

The Business of Inclusion

Section 3

Learning about Enterprise Development

March 2004

A Report by The Toronto Enterprise Fund



Canada



TORONTO



The Business of Inclusion
A Series of Reports From the
Toronto Enterprise Fund

www.TorontoEnterpriseFund.ca

The Toronto Enterprise Fund supports the development of social purpose enterprises working with homeless and low-income people. Social purpose enterprises create both community connections and economic opportunities for homeless and at-risk populations by developing businesses that balance both revenue generation and a social mission.

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Introduction

The Business of Inclusion is a series of reports documenting the findings from research on the developmental stage of the Toronto Enterprise Fund and the enterprises it supports. The twenty reports are organized into four sections: Background, Participant Learning, Learning about Enterprise Development, and Decision-Making and the Role of the Parent Organization.

This section explores and documents the experience and learning of the enterprises as they negotiate the early stages of business development. The first three years have been largely developmental. The funded enterprises have had steep learning curves as they have moved through the developmental and start-up phases of the business.

The purpose of this section is:

- To learn about the different stages through which a social purpose enterprise progresses on its way to sustainability
- To identify some effective practices related to the development and implementation of social purpose enterprises
- To explore the planning and programming aspects of social purpose enterprise development

List of papers:

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REPORT 11

Different Approaches to Social Purpose Enterprise

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Different Approaches to Social Purpose Enterprise

Introduction

All of the Toronto Enterprise Fund enterprises are focused on supporting homeless and “at risk” people to engage in the economy and to build livelihoods. Yet there are various approaches to accomplishing these goals, depending on the strategies that are adopted for engaging participants in the economy, and for structuring ownership. This report explores four conceptual types of social purpose enterprise development.

While a range of factors differentiated the enterprises that have been funded (such as political perspectives, social development approaches, and the degree of emphasis on earned income), program experience has shown that organizations are faced with two critical choices early on in their preparation for involvement in social purpose enterprise:

- What is the social purpose of the enterprise?
- Who will own the enterprise?

A broad-based typology has been developed using social purpose and ownership as the two inter-related factors that determine types of businesses. These two general considerations influence the developmental processes that are pursued by the parent organization, and the character and structure of the social purpose enterprise. This typology is flexible, acknowledging a range of strategies, approaches, and types of enterprises, including micro-enterprise development through self-employment training programs.

Exploring the Social Purpose

It is clear that social purpose enterprise practitioners have different philosophical beliefs and political analyses about the causes of poverty, social exclusion and economic disenfranchisement. These different perspectives, often emerging from an intimate understanding of a particular low-income population and/or community, result in very different assumptions and ideas about how marginalized people should be connected into the economy.

The concepts of “linking” and “parallel”¹ are very helpful in distinguishing two general approaches social purpose enterprises use to engage low-income people in the economy. First introduced in Canada, in the 1998 Trillium Foundation Study² on the grantmaking implications of funding CED, the terms linking and parallel were advanced to compare organizations’ motivation for engagement in economic development and social purpose enterprise development.

¹ Lynn Bennett, The Necessity and Dangers of Combining Social and Financial Intermediation to Reach the Poor. (Brookings Institute – Conference on Financial Services and the Poor: September, 1994).

² A conceptual framework and toolkit for assessing the long and short-term impact of Trillium-funded CED Activities, Nares, Murray and Harold, 1998.

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The Role of Social Purpose Enterprise

Where does your enterprise fit?

“Parallel”	“Linking”
<p>Grounding philosophy Belief that the economy is itself the problem: for certain populations, the social and economic barriers to participation in the economy are insurmountable by individual effort. Belief that people can be successfully employed if an accommodating workplace can be developed.</p>	<p>Grounding philosophy Belief that the barriers certain populations face in accessing supports and services, and in engaging in the economy, can be overcome through short-term, asset building interventions. Belief that marginalized people can be successfully linked into the mainstream economy.</p>
<p>The target population and their role in the business Focused on marginalized people with multiple barriers to employment who require some accommodation and flexibility in the terms of work, to be successfully employed. Participants become “employees”.</p>	<p>The target population and their role in the business People in these enterprises are likely to be more work ready, and have fewer barriers to employment. The strategy is to support people to find mainstream employment through employability and technical training. Participants are “employee/trainees”.</p>
<p>Political priorities Social impact is sought through economic development.</p>	<p>Political priorities Economic impact is sought through training and human development.</p>
<p>Strategy for building employability assets Experiential and role modelling approach. Employees learn by doing, informally on-the-job through mentors and role models. Formal training is organized periodically outside work hours.</p>	<p>Strategy for building employability assets A training-based approach: the business is developed as a foundation for building technical knowledge and employability skills. Formally organized workshops and on-the-job training become substantial components of the business’ work.</p>
<p>Exit strategy and term of engagement Participants often become long-term employees of the business.</p>	<p>Exit strategy and term of engagement Participants work with the business for a set time period, creating a flow-through situation as they find work in the mainstream economy. Ongoing planning/support is required for the transition.</p>
<p>Scale Emphasis on depth of participant engagement and support means that longer-term investments and increased staffing are required, and fewer people can be reached.</p>	<p>Scale A flow-through of participants means that larger numbers can be reached.</p>
<p>Potential for self sufficiency of the initiative A business-based approach with long-term potential for sustainability through earned income. However, long-term support will be required before the business is stabilized and sustainable. These enterprises often continue to require funding for the social development components of enterprise activities.</p>	<p>Potential for self sufficiency of the initiative An approach that requires continuing financial support. While businesses can generate earned income, the employability training component will likely always require external support. In the case of self-employment development, this project-based approach will require full funding support on an ongoing basis.</p>

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These concepts have since been elaborated and refined through application to a range of social purpose enterprise programs:

“Linking” strategies support low-income and marginalized populations to link to the mainstream economy by providing transitional job experience and programs that build employability and other livelihood assets.

“Parallel” strategies seek to support employment and community participation for populations with multiple barriers to employment, through the development of a business that can accommodate the special requirements of the target population, over the short or long term.

The adjacent table outlines, in a comparative format, the different conditions and implications of pursuing a “linking” or a “parallel” strategy for enterprise development.

While there are different practical and political implications related to choosing one approach or the other, the experience of the Toronto Enterprise Fund has shown that both approaches are appropriate, depending on the mission and structure of the parent organization, and the assets of the target group. For example, in working with youth and immigrant women, many practitioners have concluded that a linking approach is effective. With the appropriate training and supports, these populations can successfully engage in more traditional, mainstream employment. On the other hand, in the case of psychiatric consumers/survivors, where full-time, traditional employment is not a realistic option for many, organizations often pursue the development of parallel approaches that create businesses to generate flexible, accommodating, long-term employment.

As with most concepts, the distinctions of linking and parallel are guidelines that should not be taken too literally. For example in the case of one social purpose enterprise, the strategy has been to create a parallel work environment, while what has actually happened is that women are using it as a stepping stone to mainstream employment in the long term. Thus, a combination has evolved.

Four Types of Social Purpose Enterprise Development Strategies

The combination of social purpose and ownership has allowed the creation of four conceptual categories of social purpose enterprise development:

Category 1: Participant-owned group enterprises.

Category 2: Individually-owned micro-enterprises.

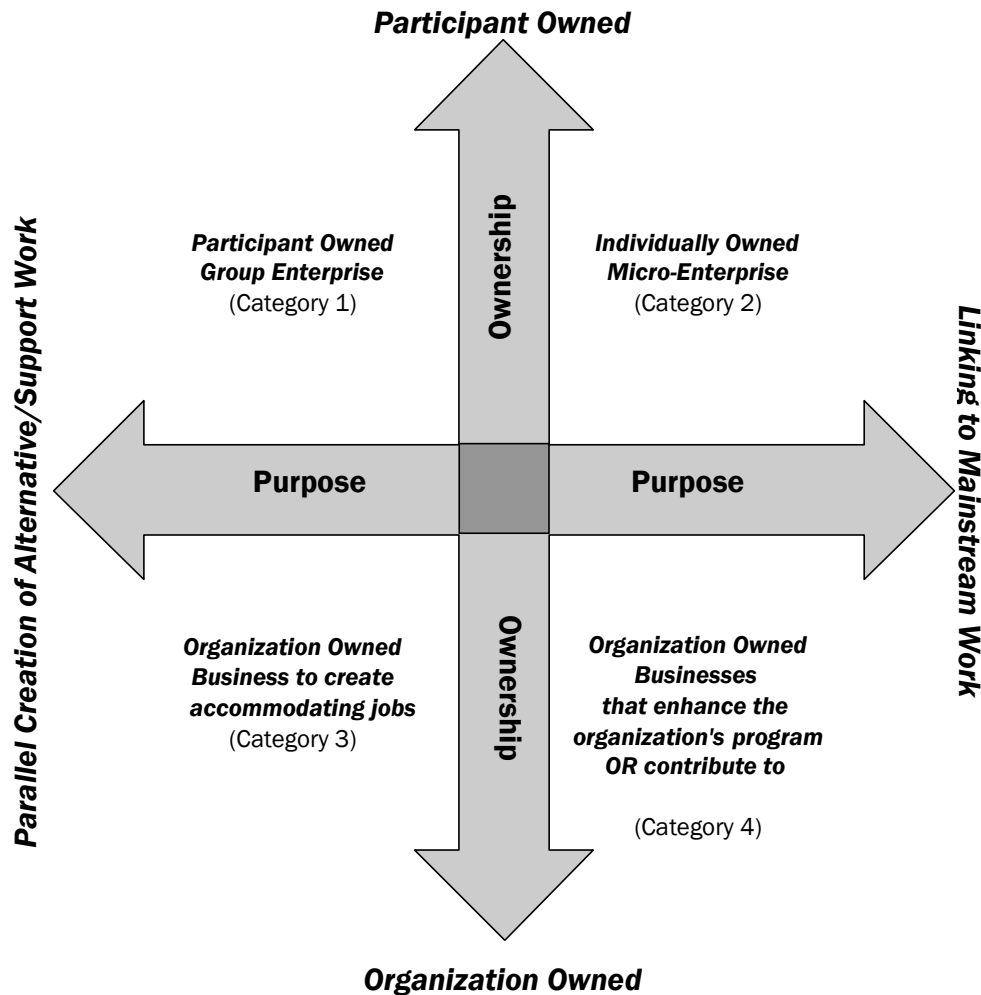
Category 3: Organizationally-owned and driven enterprises that create accommodating jobs.

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Category 4: Organizationally-owned enterprises that are designed to link people to mainstream employment and/or support the organization’s sustainability through an “earned income” strategy.

The typology also explores the dimension of ownership. It has been structured to compare the level of participant ownership and the extent to which initiatives have been owned and driven by the parent organization. Ownership refers specifically to the legal ownership of the business, but it also takes into account how much the target population participates in business decision-making. The degree to which a target population owns and participates in the business is vital in determining the character and development of a social purpose enterprise. Learning about enterprise ownership is also explored in the report “Employee Ownership and Participation in Decision-Making.”

Types of Social Purpose Enterprise³



³ This figure has been designed with linking activities on the right side and parallel activities on the left of the horizontal axis. The vertical axis addresses the question of ownership, placing initiatives with high participant ownership in the upper half and organizational ownership in the lower half.

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Category 1: Participant-Owned Group Enterprises

Participant-owned group enterprises include worker co-operatives, profit-sharing initiatives and worker ownership. These types of enterprise are a parallel activity founded on formal ownership and active participation in decision-making by the target population. They require a high degree of awareness, commitment and investment from participants, and, as a result, their development is very process-oriented and takes a long time.

Often they are initiated, and driven by an organization with the long-term goal of spinning them off as worker-owned businesses. Since it is almost impossible to start a cooperative on behalf of a group of people, full responsibility and ownership need to be taken by the group, and the organization requires a transparent exit strategy from the very beginning.

None of the Toronto Enterprise Fund enterprises currently fall under this category, although a number may evolve into this category.

Category 2: Individually-Owned Micro-Enterprises

These full- or part-time, self-employed businesses are built and survive on the self-direction of the participant: success depends on the vision, motivation, initiative, resourcefulness, planning ability and skills of the owner/initiator of the business. They are therefore similar to Category 1 enterprises in that the emphasis is on high levels of participant ownership.

Self-employment development programs, including training, loan funds, coaching, workshops, mentorship, incubators and accelerators, are designed to link participants to the mainstream economy by supporting low-income people to plan, launch and operationalize their own micro-enterprises. Though the self-employment training may or may not be participatory in nature, the ultimate aim is to support participants in creating their own businesses/jobs. Although self-employed enterprises are not in themselves social purpose enterprises, it is arguable that self-employment development is a social purpose enterprise development strategy.

In the Toronto Enterprise Fund there are two self-employment development projects:

- *SKETCH Connections* – an arts-sector focused self-employment training program for street-involved youth.
- *Inspirations* – a self-employment arts training program for marginalized women focused on arts and crafts.

Category 3: Organizationally-Owned and Driven Businesses that Create Accommodating Jobs.

These organizationally established, owned and driven businesses create accommodating jobs. Like participant-owned businesses, they are established to provide parallel work

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opportunities for participants. They tend to be developed by organizations that use business development as a means of creating employment for specific target groups in specialized, supportive work environments. In the medium- to long-term, these enterprises continue to be controlled by the parent organization. The goal is to secure business viability and sustainability before passing the business on to full employee ownership.

In many cases, organizational ownership is seen as an interim strategy to support the development of a viable business that can then be spun off as an independent social purpose enterprise (thus shifting it into Category 1). Employees may be ready to participate in and take psychological ownership of the business, but may not be prepared for legal ownership and financial investment. In this category, parent organizations have expressed the need to maintain a high degree of ownership, in order to ensure that the enterprise is stable and that it has access to the advantages provided by its connection to the parent organization such as a charitable number and fundraising expertise.

Yet, over time, these businesses tend to build the capabilities and leadership of participants, who are often expected to become increasingly independent and to take a greater role in decision-making. Organizations that intend to “spin-off” their business to become a Category 1, participant-owned operation, need to identify their “exit strategy” at the outset, to create realistic expectations regarding the employees’ role in driving the business. An interesting alternative could be to create a situation in which the employees partly own the business while the parent organization maintains a controlling share; although this has not yet emerged in the Toronto Enterprise Fund portfolio.

In the Toronto Enterprise Fund, there are enterprises that fall into this category:

- *Parkdale Green Thumb Enterprises – a horticultural services business developed by consumers/survivors (of the psychiatric system).*
- *Out of This World Café – a snack bar and catering services developed by consumers/survivors and situated at the Centre for Addiction and Mental Health Queen Street facility.*
- *Haween Enterprises – a sewing enterprise that employs immigrant and refugee women.*

Category 4: Organizationally-Owned Enterprises that are Designed to Link People to Mainstream Employment and/or Support the Organization’s Sustainability Through an “Earned Income” Strategy.

In this category, there are two main types: organization-owned and driven businesses that advance the organization’s social purpose (pre-employment/ employment training and hands-on work experience); and more competitive/mainstream organization-owned and driven businesses that advance the sustainability of the organization through the generation of earned income.

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Linking participants to mainstream employment

The first type is designed to facilitate the organization's capacity to do a better job of supporting its marginalized participants to link into sustainable, long-term employment. The business-based approach allows agencies to offer pre-employment and technical/skills development training in a more realistic, job-based environment.

The impetus to start the business, which remains wholly owned by the parent organization, is often related to a desire to take more proactive, innovative, and effective approaches to building job readiness. In addition to the opportunity to break out of traditional classroom-based training, a functioning business provides participants with a chance for valuable, on-the-job experience.

Sustainability of employment is the key objective of this work: it is one thing to place a person in a job successfully; it is another to ensure that they retain that job in the long-term. Organizations with linking-oriented businesses tend to provide follow-up job placement opportunities with mainstream businesses, and take a more holistic perspective than traditional employment placement programs when supporting people to make a successful, sustainable transition to full-time, mainstream employment. Consultation of employees regarding management and governance issues tends to be low, although it varies among organizations.

Parent organizations pursuing this form of enterprise development recognize the need to develop enterprises that can generate a significant portion of the operating costs of the business. Yet the training-based approach is costly and has built-in inefficiencies related to the hiring, training and turnover of high numbers of participants/employees. As a result of these inefficiencies, it is very difficult to break even in the business.

The Toronto Enterprise Fund has funded 7 enterprises in this category. Some of the enterprises listed below began as Category 3 enterprises (organizationally owned businesses that create accommodating jobs), but ultimately shifted to be linking operations as they clarified their social purpose and ownership strategies.

- *Phoenix Print Shop – a retail print shop that prepares street-involved youth for jobs in the print industry.*
- *WSC Logistics – an international shipping business and program that prepares immigrant and refugee women for employment in the logistics field.*
- *The Mill Centre – a wood and metal working shop that supports people to link to mainstream jobs.*
- *Growing Green Jobs – an urban greenhouse and produce garden that employs people who are currently engaged in the psychiatric system, supporting them as they begin to engage in the community and to make a transition towards mainstream employment.*
 - *Protégé Media – a recording studio designed to train and support street-involved youth to find jobs in the music industry.*

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- *Big Sisters Thrift Shop – a pre-existing enterprise which then added a retail training and employment component for street-involved youth.*
- *Set Monkeys – an employment service connecting youth to work in the film industry.*

Some organizations expect their enterprise to both break-even and to generate additional “earned income” for the organization, while simultaneously meeting its commitment to training people and connecting them to jobs. In the short- to medium-term, this objective has been found to be unrealistic, particularly in the circumstances of low capitalization in which most of the enterprises find themselves.

The Toronto Enterprise Fund has been supporting its Category 3 and Category 4 enterprises to explore ways of separating the social costs of the enterprise from the business operating costs. This separation allows organizations to build business viability while securing external funding for the work that furthers the social mission of the enterprise.

Enterprises that support “earned income” strategies for the parent organization

The second type of business that fits into Category 4 is designed to build the viability of the parent organization. In our current climate of high competition for grant money and reduced availability of the core funding that allows organizations to develop discretionary programs, social development organizations are increasingly turning to businesses to generate earned income independently that they can then allocate to their own organizational priorities. Most organizations look for readily profitable business ideas that are a natural extension of their mission and core competencies. This produces a range of enterprises from for-profit consulting wings of service organizations, to gift shops in hospitals. The solutions are varied. In the case of these businesses, the social purpose is less direct. No businesses of this type were funded under the Toronto Enterprise Fund.

Dynamics Within the Typology

The typology is intended to be a conceptual tool for understanding the field, and for decision-making by organizations interested in becoming involved in social purpose enterprise. Upon being introduced to the typology, the Toronto Enterprise Fund enterprises found it useful, but resisted categorizing their own social purpose enterprises. We learned that most organizations had complex perceptions of the role and purpose of their businesses that sometimes varied among staff, and over time. This variance is likely the result of a number of factors, such as:

- Initially, unrealistic expectations of the earning potential of the business and over-ambition as to the multiple uses and impacts of profits.

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- Lack of organizational consensus about the approach to building and structuring the social purpose enterprise; building shared vision and buy-in takes time and a carefully planned process.
- Poor connection between stated philosophy and practice: organizations tend to be more progressive in their rhetoric than in their actions, which should be reconciled as early as possible.
- Practitioners made value judgments about ownership and social purpose, and the relative merit of various categories of social purpose enterprise. For example, because of the very political nature of social development work, many practitioners hold an innate bias towards the concept of participation, while the nature of their organization's governance/structure, and the linking nature of their approach make participant ownership impractical.

There are many grey areas in the design and implementation of most social purpose enterprises. In the early stages of business development many of the funded enterprises within the Toronto Enterprise Fund experienced difficulties in resolving the social purpose and ownership.

Principles for Use of the Typology

This typology is designed as a neutral, non-judgmental presentation of various approaches. Here are some principles to bear in mind when using it:

Due to the dynamic nature of social purpose enterprise, flexibility in interpretation and use of the typology is required.

The categorization of an enterprise within this typology should be fluid. Many of the enterprises within the Toronto Enterprise Fund have shifted between categories over time as they move through different stages and strategies of the development of their initiative. For example, enterprises may start off by being organizationally driven and gradually build participation and ownership with the intention of spinning the business off to the participants (thus moving it from Category 3 to Category 1). Some organizations, meanwhile, have focused on self-employment as an initial strategy, but in the longer-term are also considering other strategies, such as the development of a retail outlet to support the marketing of the products produced by the self-employed participants. This would place their activities in two quadrants.

The organization must commit to a clear course early on.

Business development will ultimately stall or be undermined unless the parent organization and participants can produce clear statements about the purpose and ownership of the business. If an organization identifies itself as simultaneously developing businesses in two or more categories, experience shows that they are either confused about their purpose/ownership or have an overly ambitious agenda.

Organizations must be transparent and specific about the terms of participant involvement in ownership and decision-making, and must also have a clear

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statement of their transition strategy, including the length and terms of low-income people's involvement in the business. The social purpose is often clear in the short-run, but as businesses progress, and employees grow in their abilities, the expressed social purpose may need to be revisited and revised. For example, in the short- and medium-term, employees may require ongoing support and accommodation, but over time they could become capable of entering into mainstream employment. For example, an organization committed to a parallel strategy may find over time that its employees are able and interested in shifting to mainstream employment. In these circumstances, the organization would need to consider linking supports for these employees.

REPORT 12

**Employee Ownership and Participation in
Decision-Making**

March 2004

A Report by The Toronto Enterprise Fund

Employee Ownership and Participation in Decision-Making

Introduction

Social development organizations pursue enterprise development in the belief that active involvement in business development and decision-making provides participants with the basic skills, experience and confidence to support the building of livelihoods. The money that social purpose enterprise participants earn represents more than new income. It brings “ownership”: a sense of pride, self-esteem, and the satisfaction of having participated in the development of a venture that contributes positively to a range of outcomes within the community.

This paper explores a range of challenges that the Toronto Enterprise Fund enterprises faced as they worked through the difficult process of determining and structuring the formal ownership of their enterprises.

In the view of developers of alternative enterprise, social change and personal transformation can best be cultivated through enlightened and accommodating business structures, policies and cultures, and through the active inclusion and participation of marginalized people. Ownership of the business and participation in decision-making are two powerful means to effect these outcomes. The notion of “ownership” implies social inclusion, and the acquisition of skills, knowledge, motivation and pride as well as financial assets: people who have formerly been excluded from society are involved in controlling a business.

Yet successful participant control rests upon a fine balance. Especially in the early stages, it is important for parent organizations to ensure that participation does not move the business in an unrealistic or unsustainable direction. Prudent ongoing facilitation, checks and balances are needed to ensure that participation continues to produce beneficial results while the social purpose enterprise continues to thrive.

Clarifying Terminology

When exploring the role of participants in social purpose enterprises, it is important to differentiate between the terms “ownership” and “participation”. In the first years of the Toronto Enterprise Fund, the research observed that the social development field, with its emphasis on empowerment approaches to social development, uses the term “ownership” in a broad, metaphorical way. “Ownership” has thus been seen variously as: participants’ psychological “possession” of the development process and business activities; and/or commitment to the success of the venture; and/or active involvement in decision-making.

In the business context, however, “ownership” has a specific, technical meaning: the legal title to or equity stake that a person has in a business. Legal ownership does not necessarily mean that a person with an equity stake in the business has input into the decision-making process, although in most businesses, shareholders have a say to some extent in the policies and directions of the enterprise. In the

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Toronto Enterprise Fund portfolio, there has been no participant ownership in this strict sense of the word.

In this paper, “ownership” is used in its more precise, business-specific meaning. Although one must acknowledge the power of cultivating involvement and commitment, we contend that these forms of possession are not likely to be sustainable without legal ownership.

As with “ownership”, the term “participation” is often used loosely to refer to a person’s involvement in the running of the business; yet degrees of participation can vary, from input regarding employee hours and codes of conduct to decision-making about the developmental strategy of the business.

In the Toronto Enterprise Fund portfolio, levels of participation have varied among the types of businesses, and through the various stages of business development. Participation by target populations in the detailed, day-to-day management of the business is rare. Hierarchical business management has been established in all of the social purpose enterprises, regardless of the form of ownership and the extent of participation in decision-making. We have learned that most social purpose enterprises hire managers who are responsible for ongoing management, to assure the efficiency and agility of business decision-making. In some cases, these supervisors and managers have been promoted through the ranks, but it is clear that collective decision-making is not commonly seen as a viable leadership model for the businesses.

The report “Different Approaches to Social Purpose Enterprise” outlined an enterprise typology that explores four dimensions of ownership. They include:

Category 1: Participant-owned group enterprises

These co-op and worker-owned businesses by their very nature have high degrees of participant ownership. In the case of cooperatives and worker ownership, there is also likely to be a high degree of participation in day-to-day decision-making. Some are collectively run, which still involves the appointment of specialized staff to ensure that business operations are smooth and efficient. Many participant-owned businesses adopt more hierarchical, formal decision-making structures that are often very grounded in democratic process. Daily management issues, however, are generally the purview of the person responsible for business management and operations.

Category 2: Individually-owned micro-enterprises

Ownership of self-employed businesses is very clear-cut. The owner(s) make daily decisions, often in the context of an unstructured, informal process.

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Category 3: Organizationally-owned and driven enterprises that create accommodating jobs.

While these businesses are owned by the parent organization, they have been developed as parallel businesses to meet the mission of social and economic empowerment, grounded in a belief that participation is a cornerstone of social change. As a result, these businesses often seek high degrees of employee participation in decision-making.

In many cases, parent organizations propose a long-term exit strategy, by which they aim to spin the enterprise off as a Category 1 business. This approach requires an intentional, leadership and human resource development strategy, to assure a foundation of management and leadership skill within the employee group over time, in order to support a separate, independent business.

It is difficult to promote active, authentic participation in a situation where employees do not have real ownership. When participants are involved in the developmental process of exploring and shaping a business idea, they may expect that this involvement in business decision-making will continue through the life of the business. Yet because of the long-term nature of the process of spinning off the business, parent organizations cannot deliver full decision-making participation grounded in ownership. At this stage, tensions arise as the parent organization, business manager(s) and participants begin to negotiate new relationships and processes for the control of the business.

Category 4: Organizationally-owned enterprises that are designed to link people to mainstream employment and/or support the organization's sustainability through an "earned income" strategy.

These businesses are intended to be permanently owned by the parent organization. The business is a component of an employability-oriented approach that treats participants more as "trainees" who cycle through the business, than "employees" who stay for a longer time. While the business frequently makes a commitment to consulting participants about matters directly related to their training and role in the business, participants do not have any decision-making power in the ongoing management of the business.

Clarifying the Role of Participants in Decision-Making

While the above categorizations and descriptions seem clear, they are rarely so during the implementation of a social purpose enterprise. Depending on the type of social purpose enterprise pursued and the clarity of its ownership/social purpose, each enterprise struggled in a different way with the role of participants in decision-making. Here are some cases based on the experience of the Toronto Enterprise Fund that illustrate the complications of facilitating participation in decision-making.

Employee Ownership and Participation in Decision-Making

Case 1: Eva's Print Shop

Early on in the developmental stage of this linking-oriented venture, it was decided that the organization would own the business. Since the social purpose was to link people to the job market, and flow trainees/employees through the business/training program on four-month rotations, it did not make sense to involve participants in business decision-making. Rather, it is expected that the participants will be treated in much the same fashion as employees in a mainstream business: there are clear expectations of performance, and participation is restricted to working and learning in the business and contributing informally to the design of the program and treatment of employees.

Case 2: The Mill Centre

In this case, the business had been in operation for six years. At the beginning of the Toronto Enterprise Fund, an established program had to transform an entrenched, somewhat outdated decision-making culture to fit the demands of an evolving business structure. The organization was interested in promoting a participant-owned business, and spent the first year and a half working with participants to develop a participatory culture of decision-making. As the business developed, it transformed; and the business manager identified a split in the types of people who were coming to work in the business:

- One group was the long-term homeless. They were individualistic characters who had survived on the streets largely by taking care of themselves. They wanted to use the shop to work on their own projects (which may or may not have been saleable) and they were not interested in working in a more hierarchical production-oriented business.
- Another group was interested in full-time or part-time employment, and was willing to work in a more formal, hierarchical work structure.

Conflict between the two groups' interests led to difficult relationships and a confused, inconsistent vision for the business. A facilitator was hired to help resolve the conflict and to set the business on a path that clarified its ownership intentions and the nature of its social purpose. Well into the project, the staff and participants had to go back to first principles, and determine if they wanted to link people to mainstream work, or if they wanted to provide ongoing employment in an alternative business.

Eventually the organization decided to retain ownership of the business, and work with people who wanted to engage actively in the economy. It thus began reorganizing to offer a more structured hierarchical workplace designed to link participants to mainstream work and self-employment. Restructuring production and operations was a painful process: participants who wanted to use the production for their own independent purposes had to be channelled into other departments of the organization that could support them in their goals.

Employee Ownership and Participation in Decision-Making

Case 3: Parkdale Green Thumb Enterprises

This enterprise grew out of a community development process designed to organize a target population from a specific neighbourhood to develop economic literacy, and explore approaches to income generation and community involvement. Facilitated by a peer-animator, participants were actively engaged in learning about social purpose enterprise, exploring possible business ideas, and researching and developing a business plan.

Participants made decisions collectively about the direction of the group and the choice of the business, with the technical support and facilitation of the parent organization. The developmental process left them with strong psychological ownership of the venture, and a belief that the enterprise was going to be worker owned; yet the parent organization had a different understanding as to what 'ownership' meant.

The parent organization considers the social purpose enterprise to be participant-owned because of the participants' extensive role in guiding and developing the business, and also because the managers of the social purpose enterprise come from the same background as the participants. The organization originally intended to spin the business off as an independent enterprise in the long run, but for the moment it has decided to maintain control and ownership of the social purpose enterprise, which it perceives as being vital to the stability, funding, credibility and sustainability of the venture.

The irony is that while the parent organization has successfully managed to meet its goal of building leadership and citizenship within its constituency, the business model that has been adopted cannot at present support participants to assert those abilities fully. Despite the highly participatory approach, the participants do not have control of the business, which is owned by the parent organization and managed by staff who report directly to the organization's managers and Board.

Case 4: Set Monkeys

During the early stages of development of this business, the parent organization explored a range of different ownership models and decided to pursue a participant-owned business - preferably a co-op. From the beginning, participants were actively involved in researching, discussing and designing the business, and developed a strong feeling of commitment and control. They decided to change the business idea and take the enterprise in a different direction than had been originally intended. This made the parent organization uncomfortable, and it stopped participants from taking control, arguing that the business direction lacked viability. Ultimately most of the original participants left the business. The organization decided to maintain ownership and shift towards a linking approach, redesigning the business concept to offer flow-through training and employment.

Employee Ownership and Participation in Decision-Making

Lessons Learned From The Toronto Enterprise Fund Portfolio

Clarity about who legally owns the business sets the scope for participation

Without clarity about ownership, mixed messages about the role and power of participants were generated, resulting in some of the greatest challenges faced by the Toronto Enterprise Fund portfolio in sorting out the style and process of decision-making.

Once ownership is clear, staff must work to facilitate relationships and devise processes that acknowledge where the ultimate control lies, yet also create appropriate and respectful involvement in decision-making.

Certain categories of social purpose enterprise and types of parent organizations are more oriented towards participation

As we have seen above, the four categories of social purpose enterprises have different forms of ownership and diverging social purposes that result in a variety of perspectives on participation in decision-making. Participatory approaches are a priority in parallel or alternative business development. Programs designed to link people to the economy tend to be less participatory and take a more hierarchical, training-based approach. In most categories of social purpose enterprise, ownership, participation and scope for participant decision-making are clear. It is in Category 3⁴ that the greatest contradictions and tensions can arise.

Transitional strategies from one form of ownership/participant decision-making to another are difficult to orchestrate successfully

It is very hard to manage a participatory decision-making structure in a context where the participants do not own and cannot control the business. Organizations that intend to spin off businesses as participant-owned enterprises often promote active involvement in decision-making; yet they end up giving participants responsibility but not authority.

As the stakes and risks involved in a social purpose enterprise rise, we have seen organizations rein in control of the business, trying to ensure its stability. Parent organizations have the expertise, credibility, access to charitable status and ability to leverage funds that a fledgling business needs; and a business should not break away too soon. Yet participant involvement can be damaged by this organizational move, particularly in the case of businesses that are intended to be spun off: once participants have gained a sense of ownership and as their capacity grows, they become more interested in exercising a higher level of control. Parent organizations ensure employee participation on advisory committees, planning teams and Boards, but as the business matures employees can be left dissatisfied and disempowered.

⁴ Organizationally-owned and driven enterprises that create accommodating jobs.

Employee Ownership and Participation in Decision-Making

Creating fair and realistic expectations

We have learned that parent organizations and business developers must be conscious of the expectations that their developmental processes and practices create amongst participants. It is crucial to pursue a consistent policy on participant decision-making, and to be clear and realistic about the roles and responsibilities of the business, the parent organization and the participants.

Clear guidelines and processes for participation are required

Guidelines about the scope of participant decision-making should be written and communicated, and processes and structures developed to represent participants in decision-making. The credibility of these decision-making structures relies to some extent on the effectiveness of the representative chosen and his/her ability to play the role of bridge between the parent organization and fellow employees.

These policies and procedures about participation will require revision as the business grows and matures. Social purpose enterprises must make a commitment to transparent, respectful consultation and consideration to determine appropriate forms of decision-making, particularly in situations where the vision of the business and the role of participants are changing.

Sometimes high degrees of participation are neither possible nor realistic

The idealistic, political nature of the social development sector often tempts social purpose enterprise developers to pursue ideals that cannot be met within more traditional structures and expectations of accountability of their parent organization. Some enterprises have had to acknowledge that active participant ownership and control could not be pursued within their social purpose enterprise. They revised their approaches and returned to more traditional business decision-making structures, in some cases because participatory decision-making did not suit the linking-oriented businesses they were developing, and in another because the organization considered participant control of the business inappropriate.

REPORT 13

Staffing, Management and Leadership

March 2004

A Report by The Toronto Enterprise Fund

Staffing, Management and Leadership

Introduction

From the very early stages of the Toronto Enterprise Fund, human resource issues – particularly related to management staffing – provided a significant challenge for funded enterprises. Without the right person/people in the social purpose enterprise's leadership role(s), the enterprise will not progress. This paper explores many of the staffing challenges that have been experienced in the Toronto Enterprise Fund portfolio.

Hiring the Right Manager

The ideal person for a social purpose enterprise management position balances a rare combination: years of practical, hands-on business experience (preferably in the sector in which the social purpose enterprise will function), and an understanding of and sympathy for the goals, culture and processes of the social development sector. Hiring the right person depends on personality, ability to fit into the organization and the needs of the social purpose enterprise, and human/process skills. Organizations must ask themselves: “what are our priorities?” and “to what extent is the business or the social expertise a priority?”

Social purpose enterprises need leadership, not simply management. In addition to business skills, management must be able to facilitate a complex developmental process, to navigate strategically between business and social principles, and to involve and motivate a diverse range of stakeholders. Effective social purpose enterprise managers must buy into the organization's mission and the enterprise's social purpose. Because these social entrepreneurs are a rare, new breed, they are difficult to find and keep.

The first priority is to recruit them. Some organizations have continued to use their traditional vehicles of recruitment, even though they are unlikely to find people with the combination of business and social development experience in this way. Some organizations have recruited in a directed way through a particular community, or in the business sector. In other cases, staff are promoted to the business manager position from within the organization.

Enterprises within the Toronto Enterprise Fund have learned that strong business experience is imperative if the venture is to progress out of the “project” stage and grow into a fully-fledged business. Organizations appear to arrive at this conclusion slowly, and often after the “wrong” person has been hired and business start-up has been delayed. Most of the social purpose enterprises experienced these false starts in hiring managers, and it has taken at least a year or in some cases longer for the majority of the organizations to achieve some stability in staffing. Even then, problems arise and staff turnover persists.

In the early stages of developing a social purpose enterprise, many organizations take an expedient, informal approach, hiring internal project staff who have worked

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in a social development capacity for the organization. They assume that, with time and study, the staff person can build her or his knowledge and understanding of business while ensuring strong commitment to the social mission. This staffing decision may be satisfactory to the organization, but, as we have found, unless that person has a strong entrepreneurial bent it will be difficult to establish the business within the organization. Haste in hiring becomes a false economy. Turnover is expensive and causes delays that undermine business development. Instead of hiring someone who is a compromise solution, parent organizations are better off spending the time and resources to cultivate and hire solid candidates for the job.

It is vital to invest in professional development to support managers to strengthen the social purpose enterprise in its areas of weakness, such as the more complicated aspects of business development. Many parent organizations hire technically specialized consultants who can take an intentional approach to combining business and professional development, simultaneously supporting training, problem solving and learning.

Even with a business-oriented manager, success is not guaranteed. During the developmental phase, in this context of trial and error, staffing changes and adjustments seem to be inevitable; yet through the practical experience of business implementation, organizations become better at identifying the specialized skills required to manage a social purpose enterprise.

In the case of one enterprise, for example, a manager was hired with experience in the sector, but with strengths in administration and operations. Faced by the prospect of stagnant revenues, the social purpose enterprise ultimately let that manager go and hired a new manager with much-needed sales and marketing expertise.

Some social purpose enterprises have found that a team-based approach, with representation of a range of organizational stakeholders, will build institutional memory, ensuring that capacity is not completely lost when there is a staffing change.

Although many programs begin by drawing upon volunteer labour and honoraria-based contributions to the program, this informal kind of staffing is not sustainable in the long run, as some funded enterprises discovered. By the end of the first year of delivery, one social purpose enterprise was unhappy with the inconsistency and weakness of its honoraria-based, volunteer-led training program. It sought and found money to pay consulting fees to technical trainers for the weekly training sessions that they facilitated for business employees. As a result, the sessions were of a higher quality and responded better to participants' needs.

Staffing, Management and Leadership

Keeping The Right People

A number of factors undermine organizations' ability to retain the business managers that they have hired.

Salaries in the social sector are low and uncompetitive compared to the private sector, and organizations often cannot be flexible over salary ranges. This raises a contradiction between the need to offer a competitive salary to a staff person with a rare combination of technical and social development skills, and the importance of working to promote equity and fairness in the organization.

Job descriptions that demand unrealistic time and effort from the staff are likely to result in turnover. Frequently organizations are too ambitious in what they believe can be done, hiring one person to be fully responsible for the development of the business and the social program. This kind of job description creates stress and forces the person continually to compromise and underperform on both fronts.

If the organization is not clear about the division of labour and the relationship between management and the manager of the social purpose enterprise, a situation of responsibility without authority often results. Business developers need the control and flexibility to make decisions in a rapidly changing business environment, yet organizations cannot move quickly enough to make all decisions. Serious frustration can arise with the slow, process oriented decision-making of social development organizations. It is thus important to define the scope of the manager's decision-making: a broad scope will only work where there exists complete mutual trust between the manager and the organization. Solid communication of expectations and developments is essential. Managers need to organize regular formal meetings to keep all stakeholders comfortable and up-to-date. It is also necessary to institute systems that account for the manager's use of time and resources, to balance accountability with flexibility.

At one organization, for example, a manager had to be fired because he was using the organization's facilities to advance his own business interests.

Staffing Arrangements

Many organizations have explored alternative arrangements in staffing; often involving an acknowledgement that additional staff is required. Some have divided responsibility for the business and social development components; others have integrated the delivery of the social component into the regular operations of their agencies. Still others have relied on external consultants periodically to support staff with the social development or business development components. We know that there are no easy solutions. Staffing arrangements must alter as the business

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grows and matures, and as the organization becomes able to cope better with the changes and demands that the business has created.

The style or focus chosen by the manager contains an inherent dilemma. A socially focused manager collaborates with the organization, seeking to integrate the business into the organization. There may be fewer conflicts, because of this constant focus on the social mission. A business-focused manager, meanwhile, is more likely to pursue the separation of the business from the parent organization, in order to increase flexibility and agility.

Perhaps it is in the relationship between the Executive Director and the business manager that a resolution is found. The Executive Director (or in many cases a senior manager, depending on the scale of the parent organization) must play the role of mediator, facilitating a balance of social and business objectives, keeping the social mission in the forefront while also making judgments about the viability and progress of the business. There is still a debate as to how much sectoral and business expertise the Executive Director requires. We have found that the Executive Director has to remain highly involved in the business in order to navigate this “grey area”. To make effective decisions for the organization, the Executive Director must gradually increase her or his knowledge about the business and the sector in which it operates.

REPORT 14

Stages of Social Purpose Enterprise Development

March 2004

A Report by The Toronto Enterprise Fund

Stages of Social Purpose Enterprise Development

Introduction

This document identifies the stages of business development through which the Toronto Enterprise Fund's enterprises have evolved. It is also designed to support both social development organizations and funders to conceptualize social purpose enterprise progress and to predict emerging challenges and requirements.

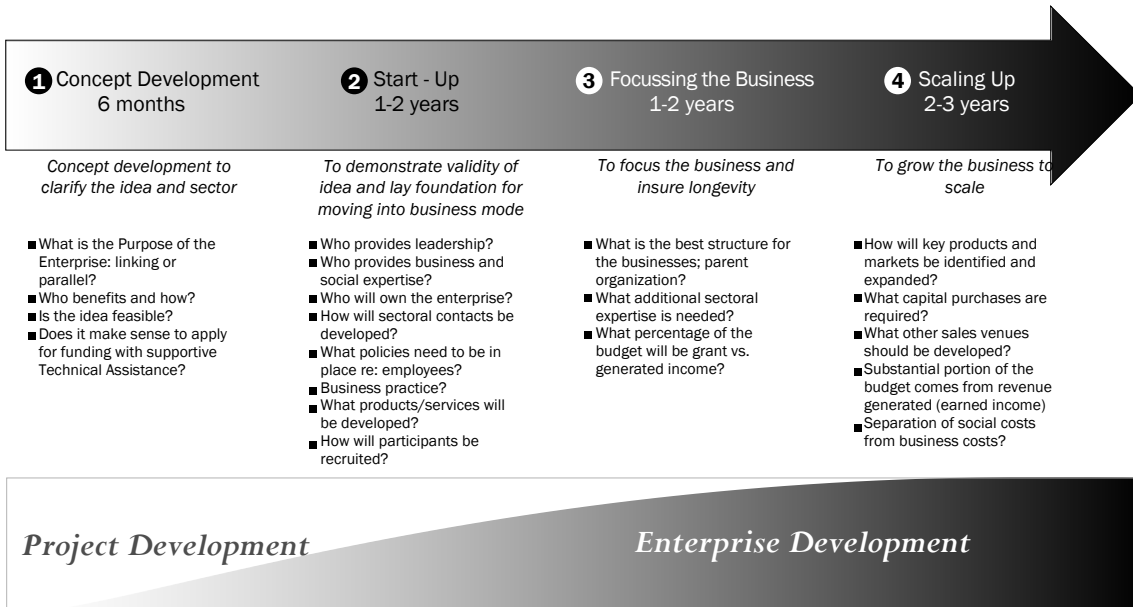
Given that self-employment development work is not itself a business, this paper does not look at the stages of self-employment program design.

The process of social purpose enterprise development is not predictable and linear: progress and setbacks can shift businesses back and forth between stages. Some businesses made more progress in certain areas than others, and could be straddling two categories.

Nevertheless, there are four identifiable stages in the development of Social Purpose Enterprises:

- **Stage 1: Concept Development and Assessment**
- **Stage 2: Start-up and Planning**
- **Stage 3: Focus and Consolidation**
- **Stage 4: Scaling up and Growth**

Stages of Social Purpose Enterprise Development



Stages of Social Purpose Enterprise Development

Stage 1: Concept Development and Assessment

Key goal at this stage: *To clarify the business concept and its feasibility*

Most often undertaken before external funding is identified, this stage of business development is supported by an investment of the organization's own funds. The emphasis here is on learning and assessment of a new approach and/or a new opportunity.

Ideally, as a first step, the organizational staff and Board explore their interest in and develop a solid, basic understanding of social purpose enterprise, so that they can build a foundation for organizational buy-in. An early priority will be to find a "fit" between the concept and the organization's mission and current culture. Tough questions must be asked as the organization formally assesses the social and business feasibility of the proposed enterprise.

At this stage the organization works to develop formal and/or informal guidelines for handling risks and liabilities connected to involvement in a social purpose enterprise. In addition, the organization clarifies its expectations by determining the purpose and ownership of the venture. Questions include: What are the expectations of revenues? Will it be non-profit? Under what business and social conditions will the organization maintain or withdraw its commitment to the venture?

Finally, a decision is made whether to proceed. Often this decision is made provisionally, dependent on the organization's ability to develop a solid business plan and to acquire funding. Yet the availability of funding is not always the best reason to go ahead: we have found that the most successful organizations invest a great deal of time and organizational energy to ensure that vital decisions are as resolved as possible before moving forward. A balance must be struck, however, between the organization's need for process and the business' need to respond quickly to opportunities.

In the first funding round of the Toronto Enterprise Fund it became clear that organizations would make better progress if they had resources and expertise to facilitate the process of concept development and assessment. Early on in the second year, a three-month process was planned with a group of potential grantees, to support more in-depth research, planning and feasibility assessment of the business idea. Three workshops were organized: one introducing considerations relating to social purpose enterprise; one supporting business planning and feasibility assessment; and another facilitating the peer review of business plans. Through this process, the new enterprises made quicker progress with the implementation of their businesses, and there were fewer false starts.

Stages of Social Purpose Enterprise Development

Stage 2: Start-up and Planning

Key goal at this stage: *To demonstrate the validity of the concept and lay a foundation for establishing the business*

The emphasis of this stage is developmental with a focus on planning, decision-making and start-up. The organization has made a commitment to proceed; but the availability of developmental funding is often a determinant of the depth and speed at which the planning process can take off. In the early stages there is a great emphasis on organizational motivation, learning, policy, structures and systems. Then, as these issues get sorted out, the Board becomes less active. The organization's Board and management should, but do not always, continue to learn.

Decisions made at the governance level determine the future of the business. The organization continually scrutinizes and reviews the business and its ability to deliver revenue and social results. As the concept is clarified, active due diligence is very important in supporting the organization to come to conclusions about mission "fit", social impacts and business viability, and answer the underlying question: "is this approach worth all the effort (and inconvenience), and should it continue?"

Much of the work during this stage is related to business implementation and operations. As a result, a great deal of the organization's energy goes into business research, planning and operations. The business uses the foundations built by the organization to undertake operational planning and business development, and systems and protocols are established to allow the business to function within the organization.

At some point, a manager is hired and the business becomes, to some extent, its own entity. Staffing the management position is an ongoing challenge. Many organizations face false starts as they find it difficult to find the right combination of business and social development expertise at low salary levels.

The social component of the business is also designed at this stage. Participants are recruited, and programming related to the social purpose is implemented and tested.

Stage 3: Focus and Consolidation

Key goal at this stage: *To focus the business and ensure its longevity*

The emphasis at this stage is on revising operational and financial systems and refining marketing and sales strategies for greater efficiency and income earning potential. The business continues to build its market and improve production/service delivery.

Stages of Social Purpose Enterprise Development

The social component, whether a training program or a community-building approach, has by now been piloted and refined. Staffing is more stable, systems and procedures have been formalized, and policies have been developed and implemented. Many of the operational issues, related to the way in which the business interacts with the parent organization, have been sorted out. A decision has been made as to which systems and procedures are centralized within the parent organization and which are left at the discretion of the business managers and staff.

At this stage, the Board does not have to be as active in supporting the development of the business, but must still pay regular attention: organizational issues often arise that test both Board and/or organization, often pushing them beyond what they had prepared for or expected. The speed and unpredictability of business growth push parent organizations continually to review and respond to requests for more independence and decision-making freedom on the part of the business. Regardless of the level of preparation, there are always surprises that can challenge the very nature and structure of the organization, and it will be forced to make decisions when learning-by-doing in a constantly changing context.

For example, growing businesses must respond quickly to the need for operating cash flow: In 2002, the manager of one of the Toronto Enterprise Fund enterprises had identified a sales opportunity that required substantial cash flow. Permission was requested of the Board to apply for an independent line of credit over which it would have control. This challenged the parent organization's previously established ground rules for the enterprise about banking, financial risk and independent decision-making. The amount of credit required for the deal was higher than that held by the entire organization. As a result the deal did not go through. The parent organization was not prepared to make such an important decision in the context of the rapid decision-making that was required to secure the deal.

At this stage the fate of the business is often decided, with the determination of ownership, structure and expectations of social returns. Organizations become clearer about the desirability of pursuing a venture-based approach, and the suitability of housing a business within their non-profit structure. These decisions can always be sharpened by asking the question: "would we continue our commitment to this business if the existing funding were not available?"

Stage 4: Scaling up and Growth

Key goal at this stage: *To grow the business and achieve sustainability*

This is still uncharted territory for the Toronto Enterprise Fund. Grantee organizations are only now moving into this stage, for which there has been no documentation of learning.

Stages of Social Purpose Enterprise Development

Nevertheless, we expect that the issue of social purpose enterprise ownership and structure will be resolved at this stage. There will likely be an increased independence of business decision making, and a transformation of operational, administrative and financial systems to accommodate business needs.

Social purpose enterprises will also have a much better idea of the social costs and level of expected earned income. The parent organization will be able to determine the viability and sustainability of the business, making decisions about whether to continue with the business-based social development strategy.

REPORT 15

Business Planning in Developmental Social Purpose Enterprises

March 2004

A Report by The Toronto Enterprise Fund

Business Planning in Developmental Social Purpose Enterprises

Introduction

This paper summarizes what has been learned about business planning during the developmental phase of social purpose enterprises over the first years of the Toronto Enterprise Fund. The main business planning challenge faced by the enterprises has been to shift the organizational culture of social service agencies to serve both enterprise development and the requirements of a double bottom-line – to create earned income as well as a successful social component. In general, the enterprises took business planning seriously, dedicating considerable time and energy to research, planning, practical implementation and learning; but it still proved a daunting and often frustrating task.

The Challenges of Business Planning

Resistance to business planning has been common

Business planning has often been a foreign concept for not-for-profit social service sector organizations developing new social purpose enterprises. When asked to prepare a business plan, many of the funded organizations were unfamiliar with the format, purpose, writing style and use of business plans.

Rather than staying with business planning and making it work, many enterprises shifted their attention to operational planning and focused on day-to-day priorities, avoiding difficult, technically specialized questions concerning financial management and marketing in their business sector. Others became sidetracked by process-heavy group planning approaches, which did not result in practical implementation strategies. One enterprise, lacking business experience and struggling to define a viable market niche, took almost three years to develop its first business plan.

Thorough, hard-edged viability assessment is critical before formal business planning can be launched effectively

In the early stages, enterprises progressed to business planning before they had sufficiently clarified their business idea and evaluated it for business, social and organizational feasibility. Acknowledging the expense and operational inefficiencies common to pursuing social objectives, however, few of the enterprises set themselves the goal of “self-sufficiency” or sole reliance on earned income.

Social purpose enterprise is relatively new, and “Social Return on Investment” analysis is complex: very few agencies have developed ways of quantifying or qualifying the social returns to determine whether their businesses are in fact viable. Viability itself may be defined differently according to the objectives of the enterprise. For example, some organizations may be content to operate their enterprises in much the same way as funded projects, continuing to rely on project-based grants. For other organizations that ensure the longevity of the business by combining solid earned income with well

Business Planning in Developmental Social Purpose Enterprises

diversified external funding, “sustainability” becomes more possible. None of the businesses aimed for enterprise self-sufficiency, or total reliance on earned income. Whatever the case, agencies developing social purpose enterprises should clarify early on what they intend the businesses to yield in earned income and determine realistic objectives for the sustainability of the business.⁵

The format of a traditional business plan does not always suit social purpose enterprises, which face different operational, marketing and financial challenges from regular businesses because they are situated in non-profit organizations with larger, often more complicated decision-making and management structures; and because they are focused on a social mission. In the case of the Toronto Enterprise Fund’s enterprises, the traditional format did not meet their need to assess the feasibility of and plan for social outcomes, in addition to business outcomes. As a result, these two components tended to be planned separately, in a disconnected way.

The enterprises required time and flexibility to negotiate the “grey area” between the business and the parent organization, in order to define the roles, responsibilities, entitlements, and access to resources of both.⁶

Early business plans were static and too theoretical

During the developmental stage, business plans were not updated frequently, nor were they referred to for regular guidance in decision-making. Businesses tended to express business planning in formal, theoretical or academic terms and often based it on secondary source sectoral research. The plans reflected a lack of practical market exploration and sales experience.

Marketing and finance are critical planning challenges in early business planning

The marketing and financial components of business planning have been the weakest: these are the areas that require more business-oriented thinking, technical knowledge and sectoral expertise.

The enterprises have had difficulty in finding a viable marketing niche for their products or services. Businesses often start out by taking a shotgun approach to clarifying their product line, pursuing a wide range of products that they think might work and then seeing which ones sell. Sales experience and strategies have also been weak.

Many enterprises set out with an assumption that the non-profit sector constituted a “friendly market” for their business, believing that their non-profit status and

⁵ For an exploration of the components of viability, and other factors influencing organizations’ decisions to proceed with enterprise development, please see “Assessing Viability” in Section 4. This paper also supports organizations to make an assessment of the balance between social outcomes and business outcomes.

⁶ For further detail, please see “Building a Business Culture” in Section 4.

Business Planning in Developmental Social Purpose Enterprises

social mission would be a key selling point. Experience has shown that the quality and price of the product are more important to customers than the social mission. Furthermore, since non-profit organizations are often underfunded, it is unwise to plan a business that depends on their expenditures.

In terms of financial planning, enterprises have found it hard to develop realistic earned income projections. In addition, they must straddle contradictory budgeting practices, combining the more traditional, expenditure-based budgeting of the non-profit world with the sales-based budgeting of businesses. Cash flow management and sustainability planning are much trickier as the enterprise works to increase its reliance on earned income. Finally, there is the challenge of separating the operational costs of the business from the costs of the social component.

Business planning is advanced by hands-on attention to business priorities

The business planning process, however painful, facilitates practical, grounded learning for the enterprises and their organizations. Through learning “on the job”, enterprises have begun to arrive at more realistic plans and a greater emphasis on earned income. They see more clearly how the organizational, marketing and financial components affect their enterprises, and they are working to resolve organizational/systemic issues, to refine marketing and sales strategies, and to build a strong revenue stream.

Proactive marketing and sales work have supported the refinement of a market niche: clarifying the services and products that are saleable, defining target customers, and detailing more realistic pricing. Enterprises have also had to think creatively to tackle the practical challenges of combining non-profit and for-profit financial management.

Funder Interventions to Support Business Planning

The Fund has learned a great deal about the process of supporting social purpose enterprise development through business planning. As the second intake process was launched, it was adjusted to facilitate an orientation process with a group of short listed applicants, designed to support agencies to think through the dimensions of social purpose enterprise viability and to introduce the concept of business planning. After this series of sessions, both organizations and their enterprises could progress more quickly and effectively with business planning than had the previous generation, despite the continued challenges.

During 2003, the Toronto Enterprise Fund hired professional business consultants to work with the enterprises on updating and improving business plans, with particular emphasis on marketing and sales strategies; and financial planning. Enterprises can now engage in the more technical and sophisticated aspects of business planning, increasing their expertise. The funding partners are also clarifying their expectations of business planning, revenue generation and sustainability.

REPORT 16

Reflections on Self-Employment Programming

March 2004

A Report by The Toronto Enterprise Fund

Reflections on Self-Employment Programming

Introduction

The Toronto Enterprise Fund's goal is "to use Community Economic Development (CED) to improve the quality of life of people who are homeless or at risk of homelessness". Although the Fund has gradually come to focus on social purpose enterprise as the main means of achieving this goal, it has also funded a small number of self-employment training programs.

The Toronto Enterprise Fund has included self-employment development in its typology of four general social purpose enterprise strategies because it promotes enterprise development as a way to support low-income populations to build livelihoods.⁷ Self-employment development is, however, significantly different from the other types of social enterprises: project-based by nature, it relies on ongoing external funding and support. It is a program, not a business, and will not have revenue generation potential.

Nevertheless, all of those parent organizations in the portfolio that promote self-employment development are interested (in the long term) in developing collective social purpose enterprises as a means of supporting micro-enterprise marketing and growth. Many of the self-employment programs are also seeking to combine individual and collective enterprise development, in order to build a viable foundation for the economic engagement of their participants.

Origin of Self-Employment Projects

Organizations that now promote self-employment did not set out with this intention; rather they were looking for an alternative form of enterprise development that would suit a highly individualistic group of "difficult to serve" people. They were drawn to explore the idea of collectively owned social purpose enterprises because of their preference for cooperative ventures over individual enterprise development.

During the concept development process, the organizations were introduced to various self-employment training models that promoted peer-based learning and business collaboration. In the end, they decided to pursue self-employment training with a group-based program component, to reduce the isolation of participants and to address the marketing and cost disadvantages faced by very small scale enterprises.

TEF Funded Self-employment Programs

SKETCH Connections

SKETCH Connections is promoting the business of art for youth and supporting youth in generating income from their art through a self-employment program. The self-employment program is complemented with common studio space and collaborative marketing. The community of artists in the Queen Street areas is

⁷ For information on the typology of Social Purpose Enterprises, see the report "Different Approaches to Social Purpose Enterprise."

Reflections on Self-Employment Programming

supporting the program by enhancing the self-employment curriculum and mentoring support for the youth.

Sistering Inspirations

Inspirations is a women's entrepreneurial initiative that brings women together in a common studio space to produce arts and crafts for sale. This project is utilizing a self-employment skills development model with support for additional technical skills in craft making. The creation of arts and crafts products occurs in a supportive peer environment, while the women work on their own business plans for self-employment.

The Form of Self-employment Training Emerging in the TEF Portfolio is Unique in Canada

Many similarities are shared by the two projects that support individual, self-employed income earning activity. Since they work with more marginalized, long-term homeless people, both parent organizations were struggling to identify a social purpose enterprise that would provide not just earned income, but also flexibility in employment for participants. In both cases, the organizations were focusing on more or less the same sector – arts and crafts – which was used to involve people in activities that could help them heal, as well as engage in the community and the economy.

This focus had been determined through long-term programming with the target group: it grew out of their interests and aptitudes. Each of the self-employment programs has taken a different, more elaborate approach than other self-employment programs in Canada, combining self-employment training and sectorally-focused skills development.

Sectorally-based self-employment has proved particularly effective in working with marginalized populations in developing countries⁸, because it builds a technical skill base, in parallel to business skills, making self-employment a more viable option in the long term. The TEF programs were seizing on the opportunity to explore the effectiveness of a well-tested strategy with a different population: the homeless and at risk in Toronto.

Challenges Related to Choosing the Arts and Crafts Sector

Business development and the arts are difficult to mix. If a self-employment strategy is to work, the arts and crafts must be marketable; but marketing art is challenging, even in a mainstream context, since it is difficult to predict what will sell. Few artists ever make enough income from their art to support a sustainable livelihood; as a consequence, self-employment in the context of TEF has, to date, been an income supplementation strategy. Most self-employment programs acknowledge that they will

⁸ For example, for over ten years, the Bangladesh Rural Advancement Committee (BRAC), has been working to build an indigenous silk industry in Bangladesh through a combination of sectoral skills training and self-employment development, and micro-enterprise credit.

Reflections on Self-Employment Programming

have to support participants to develop a range of income sources in order to build a viable livelihood.

The TEF programs therefore use self-directed business development programming as an entry point for supporting marginalized people to build livelihoods. Much time is required to build a business to the point where it can provide sufficient income to support a person fully. So although the program is called “self-employment”, for this target group programs are actually promoting independence and economic engagement through an income patching strategy: the majority of participants are incorporating part-time work and supplementation of social assistance benefits in their long-term strategies to develop livelihoods.

The Development and Evolution of Program Design

From the early stages, the two self-employment programs focused on learning and adapting what they could from existing, well-established self-employment practice in Canada. The programs pooled their TEF technical assistance money to contract the services of Women and Rural Economic Development (WRED), an organization with over ten years of self-employment experience that offered a peer-based, gender-sensitive curriculum. This assistance spared the programs a lot of trial and error, and greatly facilitated their learning about self-employment training and program design. Designing and implementing the program still took time: only after the “hands-on” delivery of the first round of training did the programs begin to find a balance between the need for arts-based training and the extent to which they would focus on business development.

Along with all of the other social purpose enterprises, the self-employment programs found it challenging to recruit and retain staff who could meet the complex requirements of the job, combining an understanding of the target population, a strong knowledge of the arts, and business-development and business training experience. The two programs eventually designed training-based programs that combined an equal amount of technical training and mentorship in the arts with training to support business planning. The aim is for participants to strengthen the quality and marketability of their arts and crafts while also developing a strategy for marketing and selling their art in a way that generates sustainable income.

Achieving a balance between the arts and the business components of the program has been the main challenge. Staff have generally had more experience as artists than as business people, resulting in a bias towards the arts component of the program. Over time, however, the programs have shifted business planning to a more practical level that not only deals with the feasibility of arts sales, but also with the capacity of the arts sales to build livelihoods. In many respects, the business component is becoming a livelihoods planning exercise that supports participants to make and sell the art they love, while piecing together various sources of income to ensure stability and security.

Reflections on Self-Employment Programming

Lessons About Program Design

The selection process focuses on identifying people who are ready to earn income

Self-employment suits people who have difficulty fitting into mainstream employment and who do not thrive in group-based programming: here they have an opportunity to set their own direction. In both programs, participants are recruited through the organization's long-term programs for street-involved people. Participants are screened for their readiness to engage in serious income generation activities.

In the case of Inspirations, the self-employment program is working to change the public perception (which emerged from its early days as a multi-purpose art-focused drop-in centre) that it is an art-therapy program. The parent organization is now positioning it as an economic development program. Women with complex personal and/or psychological problems are referred on to more specialized counselling and support services.

Longer term programming is more appropriate for homeless and at-risk populations

Given the needs of this target population, programming must be long term. While the first year sets the foundation, supporting participants to get started on their work and to begin to feel better about themselves, 2-3 years is probably the optimal length for participants' involvement in the program. People must be able to stabilize their lives, particularly with regard to their housing and income, in order to engage in the economy and, ultimately, progress towards a livelihood. Gradually, as they gain in self-confidence, they can begin to build stronger connections to the community.

The organizations are further tailoring their programs to participants' needs. For example, one program is exploring the option of staged progress, allowing participants to move along more or less at their own pace. Another program is working with small groups that receive strong individual support from staff and specified mentors. The youth program also provides some more traditional job search techniques and help with school applications.

Improving skills in design and production is important

Both of the programs focused on self-employment emphasize the importance of building participants' skills in various art media: without skills and a product, a small business will not be feasible. The programs have managed to secure supporting contacts and, in some cases, more active mentors in the arts and crafts field that have contributed knowledge, expertise and support, enabling participants to hone their skills and increase their earning potential more rapidly.

Reflections on Self-Employment Programming

Group work is best kept to small numbers for these populations

Both self-employment programs work with small numbers of participants in group settings. These people have been drawn to self-employment because they are strongly individualistic and self-reliant: as staff have observed, they often have the skills and initiative to access resources on their own. They are also survivors of the street and the psychiatric system, and value their independence and privacy. Women with psychiatric histories, for example, tend not to like revealing personal information in group sessions, and many find working in large group situations very stressful.

The two self-employment programs have been surprised to find that the individual nature of self-employment suits their target population: programs have worked to balance this need for individualized attention by building connections and support networks. Smaller groups allow for the individual attention necessary to the human development aspect of the program and to building sectoral skills. Shorter workshops supported by individual consultation proved most successful in both programs.

Crisis management is a regular part of programs

The participants of these two programs live particularly fragile lives and are easily destabilized, even in the later phase of the program. For both women and youth, unstable housing is a common source of crisis. Women may attend programs for a few weeks and then disappear for a long time; youth need to go to medical clinics; employment income can rise only to fall off dramatically. To cope with this constant danger of crisis, programs must allocate time and staff resources to support participants with their immediate concerns, or else they will be unable to focus on the business. They must also be flexible and accommodating to those who are participating, making it possible for them to return to a program once they are re-stabilized.

Participants make excellent role models

Participants who have worked through the program successfully, building up a stronger portfolio and more professional skills, provide excellent role models. They also gain a boost in self-esteem from showing newcomers where they are going and what they can hope to attain if they persevere.

Some people are sensitive about selling their own work

Selling to the public can make some participants uncomfortable, whether because of mental health or medications, because they are not yet ready to sell their work, or because they are not used to mainstream marketing. Programs must support people to draw a distinction between their work and themselves, and between work done for commercial purposes and work done for personal satisfaction.

Reflections on Self-Employment Programming

Programs must emphasize income generation

Generating work and selling it has a huge psychological impact on participants. The business training component of programs is very important and cannot be overlooked. These programs are not about therapy: participants need to be asked constantly, “How can you sell this – how much do you think you can sell it for?” and to be reminded of skills they are building that can be taken elsewhere.

Participants need constructive criticism from friendly sources, and outside connections wherever possible

With advice from “friendly insiders” or mentors, participants’ work is improving in quality, thus enhancing their ability to generate income. And as they move through the phases of business development, they can begin to look towards building valuable outside connections and resources.

Participants require support and a taste of success to get established

There is an obvious artificiality to the workshops and studio that must be taken into consideration when doing financials for individual businesses: in both self-employment programs, participants do not at present pay for materials and equipment and space. They can thus sell their goods and make a profit without accruing any expenses, while the actual cost of production is covered by the program. As the businesses become more established, this cost will be built into the business plans; but people need to experience success first in order to develop motivation. They will eventually have to prepare a transition strategy to deal with the change in business planning, if and when the time comes.

The approach to business planning must be customized for different target groups

Business planning proved a challenge for both programs: writing a business plan is personal, and can trigger many fears and anxieties. In one program, therefore, the business plan development process was facilitated as an individual activity supported by workshops, since it involved private issues that were sensitive for many participants. In another case, business planning now begins a few months into the program, when participants have had an opportunity to develop their skills in a variety of media. After a year or so, people are more prepared to discuss prices and sales.

Program participation honoraria are a double-edged sword

A small weekly honorarium was offered to the participants of one program. While this income made it possible for the youth (most of whom were not on social assistance) to participate, participants were, to a varying extent, destabilized by the loss of income when it stopped at the end of the training period. The program

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is now exploring the option of transforming the participants' honoraria money into a fund that would provide incentives and small amounts of capital to participants who are ready to implement their businesses.

The regulatory environment for OW and ODSP limits success

Since most of the women in the Inspirations program are on social assistance, they must deal with the difficult regulatory policies involved in receiving Ontario Disability Support Program or Ontario Works benefits while starting a self-employed business. Mistrusting the system, they live in constant fear of being cut off if they earn more from their work than the allowed extra income.

At present, money earned from self-employment is not enough for the women to get off social assistance. Yet it does provide a means for them to improve their quality of life when patched together with other sources of income; and even if the economic gains are modest, the social and personal benefits of self-employment are enormous. Programs struggle with the challenge of supporting women to move to independence and self-sufficiency in a policy context that provides disincentives to entrepreneurial approaches, and undermines the ability of participants to build their businesses over time.

Reflections on Results

It is perhaps ironic that self-employment programming has been developed to support some of the most multiple-barriered, "difficult to serve" groups in the Toronto Enterprise Fund portfolio; and the work is particularly hard but rewarding. The experience of the two programs has confirmed that self-employment training is an excellent entry point from which to build a variety of assets that support marginalized people to begin to take control of their lives, and to make productive contributions to the economy. Self-employment programming builds self-direction, confidence, economic literacy, and social connections, all of which provide a long-term base for increased income and economic security. Toronto Enterprise Fund programs have added a technical/skills training component that has made it more feasible to work with homeless and "at risk" target groups who often have weak backgrounds in formal education and have been disconnected from the workforce for a long time.

With time and experience, the Toronto Enterprise Fund self-employment programs have evolved towards a focus on livelihood development. This means that while the development of a viable business plan is still important to the program, other core results – including the development of marketable skills and increased employability – are just as important as strategies to build sustainable livelihoods.

The two Toronto Enterprise Fund self-employment programs have learned that this takes time. Of the 6 self-employment participants interviewed during the formal research process, none were operating full-time businesses and all 6 were earning varying degrees of part-time, supplemental self-employed income. Yet even though

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business start-up and self-sufficiency rates are not high, the income earned by participants is of vital importance to improving their quality of life. Self-employment is resulting in income patching strategies, where participants piece together a variety of income sources that changes over time.

The learning from both self-employment and social purpose enterprise is the same: participation in the program may generate only small amounts of income, but it has a profound effect, helping participants to make the difficult transition from instability to economic engagement.

Yet there are some serious design challenges that the programs face. The need to sustain livelihood gains with this target population is of significant importance. As with social purpose enterprise, it is clear that self-employment programs need to find ways of designing their programs to provide long-term support to participants as they build their businesses and livelihoods. The type and depth of supports will change over time; yet results to date suggest that livelihood development is a longer-term process. Thinking about self-employment training must be modified, and the length of the programs extended so that it can provide ongoing support for participants' livelihood strategies.

The second challenge is the need to achieve scale. One program has been taking a very intensive approach, which is felt to be the most appropriate in dealing with this target group – but, as a consequence, it can only afford to work with 8 participants per year.

During the developmental phase it was premature to make any final judgments on fair expectations about results. Nevertheless, it does make sense to explore the question of scale and the appropriate per participant costs of these programs. Realistic expectations for business development should also be articulated and more holistic indicators of livelihood gains explored, so that we can clarify the expected benefits of involvement in self-employment programs.

Both programs are exposing their entire program population – indirectly or directly – to some of the underlying concepts of enterprise behaviour. They have designed their programs to draw upon their target population, gradually and systematically building the potential for serious involvement in marketing their arts and crafts as a livelihood strategy. This bodes well for promoting increases in the scale of self-employment programming over the long-term.

Although self-employment development programming will never be self-sufficient and will require ongoing funding, it has clear merits as an economic engagement and livelihood building strategy for homeless and at risk populations in the early stages of stabilization. It seems particularly effective in facilitating the difficult leap to economic and social engagement. The Toronto Enterprise Fund will likely be able to learn more about the process of building sustainability of those asset gains as the self-employment programs mature during the coming years.



Building Livelihoods for Homeless and Low-Income People

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