

NONPROFITS AND SOCIAL ENTERPRISE

Really – It is OK to Make a Profit!

Despite what many think, nonprofit organizations are not required to struggle financially.

By Jan Halpin, Principal

Low Overhead is Not Always the Best Metric: Too often people assess a nonprofit's efficiency solely by examining its Form 990 for the lowest possible percentage of overhead. We forget that sometimes it takes money to make money ... and to deliver effective programs, services and positive outcomes. If programs and services are inferior because of lack of resources, being frugal just does not compute!

However, it seems that the paradigm of using the 990 as a nonprofit's premier measurement tool is not going to change anytime soon, so... how is a nonprofit to get the money needed to be effective?

Social Enterprise as Revenue Source: One solution is to consider starting a “social enterprise”- sometimes also referred to as “social purpose business.” The *Social Enterprise Alliance* defines a social enterprise as: “An organization or venture within an organization that advances a social mission through entrepreneurial, earned income strategies.” A social enterprise is, in effect, a business within a nonprofit organization which provides a revenue source to sustain the nonprofit's work. A social enterprise can also create jobs for clients and the greater community.

An example of this can be found with one of our clients, UMOM New Day Centers, a homeless family shelter, which has operated the New Day Gourmet catering business for a number of years. The catering business is intended to be a profit-producing entity generating income for UMOM and providing job training to its residents. They are now investigating the possibility of adding another food delivery system.

Best Practices for Social Enterprise: Not all nonprofits are ready to undertake such a commitment. Both senior management and the Board of a nonprofit must fully understand and embrace the process for structure and management of a social enterprise. Just as there are best practices for nonprofits, so there are for social enterprises. Experience has shown that the most successful and sustainable social enterprises have:

- A mission related to the nonprofit's mission
- A solid business plan in place
- Separate funding – so it cannot drain the resources of the nonprofit
- An annual strategic plan, re-visited each year
- Flexibility to “depart” from the plan – that is, to be innovative, but not to “drift”
- Creative, effective marketing
- “Good doers vs. do-gooders”- that is, key staff must be savvy in the particular business, rather than in nonprofits

Investment Possibility: Investors can also benefit from social enterprise. A social enterprise may be established under various legal structures which may enable investors (as opposed to donors) to make a modest return on their investment. Social enterprises are a growing movement and means of sustainability that merit being explored.

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