business Plan Pro – Social Enterprise Edition is a specialized version of the top selling business plan software which was developed in association with the Social Enterprise Alliance. It is intuitive to use, can be customized to your situation, creates a very professional report and is full of example plans from dozens of social enterprises. The financial tools can prove helpful in quickly modeling different scenarios such as changes in sales growth, pricing or costs.

Any of these resources can get you started but just like during the Opportunity Identification stage of planning, be sure to consider how your employment development social mission affects your business plan. Keep in mind that from a business point of view, all your plans should be focused on ways to drive the biggest distance between your costs and your customers’ willingness to pay. How your employment mission can affect this key consideration is the focus of this section.

Non-profit Structure

Many definitions of social enterprise are broad and incorporate for-profits, co-ops and non-profits as long as they are focused on accomplishing a social goal through business. However in the case of a parent organization starting an employment development social enterprise, the non-profit model holds some real advantages:

- Allows for the explicit dual purpose mission of financial stability married to employment development goals
- The new venture can solicit grant funding or in-kind gifts from outside sources to offset its social mission costs
- No corporate taxes or shareholder dividends

- Marketing advantage: the legitimacy of the social mission is reinforced through its non-profit status

In addition, incorporating as a *separate* non-profit society from your parent organization allows the new venture to achieve some independence which will allow it to:

- Attract a skilled and varied board of directors which may be quite different from the board needed for the success of your parent organization
- Separate financial records which will make developing an accounting system that supports your business model possible. Many businesses require specific sales, cost and inventory tracking information that is hard to obtain within the accounting of a large non-profit organization.

Co-op Structure

The Co-op structure has also been attempted in employment development social enterprises. The appeal is that co-ops encourage ownership responsibilities in the target population which when done well can create an even higher degree of satisfaction and independence than simple employment would. However the risks of business failure are even higher with this model. Asking individuals who have rarely been employees to also become owners is often a leap that is beyond the abilities or interests of the group. For example, CMHA/VB started two employment development co-ops that later failed, one reason being that many of the co-op members later admitted that they were more interested in simply being employed. The extra stress and responsibility of ownership proved unappealing in practice. Unfortunately, for many people the allure of being one's own boss is seductive especially for those who have never been one. This makes finding a realistically committed co-op group extremely difficult. In addition, in order to reap the multiple benefits that non-profits have, the co-op would need in its Memo of Association a clear description that its assets or profits will not be distributed to its members. This means that even if ownership responsibilities could be effectively undertaken by the target population group, the financial incentives in doing so will have been eliminated. For these reasons, the co-op model is a difficult one to successfully use when coupled with an employment development goal.

Parent Organization role

Be sure that the role of the parent organization is clear in the business plan. The parent organization will likely have multiple roles of financial support, management coach, employee health support, board member and possibly even as a customer. Be sure that the limits and expectations of each of those roles has been discussed and documented in the business plan. This step is much easier undertaken at the outset than midway through a misunderstanding farther down the road.

Developing your market

Finding Customers

Any good business opportunity has its customers' interests in mind but when it comes to business planning, it helps to find some actual customers. Many successful social enterprises opened their businesses with one or more customers already onboard. Sometimes the parent organization itself is an initial customer. Often these customers are sympathetic and committed to the social mission of the enterprise. These customers can provide:

- a patient environment to learn the operating details of the business
- provide references to other customers to reassure them about quality or capabilities
- ensure that your business is actually filling a market need

Initial Customers

Realize that just because these initial customers are sympathetic to your mission, they will still treat you like any other business when it comes to quality and price. Your first customers are likely to expect and demand a discount on your services compared to typical competitors. This compensates them for the risk they are taking in hiring an untried company especially with an employment development social mission which increases the risk of your company not doing quality work. For this reason, be sure you impress these initial customers with your quality and when mistakes are made, be sure to listen and respond quickly to their concerns. Since sympathetic customers are more likely to tell you directly how your business is failing to meet their needs, be sure to learn from them. Regular customers are likely to simply drop your business if they become unsatisfied so use your sympathetic customers to probe the weak spots in your business delivery. Once you have a proven track record and have expanded your customer base, go back to your initial customers and renegotiate your prices to market levels.

In identifying customers, consider regulatory policies that might benefit your business. Several American social enterprises have successfully taken advantage of state government "set aside" laws that require the local governments to purchase market rate services from qualified rehab facilities. In Vancouver, the 2010 Commerce Centre has developed procedures for Olympic supplier bidding which are likely to continue as a model for government contract bidding after the games. This model gives extra points to social enterprises and their partners in their contract bids.

Marketing Plan

A full-fledged marketing plan should be part of your business plan and needs to identify your target market, how your product meets the needs of your customers and how you will promote, price and place the product. A key factor will be offering an optimal customer value which is achieved by finding the right balance of quality of service and the price charged. A well developed marketing plan is

crucial to your business's success, but as with all your planning, be sure to include strategies to address how your social mission will affect your marketing.

Quality and Marketing the Social Mission

Your employment development social mission will be received differently depending on the product or service you are providing. If it is a product or service whose quality is readily verifiable, then the social mission will only encourage customers. Coast Mental Health's Sewing with Heart program creates bags from recycled materials and are easily identified as high quality and well made. The social mission of employing individuals with mental illness involves no trade-offs for the customer who gets a quality product and a sense of helping a worthy cause. On the other hand, Potluck Café and Catering has had to work hard to assure potential customers of their high quality. Their social mission of helping employ residents of Vancouver's poorest neighborhood has led some potential customers to question the cleanliness and thoroughness of the food preparation operations despite the fact that the business makes hygiene and training a top priority and is incredibly thorough in those areas. A professional and flawless presentation becomes all the more important to reassure customers that they are not receiving any tradeoff on quality due to the company's social mission. The harder it is to discern the quality of your product, the less positive your social mission will prove in your promotional planning.

Most employment development social enterprises aim to make quality a top priority in order to instill a good work ethic in their employees and to show the public that their target population can work to professional standards. Although this usually involves extra costs, pricing needs to be based on market conditions. Very few customers will pay extra for the social mission alone but when it is tied up with a high quality product sometimes customers will be willing to somewhat overpay for that level of quality. This likelihood is increased for customers that advocate social goals such as other non-profits, social enterprises, funders, and corporations with ethical purchasing programs. In any case, be sure your pricing is still competitive with others in your industry and that you are willing to be flexible until you hit upon a pricing formula that is successful.

Networking

With a small start-up, referrals and word of mouth are likely to be critical to the company's success. A quality product can lead to positive word of mouth since customers will be impressed that it can be achieved in spite of the employment development mission. Having management and board members tap or expand their networks to find customers also has a higher likelihood of success than a less personal approach. Also take advantage of local resources which target customers looking to do business with social enterprises. In Vancouver, the web-based Social Purchasing Portal is an obvious place for all social enterprises to be listed.

Branding

In your marketing plan, take special care to craft a brand image which is how you want the world to see your company. Your employees, managers, funders, board members, partners, etc. will all attempt to describe your business in a couple of sentences and branding is the key to making sure they all do so in a consistent way that best promotes the business. Most importantly your brand statement should include the unique ways that your enterprise meets your customers' needs. Remember to stay customer focused - your social mission should only be prominent in a branding statement if it is an actual selling point from your customers' point of view.

Business Operations

Understanding how your business operations will impact your costs is going to be crucial to your business success. Your social mission is likely to add costs that your competitors do not share therefore managing and mitigating those costs is essential.

Employees and Training

While training played a role in choosing your industry, the business plan needs to address the issue again in more detail. Whether you are partnering with an organization for training or doing your own, it is important to know that not everyone from your target population will make a good employee. Some social enterprises have had success in skimming the best employees from a training program while others rely on references from trusted sources. Regardless of the process, being selective in the hiring process is important for your business to succeed. Equally important is to have clear expectations of your employees and to have effective means of communicating them. This will make both hiring and disciplinary situations less subjective and more straightforward. Regardless of your social mission, all businesses sometimes face the need to let employees go for both the sake of the business and the rest of the staff. Your team should have agreement on procedures for doing so before hiring even begins. The business plan is the place to address all of these considerations.

Employee Mix

Be sure your plan addresses your employee mix of professionals to members of your target population. Having a mix can be positive since employees without barriers to employment can add efficiencies, act as on-the-job trainers and serve as an example of professional standards. Hiring from outside the target population also counters the "sheltered workshop" feeling of a homogenous workforce. On the other hand, these employees will add labour costs since you will need to pay them market rates and they may remain with the company for shorter periods. The addition of professionals also needs to be considered in how it fits in with your social mission of providing employment since the more employees you hire from outside your target population the less employment development you are providing.

Routines and Customization

The nature of the work your company will do will have an effect on the amount of on the job training that will be required. Some employment development social enterprises have found that they cannot be profitable with onetime custom orders since their training costs are too high to be offset by a single sale. When targeting contracts and customers, business risk can be lessened by focusing on jobs that will allow for repeat business - ideally with long term contracts. This can minimize your training costs and allows your advantages of low employee turnover to come into play. In other cases your business's competitive advantage may come from customization that requires manual labour but training costs can be mitigated by systematizing the process. For example the adding of a name to a shirt or a cake can be done as a simple final step that is similar each time regardless of the name to be added.

Employee Support

Depending on your target population, you will need to consider what type of support your employees will need to be productive workers and how that will impact your costs. A cost that often goes uncalculated is the extra time that the direct supervisor will need to spend helping employees with issues that may be unrelated to the job. Some social enterprises try to offset this by hiring a dedicated support person who, in the case of employees with mental illness, is there to help counsel the employees on their wellness plans. Others rely on the programs offered by the parent organization or other local non-profits to help with support issues not directly relating to the workplace. Regardless of whether you hire an extra support person or rely on outside resources, the immediate supervisor is likely to spend extra time with employees from your target population so be sure your planning takes this into account.

Experienced Management

Parent organizations that have launched numerous social enterprises have learned the hard way that good management can make or break a new business. A manager who has experience in the industry can shape your start-up to be efficient and keep you from making expensive mistakes as you try to learn the business. Compensating a professional while staying on a budget, can be undertaken by starting the manager part time if the business is growing to scale slowly. But in most cases, it is likely that outside funding will be needed to support that salary until the business can grow profitable enough to pay for him/her. Many parent organizations have learned the hard way that this salary expense is usually less than the cost of the business failing to meet its potential and growing slower than necessary while it struggles to understand the industry.

A Manager from your Target Population?

An alternative possibility that addresses your social mission is to hire someone from your target population as the founder / manager. If this individual has

experience in the industry and is in a good place with their recovery (in the case of mental illness), there is an argument to be made for trying this model.

- An advantage is that this type of manager is likely to be able to connect with his/her employees on a more personal level due to the sharing of a common history
- The manager's commitment to the organization is likely to be high for all the same reasons as your employees
- Your social mission is all about supporting individuals from your target population in their employment goals

However, there are serious downsides to the idea which can jeopardize your enterprise's success:

- Finding an experienced individual who is ready for that level of responsibility is difficult and hard to determine at the outset.
- If the manager is on PWD assistance his/her number of paid hours a week is capped at a fairly low number. Even if this works for the early days it is likely to be problematic as the business expands. If the manager is willing to work past his maximum paid hours (and incur the 100% tax), there is a question of how much can be asked of him/her by the board and their expectations risk being lowered by the knowledge that much of the manager's work is done as a volunteer.
- Multiple managers could be attempted as a solution to this issue but the odds of aligning their visions and even finding multiple individuals who share the skills and temperament among the target population is highly unlikely.
- Another concern with hiring an inexperienced manager is that he/she will require more support, probably from someone within the parent organization. This support will need to include someone with business skills as well as experience in addressing the concerns of the target population.
- There is the potential that at some point in the growth of the organization, a choice will need to be made between not growing the business beyond the capabilities of the less experienced manager and replacing the manager. The issue then becomes a debate over what is more important: growth could help more members of your target population and provide more financial stability but on the other hand this enterprise may be one of the few management opportunities for your current manager. Which goal is more important to your social enterprise will be a question to consider and ensure that all stakeholders are aligned with that choice.

In general, taking a chance on an untried manager from the target population is too much risk for most organizations to bear in a business model that already affords numerous obstacles to success.

Accounting

Accounting software that is suited to your business is important in order to stay abreast of your financial situation. Your business is likely to need to tweak pricing, adjust operations to cut costs and monitor its sales and inventory. Despite the appeal of having your parent organization absorb bookkeeping into an already existing system, consider the pitfalls of not keeping it separate. The parent organization may be unable or unwilling to track information in a detailed format that your enterprise can use in a timely manner. Many social enterprises have identified poor accounting systems as a major factor in poor business decisions which have led to business failures.

Financial Considerations

Self Sufficiency vs. Sustainability

The added costs of employment development social enterprises have led to questions of whether this type of business can ever achieve self-sufficiency or whether sustainability is a more realistic goal. The Institute for Social Entrepreneurs provides the two definitions as:

Self-sufficiency: The ability to fund the future of a nonprofit through earned income *alone* - without having to depend in whole or in part on charitable contributions or public sector subsidies.

Sustainability: The ability to fund the future of a nonprofit through a combination of earned income, charitable contributions and public sector subsidies.⁹

Self-sufficiency while fulfilling an employment development mission is only likely to be possible if it was an objective during the industry selection and business planning stages. Reaching a truly independent breakeven financial situation takes far longer than it does in a for-profit business and most social enterprises find that 5-8 years is a realistic time frame if it is achievable at all.

A significant number of social enterprises have determined that sustainability is a more realistic goal than self-sufficiency since outside funding will always be needed to support their structure. This can be attributable to multiple factors including a desire to emphasize the social mission beyond the financial needs of the business, a reliable funding stream and/or an industry that is not conducive to complete financial independence when coupled with an employment development mission.

Sources of funding

Regardless of whether you expect to breakeven in the future (and that is a goal worthy of striving for at the start-up stage), your enterprise is going to need funding to get started. In practice, the parent organization is likely to be the one that will provide the funding even if additional money comes from outside sources. The parent organization needs to apply for and receive any funding since it has charitable status in addition to the relationship and reputation with funders. Based on your business plans, the venture is likely to need access to both start-up funding and credit. Vancouver has an active community of funders who have developed a keen interest in supporting social enterprises. Some of the major players are:

- Enterprising Non-Profits provides funding twice a year in the form of matching grants for non-profits to start or expand a business.
- Vancouver Foundation provides grants twice a year to non-profits with an employment focus including social enterprises through its Disability Supports for Employment Fund: Building Community Capacity (DSEF: BCC).
- Vancity has a stated goal of supporting social enterprises. The financial institution offers grants, loans and technical assistance. It also can work with a social enterprise to help it develop a network and gain better access to capital from a variety of sources.
- BC Technology Social Venture Partners (BCT SVP) has been instrumental to many local social enterprises in their early years. The organization offers two types of grants. The New Grants Process is awarded twice a year to a non-profit organization. It provides funding of \$30,000/year for three years along with ongoing coaching and support from a partner who has business skills of benefit to the organization. The advice from the Partner has proven invaluable for many social enterprises to grow and strengthen their business systems. BCT SVP also has a fund specifically for social enterprises, The Social Enterprise Fund which provides one time grants for specific needs such as a sales and marketing push, capital expenditures or to hire a professional manager.
- Social Capital Partners is national in its scope but is not very active on the West Coast. The company values social mission accomplishments as much as financial ones when making loan decisions. Its paperwork requirements can be far less onerous than a traditional loan.

This list should be just a start. Your parent organization will have resources and opportunities that are unique to it.

Too Much Cash?

Oddly enough some social enterprises have a problem with which few bootstrapping start-ups can commiserate – too much cash on hand. This happens when funders support a start-up and provide the money up front in a lump sum. Problems can come from poor cash management systems that don't plan for how the cash will be used to support the business's growth. Another concern is when a manager chooses to diverge from the original plans because the need to economize has been removed. Purchasing fixed assets or undertaking other costs in order to ramp up production capability should only be done as a response to increasing customer demand. Managers should resist the urge to expand faster simply because the cash is on hand and then try to drum up business after the fact. The board should monitor that temptation and encourage managers to stick to the business plan unless market conditions prompt changes.

Social Mission Measurement

In addition to its financial objectives, goals should be set and evaluated in measuring the business's success or failings in its employment development mission. The purpose of measuring this is twofold. First, knowing whether you are accomplishing your mission can help you tweak your business model to better do so in the future. Secondly, being able to show your success will also help you reassure your funders that your business is worthy of support. How you go about measuring this is a matter of great debate in the social enterprise literature. Systems like Social Return on Investment (SROI) and Cost Benefit Analysis (CBA) attempt to monetize the beneficial effects to society that can be attributed to your business but these can be onerous to undertake especially for a small start-up. Vancity is currently coordinating a Demonstrating Values project with a wide variety of stakeholders

to develop a framework for assessing the impact and performance of social enterprises in Canada. The project engages both social enterprise investors and operators in a process to develop and pilot a framework that will assist a social enterprise and their stakeholders to understand, communicate and assess financial performance, organizational sustainability, and mission-related impacts.¹⁰

With its targeted completion in May 2008, this framework should offer organizations another option in tracking and reporting their social mission performance. But regardless of the system used, the business plan should have clear goals and expectations iterated. Since these social goals are the primary reason to start your social enterprise, be clear and specific about them.

Conclusion

Employment Development Social Enterprises are a tool that stable parent organizations can use to employ a population with few traditional options. While careful planning can minimize the risks inherent in a start-up venture, the additional challenges brought about by the social mission makes the choice of industry and business model all the more important. When used alongside already existing tools for social enterprise business planning, this guide will ensure that your organization has considered the factors that can help a business reach its potential. While no amount of planning can ensure success, a thorough business plan coupled with flexibility and persistence can improve your odds of accomplishing your social objectives and reaching sustainability or self-sufficiency.

As an overview, remember that the more of the following elements that you include in your business model the higher your risk of business failure (these are cumulative):

- Employees who are
 - Inexperienced
 - Individuals with barriers to employment
- Managers who are
 - Inexperienced
 - Individuals with barriers to employment
- Extra costs associated with supporting the employment development mission
- Growing the business capacity for any reason other than as a reaction to increasing market demands
- Lack of experience in a particular industry
- Parent organization which is inexperienced with social enterprise or running a business
- Parent organization with limited resources to dedicate to the social enterprise

As a parent organization, consider your risk tolerance before starting a business. While this guide can help you mitigate the risk from your social mission, keep in mind that starting a new business is *inherently* risky. Your organization must be willing to take risks and gamble fixed resources such as cash, staff time and energy, and your reputation to make the business side of your social enterprise work. Only by succeeding in the business you've chosen can you sustain your social goal of providing employment. This guide will help you plan better but planning is only a first step. Equally important is attracting talented and committed individuals to your enterprise and encouraging the flexibility to adapt to market conditions. With all of these in place, you have great potential to build a lasting social enterprise and to make a real difference in people's lives.

Endnotes

¹ Social Enterprise Alliance website, http://www.se-alliance.org/resources_lexicon.cfm, Accessed August 16, 2007.

² Enterprising Non-Profits Program. 2005. *The Canadian social enterprise guide*. Vancouver, BC: Enterprising Non-Profits.

³ Majeska, K. 1999. Growing a social purpose enterprise. *REDF Boxset Volume 1 – Practitioner Perspectives*, 3:19-38.

⁴ Twersky, F., and Lanzerotti, L. 1999. Enterprises gone but not forgotten: lessons learned from three organizations and REDF. *REDF Boxset Volume 2 – Investor Perspectives*, 3:53.

⁵ Boschee, J. 1999. *The Social Enterprise Sourcebook*, Dallas, TX: The Institute for Social Entrepreneurs, 8:53-54.

⁶ Boschee, J. 1999. *The Social Enterprise Sourcebook*, Dallas, TX: The Institute for Social Entrepreneurs, 2:14.

⁷ Coast Foundation website, <http://www.coastfoundation.com/CSEF/sewing.html>, Accessed August 16, 2007.

⁸ COPE's website, <http://www.cope.ltd.uk/news/online-java-is-live>, Accessed August 16, 2007.

⁹ The Institute for Social Entrepreneurs website, <http://www.socialent.org/beta/definitions.htm>, Accessed August 16, 2007.

¹⁰ Enterprising Non-Profits website, http://www.enterprisingnonprofits.ca/social_impact_assess/, Accessed August 16, 2007.

Appendix

During the summer of 2007, I interviewed the following Vancouver-based individuals who shared their experiences and answered my questions about social enterprises. I was thoroughly impressed with the commitment, passion and strategic thinking that these individuals bring to bear on making social enterprises successful. I am grateful to them for their time, candor and patience.

Janice Abbott: Atira Women's Resource Society, Atira Property Management

Jack Beatty: Coast Mental Health

Melanie Conn: DevCo

Catherine Crucil: BC Technology Social Venture Partners

Rénauld Gagnon: The Cleaning Solution

Irene Gannitsos: Vancity Foundation

Liz Lougheed Green: Potluck Café and Catering

Jack Isaak: The Cleaning Solution

David LePage: Enterprising Non-Profits

Ken Lyotier: United We Can

Kristi Fairholm Mader: PLAN

Jane O'Connor: Canadian Mental Health Association – Vancouver/Burnaby

Heather O'Hara: Potluck Café and Catering

Jonathan Oldman: Canadian Mental Health Association – Vancouver/Burnaby

Johnny Perry: Potluck Café and Catering

Bryn Sadownik: Vancity Foundation

Deanna Scramstad: Lunch à la Carte

Angela Tzanadamis: BC Technology Social Venture Partners, The Cleaning Solution, EMBERS

Deanne Ziebart: Developmental Disabilities Association

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