



## **The Business of Inclusion**

### **Section 4**

#### **Decision-Making and the Role of the Parent Organization**

March 2004

A Report by The Toronto Enterprise Fund



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

[www.TorontoEnterpriseFund.ca](http://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.

This report was researched and written by Eko Nomos Program Development Consultants, [www.ekonomos.com](http://www.ekonomos.com).

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# Introduction

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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 the organizational challenges of developing social purpose enterprise within social development culture. As the social development organizations funded by the Toronto Enterprise Fund have engaged in social purpose enterprise, they have worked intentionally to merge two divergent perspectives: they are seeking to combine their core competencies in social development practice with business-oriented thinking in an appropriate and functional way. In the process they invest much time adopting and adapting business concepts and tools to their poverty reduction approaches.

## **The purpose of this section is:**

- To learn about the process of building a business culture into a social development organization
- To identify the components of viability for a social purpose enterprise
- To explore issues related to managerial staffing of the organization
- To begin to identify some effective practices in building board awareness and leadership

## **List of papers:**

- Report 17: Building a Business Culture
- Report 18: Assessing Viability
- Report 19: Organizational Approaches to Building Social Purpose Enterprises
- Report 20: Building Board Leadership

## Acknowledgements

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The Business of Inclusion reports are the result of hard work and a collaborative effort by the funding partners of the Toronto Enterprise Fund, the research team at Eko Nomos Program Development Consultants, the social development organizations funded by the Toronto Enterprise Fund, the staff of the enterprises, and above all, the participants of the social purpose enterprises.

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**REPORT 17**

**Building a Business Culture**

March 2004

A Report by The Toronto Enterprise Fund

# Building a Business Culture

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## Introduction

Building a social purpose enterprise is not simply about grafting a traditional business onto a social development organization. During the developmental and start-up phase of social purpose enterprises, it has become clear that there is a grey area: the overlap in decision-making roles and responsibilities between the parent organization and the fledgling business. The Toronto Enterprise Fund has learned that the development of a social purpose enterprise involves forging new organizational and business structures through a dynamic negotiation of control over decision-making and operations between the parent organization and the business. This paper explores this “grey area” and documents program learnings about building a business culture into social development organizations.

## Reconciling the Business with Social Development Approaches

In the experience of the Toronto Enterprise Fund, some of the greatest difficulties have arisen when adapting the enterprise to non-profit values and practices, and/or adapting the organization to for-profit values and practices.

Highlighted below is the broad range of decision areas in which the organization’s interests can overlap with those of the social purpose enterprise.

### **Grey area: Areas of Overlap in Organizational and Business Responsibility and Decision-making**

Operational decisions:

- Human resources
- Business management
- Administration, reporting and record keeping
- Partnerships
- Public relations

Financial Decisions:

- Access to increased organizational commitment and resources (e.g., space)
- Access to separate banking and financial management
- Access to debt financing

Governance and Policy decisions:

- Business decision-making processes (including accountability guidelines and the role of the board)
- Business ownership
- Acceptable levels of risk
- Future of the social purpose enterprise

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There are inherent contradictions and conflicts between business and social service models. Social development organizations are process-oriented and generally move too slowly to be competitive in a business environment. Business decision-making, meanwhile, is not democratic enough for social development organizations. Social agencies manage the bottom line with strong reference and accountability to the funder, ensuring that project funds are spent and accounted for. Businesses, on the other hand, seek to reduce spending, and require regular reporting to support daily decision-making and profit generation.

Successful social entrepreneurs facilitate mutual understanding, trust and communication between the parent organization and the enterprise. A culture of collaborative decision-making must be cultivated, the success of which will determine the ultimate structure and effectiveness of the venture.

With each incremental decision, the division of labour between the business and the organization is clarified and the grey area diminishes. In many respects, the decision-making process during the early stages of enterprise development is an ongoing negotiation to determine which decisions can be made by the business independently, and those which will require the input and/or approval of the parent organization.

The process of implementing a social purpose enterprise thus becomes an effort to forge new systems, structures, processes and policies beneficial to both enterprise and social development.

Decision-making systems must be crafted to offer both the accountability that the organization requires and the flexibility, speed and efficiency required by the business. The ultimate result is a hybrid enterprise that merges business and social objectives, values and practices: each enterprise develops its own unique character and culture.

Over time, more formal structures and protocols emerge to facilitate decision-making. The ownership and accountability structures will take longer to define and will likely be determined by: the size and structure of the parent organization, the legal and liability policies and requirements of the board, the degree of commitment on the part of the parent organization to social purpose enterprise, and the quality of the emerging relationship between the management of the business and the organization.

Highlighted below are some common issues that arose as organizations supported by the Toronto Enterprise Fund worked to implement their social purpose enterprises:

### **Building an organizational foundation for social purpose enterprise**

In the process of developing a social purpose enterprise, most organizations have found themselves to some extent unprepared for the broad organizational implications of initiating a business, and the systemic changes that the business exacts from the organization. Organizations need to prepare themselves early in the planning stages of a social purpose enterprise, yet cannot really change and adapt until they are actively engaged in day-to-day business development. It is very difficult to anticipate and

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proactively to initiate the changes that will be required at a range of levels in the organization. As a result, change often comes in response to a crisis or the need for a quick decision. Managing these organizational changes and risks becomes a crucial component of ongoing work, especially at the Board level.

Although the fiduciary responsibility of a charitable, voluntary non-profit Board is unchanged by the addition of a social purpose enterprise, the Board may be very concerned about risks to the mission and stability of the organization. Levels of tolerance for risk are not high for most non-profit organizations, and without a proper orientation to social purpose enterprise and its implications, the Board may see this new venture more as a threat than an opportunity. Without preparation in terms of building Board commitment and support, clarifying goals and determining social and business feasibility, many organizations find the experience of entering into business difficult and sometimes destabilizing.

### **Investing in required technical and sectoral expertise**

The Toronto Enterprise Fund has learned that the main challenge facing non-profit organizations seeking to develop social purpose enterprise lies primarily in human resources. Since most organizations lack experience in business, they must identify gaps in knowledge and recruit appropriate technical and sectoral expertise at a range of levels if they are to progress.

Leadership needs to think differently and bring new skills to the social agenda. It is challenging to find and hire social purpose enterprise managers who combine an understanding of the subtleties of both social development and business development. New business and financial expertise may also be required on the Board: it is crucial to find a solid mixture of skills and vision. There are many ways for organizations to secure technical expertise: they might change personnel, recruit pro bono technical mentors for the business, or pay for technical consulting and/or enterprise advisory groups.

### **Adapting decision-making and ownership structures**

Many organizations are restructuring the decision-making and ownership systems that they originally devised in order to deal with the contradictions that have arisen in the process of business implementation.

They have to ask some tough questions:

- Is it possible to combine participation and transparency with a decisive, rapid decision making culture?
- Can traditional systems of decision-making and policy setting serve the development of social purpose enterprises well?
- What is the optimum degree of independence for the business?
- What is the optimum degree of control required by the organization?

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## **Adjusting financial and administrative systems**

There is an innate incompatibility between the non-profit, accountability requirement of projects to spend their budgets, and businesses that set priority on minimizing expenditures and creating financial reserves and profit. This incompatibility affects the purpose, timing, format and structure of the financial and administrative systems. In addition, financial systems in social development organizations often cannot produce the frequency and form of financial reports that facilitate effective business decision-making (i.e., daily vs. quarterly updates). Businesses need to have control of their financial management, including forecasting, bookkeeping, banking and record keeping.

## **Breaking down traditional notions which distinctly separate the charitable and business sectors**

It is important not to underestimate the power of established notions about the roles of the business and social sectors: organizations should expect unanticipated resistance to this new hybrid form of enterprise. For example, the organizations involved in the Toronto Enterprise Fund have learned through their partnerships that there is a persistent, traditional, charitable mentality in the corporate sector, and a lingering taboo related to crossing the invisible yet entrenched line between the expectations of a charitable entity versus those of a business entity. Organizations need to educate their corporate partners to prevent confusion, and a potential backlash against new businesses that could be viewed as being in competition with them.

One of the funded enterprises, in its work with a corporate partner, hit a psychological wall in advancing the notion of a social purpose enterprise. The corporate partner that had been providing mentorship, technical assistance, training and other invaluable forms of in-kind support balked when it learned that the organization intended to make the training-based business profitable in the long run.

They had crossed the invisible line separating the two sectors, raising the spectre of a “subsidized” social sector competing unfairly with the for-profit sector. This chilled the company’s enthusiasm for the project, and the social purpose enterprise had to move quickly to explain that the “profits” would be reinvested in the social purpose and sustainability of the business.

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## **Risk aversion of the organization can undermine business viability**

Business culture by definition involves a level of risk that is unfamiliar to most non-profits and charities; and social purpose enterprises, by their nature and requirements, often push parent organizations to accept more risk than they would like. The social purpose enterprises in the Toronto Enterprise Fund have thus found themselves in conflict with parent organizations as the business is slowed down to allow the organization to comprehend and make informed decisions about risk.

## **Access to critical resources**

There are many advantages gained by social purpose enterprises in being part of a larger organization, such as entitlements to resources, space, information, charitable status and support/expertise for designing and implementing the social component of the enterprise. Yet the businesses must often operate without having control over the resources they require to thrive. For example, there may be disagreements between the parent organization and the social purpose enterprise about the expansion of operational space, or access to a line of credit, or the ability to go into debt to build the business.

## **Commonalities in the Character and Culture of Social Purpose Enterprise Developing Organizations**

Finally, there are a number of common characteristics that have made organizations involved in the Toronto Enterprise Fund suited to, and successful in the role of social entrepreneur:

### **Ability to anticipate and manage change**

Parent organizations of social purpose enterprises want to be in control of their destiny. They acknowledge the inevitability of profound change in the social sector, and wish to be proactive in anticipating challenges and moderating the forces of change. By understanding these trends and forces, many have prepared themselves to adapt quickly. Many are consciously working to engineer a gradual shift from a project-based mentality to a business-based perspective, involving new roles and relationships for Board, managers, staff and participants. This demands a high level of commitment, investment and action from all levels of decision-making in the organization, and an increased willingness to take calculated risks.

### **Promoting proactive solutions to poverty**

These organizations are disillusioned to some extent with poverty alleviation approaches that only offer coping strategies and support. They want to find more effective, long-term solutions to poverty reduction. As a result, they are committed to change at a strategic level, while continuing to work and learn at the practical, grass roots level. Most have made a long-term commitment to the social purpose enterprise approach, and are not just applying for a new project-funding opportunity. They have decided to make a considered

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exploration and investment that might in the long-run increase the impact of their work with low-income populations.

### **Learning orientation**

Actively documenting their progress, these organizations are willing to learn from mistakes through analysis and self-criticism. They are also open to working and sharing learning with other organizations.



**REPORT 18**

**Assessing Viability**

March 2004

A Report by The Toronto Enterprise Fund

# Assessing Viability

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## Introduction

The developmental phase of a social purpose enterprise is in many respects a multi-dimensional exploration of viability. It is in the practical context of the early stages of implementation that the business idea is tested and tempered. Throughout, the underlying question remains: are all the hard work, investment and inconvenience worthwhile for the parent organization and ultimately for the low-income people the enterprise will employ?

This paper explores three components of social purpose enterprise viability (social, business and organizational viability) and highlights the experiences and learning of the Toronto Enterprise Fund portfolio as they went through the process of assessing the viability of their enterprises.

## Viability in a Social Purpose Enterprise Context

In the business world, viability is grounded in survival in a competitive marketplace. In a for-profit business, it might relate to the effectiveness of management, efficiency of operations and so on; but it always comes down to the business's ability to generate adequate revenue to make the venture a worthwhile investment, if not in the short-term, at least in the medium-term.

Determining the viability of a social purpose enterprise is more complicated. While earned income is an important component of viability, so also are the social outcomes and the "fit" of the business into the organization's culture and mission.

Social development organizations must seriously consider what constitutes viability in the context of social purpose enterprise: is it about sustainability (including a diverse range of funding and earned income sources)? Or is it about real market viability (in which the business must generate sufficient revenue to pay for the operations of the business and generate a "surplus" from which the social objectives of the business are covered). The answer is somewhere in between the two, with a balance of social and business objectives.

## Three Components of Social Purpose Enterprise Viability

The process of assessing viability is complicated and time consuming; and there have been no common procedures or standards for judging viability in the Toronto Enterprise Fund. Furthermore, the organization and the enterprise are distinct stakeholders in the decision-making process: they often have different perspectives and priorities.

Regardless of how viability is determined, it has been possible to identify three interconnected, yet separate components of social purpose enterprise viability that have commonly been explored by the Toronto Enterprise Fund portfolio.

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**Business feasibility:** Concerns the desirability of pursuing the social purpose enterprise approach in general and the business idea in particular. The proposed enterprise must be feasible and capable of generating significant revenue.

Important questions include:

- Is the social purpose enterprise feasible?
- Can it generate sufficient revenue to make it sustainable and reduce risk to the parent organization?
- Does the business idea fit within the parent organization's mission and core competencies?

**Social feasibility:** The ability of the enterprise to leverage social change and other benefits to the target population, the organization and/or the community.

Important questions include:

- Can the social purpose enterprise leverage adequate social and economic returns to support the organization's mission and to justify the investment?
- How can the social purpose enterprise improve the parent organization's ability to effect social outcomes?

**Organizational "fit" and feasibility:** The appropriateness of social purpose enterprise as a means of fulfilling the organization's mission and the feasibility of the relationship between the business and the organization.

Important questions include:

- What degree of flexibility, control and responsibility will be given to the business?
- How will the business be structured within the parent organization to optimize the working relationship between the business and the organization?
- What are the risks to the organization?
- How will the organization need to adapt to the requirements of social purpose enterprise?

As the social purpose enterprise advances through different stages of development, the organization must continually return to, and deepen its analysis of each of these dimensions of viability.

## Exploring Each Viability Component

By observing and supporting the developmental and start-up phases of social purpose enterprise, the Toronto Enterprise Fund has been able to identify and document many of the decisions that contribute to viability assessment, and to refine the related questions that must be answered over time.

The following section offers a breakdown of the decisions involved in each of the three viability components. In addition to some case examples of funded enterprises'

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experiences and a summary of lessons learned, included is a series of decision-making tools to assist organizations in exploring social purpose enterprise viability.

## Business feasibility

The choice of business sector and idea will determine the scale, complexity, cost, and risk of the social purpose enterprise. Parent organizations must make a substantial upfront investment in order to identify a business that is not too difficult to implement and manage, and that is capable of generating sufficient earned income and other contributions to make it sustainable. For social purpose enterprises, business feasibility is, in many respects, in the eye of the beholder: depending on the criteria established by the parent organization to gauge the success of the venture, business income may be considered less important than social outcomes or vice versa.

Considerations Include:

- Identification of the business idea
- Assessment of business feasibility
- Business planning and implementation

## Identification of the business idea

Organizations in the Toronto Enterprise Fund portfolio demonstrated a number of approaches to identifying their business idea. Two of the organizations had already done considerable research in a particular business sector that they considered had growth potential, with opportunities for people to make higher than average wages. In both cases, additional research was done to focus more precisely their niche within the sector.

During the business identification stage, Eva's Initiatives had identified two potential business sectors and had done solid research and developmental work for each. A connection made through the feasibility research resulted in a donation of used printing equipment from a local community service group. This development tipped the balance in the direction of pursuing the print business.

In four organizations, the idea emerged from their ongoing working relationship with members of the target population, who had expressed a need for paid employment, and had identified sectors and business ideas that they would like to pursue. The ideas were based on skills that could easily be acquired to generate immediate income. Yet sectors with lower entry levels of skill are often competitive and underpaid; the challenge has been to direct participants towards a choice of sectors that can offer fair wages for quality work.

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The Ontario Council for Alternative Business (OCAB) pursues a model that dedicates the first year to a community development process with participants: it facilitates collaborative learning and research that culminate in the development of a realistic business idea. The participants choose an idea that suits their interests, skills, abilities and resources.

In three cases, the business idea evolved out of an existing business or program in which the organization was already engaged.

FoodShare has a Good Food Box business, which required box washing services, resulting in a new and related business, which has since been spun-off to another organization, Parkdale Green Thumb Enterprises, on a contract basis. FoodShare was also buying sprouts for its Good Food Box, and so launched a business in partnership with the Centre for Addiction and Mental Health to grow sprouts in an underused greenhouse at a large psychiatric hospital. YOUTHLINK® explored the idea of transforming an existing earned income operation into a training-based operation. The Mill Centre was originally a drop-in centre with a training-based component that was intentionally transformed into a workplace.

Good business ideas take time and energy to develop. Staff time and other resources should be invested to explore options and find the right business idea well before making funding applications. Strong ideas come out of the parent organization's mission and activities; and business ideas that are an extension of the parent organization's experience are likely to be more concrete and realistic.

### **Assessment of business feasibility**

In a not-for-profit context, business feasibility must be distinguished from sustainability. While the feasibility of the business relates to its ability to operate and thrive in a competitive market, a business can be artificially sustained by grants and fundraising. A reliance on ongoing, project-based, external funding creates an artificial sense of security, supporting the business to survive even if it cannot generate sufficient revenue to break even and support itself.

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One enterprise came to the conclusion that its business was not feasible after a year of working to develop the idea. They had chosen a sector with complex technical requirements and high capital requirements for entry. Insufficient equipment, facilities and expertise left the social purpose enterprise in a position where it could not compete and, as a result, could not generate revenues. While many different options for revenue were pursued, it was determined that the only way the business could survive was as a fully funded project.

It is important for organizations to set some expectations and standards for the social purpose enterprises in which they are involved, to ensure that the business generates enough revenue to make it a valid business. The real viability test comes when external funding is reduced or ended. In the long run the business' feasibility is intimately tied to its ability to produce market-worthy products and services.

“It is our position that social purpose enterprises operated by non-profit organizations must first and foremost embrace the core mission of operating with no significant net loss to the business. Presently, many social purpose enterprises operating in the United States operate at a loss – and that loss is often justified by management as ‘the cost of our social mission.’ This approach makes it both impossible to manage the enterprise with any true sense of business discipline and prevents organizations from ever being able to truly value the social cost carried by their enterprise.

We are not saying all social purpose enterprises must always operate on a break even or profitable basis. In fact some of the stronger organizations we have seen over the past years are those that generate significant revenue from their activities, but still operate at some level of subsidy in order to achieve their social mission. ... In a phrase, they must understand and be able to quantify their “true” costs and not simply bury those costs within the financial statements of the organization.”<sup>1</sup>

### **Business planning and implementation**

Business feasibility assessment is achieved through a process of formal and informal business planning and evaluation. The enterprise moves through the planning process, gaining in depth and substance as it learns more about itself and its chosen sector.

From the outset of the program, there was a general resistance to business planning within the Toronto Enterprise Fund portfolio. The funders had required all first round

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<sup>1</sup> True Cost Accounting, [REDF Boxed Set](#) (pages 109-110)

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funded enterprises to submit a business plan by the end of year 1. It took a year or more to produce a first draft of their business plans. This resistance came from:

- An inability to internalize business thinking and a resistance to business culture
- A lack of practical grounding in the business planning exercise – a perception of business plans as academic or theoretical documents
- The lack of a business planning format that reflected the realities of planning for a social purpose enterprise, incorporating considerations regarding the business, the social mission and the fit with the organization
- An orientation towards action on the part of practitioners, as opposed to planning

In the case of one organization, it was feared that the expectation of a business plan would result in the social purpose enterprise being treated as a mainstream business, and that the performance ‘bar’ would be set too high for the population with which it was working.

For a number of social purpose enterprises, the business planning process became a refuge from the reality of competing in the sector. They spent a great deal of time thinking through the business, while the funding environment allowed them to get their systems and structures in place without actually launching into sales. They realized that they had to start selling in order to learn about their market niche; and the struggle to identify products and services that were marketable often led them in unanticipated directions. In the end, concrete experience is the only way to develop a useful business plan. The business plan must be a living document, changing as the enterprise grows and learns.

Traditional business planning formats required modification to incorporate the broader range of considerations that a social purpose enterprise must address. Funded enterprises were encouraged to develop shorter, practical plans that focused on marketing (especially sales and pricing), daily operations and financials (especially cash flow projections and business oriented budgets).

All funded enterprises eventually saw the usefulness of business plans, as well as the need to demonstrate how they could generate revenue from the products or services they were producing, and have since taken the notion of business planning more seriously.

When the Toronto Enterprise Fund initiated a second round of portfolio development, it decided to take a more business-oriented approach to the selection of initiatives. The selection process was grounded in a two-staged application process. Applicants initially submitted a brief concept paper about their business idea and its potential for social impact. Those selected to continue were invited to participate in a three-month process with a series of workshops supporting applicants to develop their business concept, to explore its feasibility and to initiate basic business planning. The documents that resulted from this process enabled the Toronto Enterprise Fund to make granting decisions based on a much clearer sense of the feasibility of the social purpose enterprise. In addition, the second round funded enterprises could move more efficiently through the business

# Assessing Viability

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development phase and there were fewer false starts due to unclear or unrealistic business ideas.

## Social feasibility

Social feasibility is the ability of the business to leverage social change and other benefits for individuals, the organization and/or the community. Social benefits for homeless and at-risk people can range from concrete results, such as supplemental income and jobs, to things more difficult to quantify, such as social inclusion, improvement in the quality of life and longer-term strategic social change. In assessing social feasibility, the parent organization is determining if the social purpose enterprise will produce social development results that are consistent with the mission of the organization.

The attached tool offers some of the questions that organizations need to review, but we should go still further in developing practical tools and guidelines for assessing impact and cost-benefit.

Considerations include:

- Clarification of the social purpose (parallel or linking?)
- Assessment of social feasibility
- Design and implementation of the social component of the social purpose enterprise

## Clarification of the social purpose

There are many questions to answer about the social purpose of the business, but the main decision from which most others flow is whether the business should be a parallel or linking venture. This decision determines the social development approach of the social purpose enterprise, the technical considerations in dealing with the target population and the social outcomes expected.

To determine the social purpose of an enterprise, the target group must be identified and their capabilities, capacity and challenges understood. For example, the target group's literacy levels, learning abilities and daily patterns can determine the types of work that people are able to do, and the kinds of accommodations they will need to be able to work. Determination of social purpose is best made with the active involvement and consultation of people within the target group who can represent the interests and needs of their peers.

Parallel strategies build alternative businesses, and are more common for people with multiple barriers to employment, providing long-term, flexible, often part-time work to those on social assistance and/or unable to work on a full-time basis for a variety of reasons. From choosing a parallel strategy a series of related questions emerge, each with implications for program design and business implementation:

- Do we need to create full-time or part-time work? This factor affects the number of people who can be involved and determines the depth of their involvement.

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- Do we intend to supplement social assistance benefits in order to improve people's quality of life, or help people get off social assistance?

Linking strategies that work to promote access to mainstream employment generally target populations with a stronger base of assets and stability. Linking social purpose enterprises create training-oriented programs with a continual flow through of clients. Related questions include:

- What constitutes an adequate length and depth of training to ensure sustainable employment?
- In terms of scale, what is an acceptable cost per client?
- How will people be supported to find and maintain work? These programs require carefully planned transition strategies for participants to access and maintain employment.

Over time, parallel strategies can shift into linking strategies. In the beginning, many social purpose enterprises choose to support people to top-up their social benefits; but, over time, a group will emerge that wants to move beyond dependence on social assistance to full-time work. A program focused on part-time, parallel work must now meet the needs of participants who want support to make the transition to full-time and/or mainstream work.

### Assessment of social feasibility

The first determinant of social feasibility is its fit with the mission of the organization. Social development organizations often require a great deal of debate and research before they are comfortable with a business-oriented approach to meeting their social missions. Organizations must be satisfied that a social purpose business can offer better social returns than their regular way of doing things. They are also keen to ensure that a business-based approach will not divert the organization from its overarching social mission.

Social feasibility is closely linked to the choice of business sector and idea. Organizations often engage in social purpose enterprise, motivated by the desire to create quality employment and improved income. That motivation should be balanced by the capacities, capabilities and challenges of their target group. A sector must be chosen offering work that employees can do, ensuring a fit between expectations of productivity and the skills and abilities of participants/employees.

By assessing the potential for quality, well-paid employment, parent organizations can perform a reality check on the business, ensuring that the social purpose enterprises are indeed increasing people's access to livelihoods. For example, one funded enterprise intentionally chose a sector with entry-level work and good potential for upgrading and promotion within the sector through an apprenticeship system.

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Some linking enterprises created problems for themselves by the choice of an inappropriate sector.

In the case of one social purpose enterprise, a highly technical sector was chosen: once out of the training, participants discovered that they still required further formal training in order to enter the sector. In another case, a highly competitive sector was chosen that, in the long run, could primarily offer low-paid work to participants. Most parallel, social purpose enterprises choose sectors such as the restaurant business that have realistic skill requirements and offer easy entry into the work.

To improve the social feasibility of their social purpose enterprises, a number of agencies have decided to focus their energy and resources on people who are serious about work. Two agencies in particular facilitated an extensive process of change, whereby they moved from being a more casual drop-in program to a social purpose enterprise working with people who wanted to make money. In both cases, there was a split between people who wanted to use the space for refuge and recreation, and those that wanted a greater focus on employability.

The final decision in both cases was to design social components that targeted people who were interested in making a transition to mainstream work and/or self-employed work. People who were not ready for such a move were referred to other, more appropriate programs. These decisions to focus on specific, employability-related social outcomes pushed the social purpose enterprises' structure and operations in a more business-oriented direction.

### **Design and implementation of the social component of the social purpose enterprise**

Enterprises that link people to mainstream employment tend to take a more formal, separate, training-based approach to building employability and other social results into their social purpose enterprise. Parallel organizations often have a strong social change agenda that leads them to design informal, peer-based development processes, which result in a more holistic approach to building a broader range of assets.

Once social purpose and feasibility are determined, the social purpose enterprise works to refine its program design and delivery. A number of programs have shifted from parallel to linking strategies as they further clarified their target group and goals. Others have reorganized the delivery of training in order to facilitate people's access to employment. The challenge here is to design the social component to be cost effective, to build on the advantages offered by the business, and to fit comfortably into the business' operations and implementation.

# Assessing Viability

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## Organizational “fit” and feasibility

The appropriateness of social purpose enterprise as a means of fulfilling the organization’s mission, and the feasibility of the relationship between the business and the organization also need to be assessed. Organizations must clarify expectations, roles and responsibilities in the overlap between business and organizational decision-making and operations. It will determine the culture and structure of the business within the organization, and the degree of independence of the business from the parent organization in terms of operations, administration and decision-making.

"Organizations whose business goals are aligned with their social mission may have intrinsic advantages when it comes to blending "good works" with profitability, especially in the areas of staffing and marketing. Close connections between a social and business mission do not guarantee success however."<sup>2</sup>

Considerations include:

- Assessment of organizational readiness
- Determination of business ownership and structure
- Formalization of business decision-making processes and clarification of the scope and rules of engagement between the business and the organization

## Assessment of organizational readiness

Stakeholders must understand that it takes time to develop the organizational readiness to proceed with the development of a social purpose enterprise. Active leadership from Board members is required, as stakeholders often fear that the business will hijack the energies, resources and mission of the organization. In turn, the organization should examine its rationale for getting involved, which must clearly go beyond an interest in a new approach or the simple availability of project funding to ask: what are the long-term demands on leadership, staff and Board time, and resources? The organization’s tolerance for various kinds of risk must also be discussed and determined. These questions must be examined regularly as the business progresses and as its relationship with the organization evolves.

Often Boards and key leaders within an organization are too busy with other things to explore a new venture and social purpose enterprise takes substantial vision, leadership and commitment. It demands substantial organizational energy and resources. One funded enterprise was involved with the Toronto Enterprise Fund for six months, during which there was a change in organizational leadership and it became clear that this was not the right time to pursue enterprise development.

The timing of the Toronto Enterprise Fund request for proposals provided an opportunity for some organizations to build on work they had already done, to develop a social purpose enterprise. If the program’s funds had not been available, they would likely have

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<sup>2</sup> Seedco Publications Page, [www.seedco.org/about/pub/index.html](http://www.seedco.org/about/pub/index.html)

## Assessing Viability

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proceeded with the development of the idea, looking for money elsewhere. To be successful, the development of a social purpose enterprise should be driven by organizational interest and commitment, not a funding opportunity.

In the case of one funded enterprise, the organization was interested in becoming involved in CED and already had an enterprise that provided it with earned income. The plan was to transform that business into an employability-training venture. By Year 2 of the granting process, the managers of the business were still not ready to support the transformation. The organization's learning curve was not compatible with funders' expectation of progress.

Organizations also need to explore their interest and capacity to develop partnerships and work closely with organizations from a range of sectors for a range of purposes. Some enterprises have effectively used alliances that they have built with the private sector in order to gain the technical assistance, judgment, information and resources that they require. It takes readiness and professionalism to develop solid, productive partnerships: social purpose enterprises must be clear about their motivation, goals and the terms of partnerships before they approach possible partners.

### **Determination of business ownership and structure**

Ownership and structural decisions are central to the implementation of social purpose enterprises, and again evolve as the business develops.

For most of the Toronto Enterprise Fund portfolio, the social purpose enterprise is owned by the parent organization. With three years of developmental work under their belt, some businesses are ready to review their ownership structure. Some will likely move towards greater independence. Three of them have already sought legal and other professional advice on the best ownership structure for the social purpose enterprise.

### **Formalization of business decision-making processes and clarification of the scope and rules of engagement between the business and the organization**

The decisions here focus on the greatest areas of overlap in roles and decision-making between the parent organization and the business, such as operational decisions, human resources/business management, banking, reporting and record keeping. Structural decisions also need to be resolved.

Problems usually arise where there is a tension between accepted organizational practice and the needs of the business. This is not necessarily a new conflict area for parent organizations: entrepreneurial program managers in the organization will already have identified many of the same issues relating to independent decision-making and control of resources, finances and information. With social purpose enterprises, however, the potential risk of conflict may be even greater.

## **Assessing Viability**

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At a deeper level, this area of decision-making covers broader governance and policy decisions such as business decision-making processes and guidelines, acceptable levels of risk, business ownership, access to separate banking and financial management, including access to debt and capital financing.

# Assessing Viability Appendix: Viability Tools

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## Tool 1: Business Idea Identification

Business idea:

- What sector will you focus on?
- What is your business idea?

Problem Statement:

- What are the social and/or financial challenges that you want to resolve?
- What has mobilized you to undertake this business?

Vision:

- How will your business resolve the stated problem? How will it change things?

Rationale:

- Why will the new approach work?
- How will a business-based approach be more effective than your regular approach?

Defining Success in the Business:

- What are your criteria for success? How long are you willing to wait before they are met?
- Is it expected that the business will be profitable? When? Under what definition of “profit”?
- What is your exit strategy?

Expected Results:

- Name 3-5 things in each of the following areas that will indicate that your project has been successful
- Talk about the different levels of result for:
  - Participant
  - Business
  - Parent Organization
  - Community

# Assessing Viability Appendix: Viability Tools

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## Tool 2: Business Planning and Feasibility Assessment

### 1. Business Organization

1.1 Business name

1.2 Business description

1.3 Form of business ownership

1.4 Business structure

1.5 Overview of sponsoring organization(s)/partners

- Briefly describe the organizations involved in initiating this venture

### 2. Marketing Plan

2.1 Products or service

- Describe in detail your product(s) or service(s)
- How is it produced?
- What is your marketing niche?
- How do you plan to develop your product or service?

2.2 Pricing

- What does it cost you to offer your product or service to your customers?
- Provide a breakdown of how you determined your cost including materials, labour, inventory and overhead costs
- What price will you charge customers for your product or service?
- What level of sales would you have to reach just to cover your costs?
- Have you made provisions for contingency costs?
- List possible adverse conditions and plans to address these, including additional costs

2.3 Promotion

- How will you inform customers about your service or product?
- What form of advertising or promotion will be most effective for your business?
- How much do you intend to spend on advertising?

### 3. Business Context

3.1 Sector trends

- Describe the sector in which your business will operate
- What are the challenges and opportunities in that sector?

# Assessing Viability Appendix: Viability Tools

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## 3.2 Customers

- Describe your typical customer
- Describe the aspects of your market research that support the viability of this business proposition
- Describe your access to potential customer base and how realistic your access is to them

## 3.3 Competition

- Who are your competitors, and how long have they been in business?
- What are their locations?
- Why will your customers prefer your product or service to that of your competitors?

## 4. Business Operations

### 4.1 Production process and/or delivery of services

- What is your operational plan for production and/or delivery of services?
- In which areas do you require technical assistance or further professional development?
- Does it make sense to contract out components of the process?
- What level of technology is required? Will there be capital costs?
- How can the production processes facilitate the training of your target group?
- How does on-the-job learning fit in with the production process? How should the production process be structured to support on-the-job learning?

### 4.2 Human resources

- How will participants be involved in the business? Will they be paid? If yes, how?
- What is your staffing plan?
- Provide brief job descriptions for all positions related to the business
- Outline the existing skills and experiences of current staff that will provide the basis of expertise for the business. Will additional staff need to be hired? At what cost? What skills/experience will the additional staff require to complement existing organization skills? Is the cost of the additional staff included in the business plan? What accommodations will be made to support employees' participation in the workplace?
- What are the rules relating to work?
- Are there any considerations or constraints in your staffing plan related to the parent organization (e.g., trade unions)?

### 4.3 Social component:

- What training will be undertaken?
- Training plan: how will it be organized and scheduled?
- Who will deliver the training?
- What is your curriculum?
- Results expected? Levels of technical competency
- Will external placements be made? How will they be organized?

## Assessing Viability Appendix: Viability Tools

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- What ongoing supports can participants access to help them sustain employment?
- What supports and services do you expect from the parent organization?

### 4.4 Location

- What are the advantages and disadvantages of your location?
- Do you have adequate space and facilities for your planned production process/service?

### 4.5 Purchasing and suppliers

- Who are your major suppliers? (wholesale/retail?)
- Where are they located?
- What are their credit terms?
- Can you change your suppliers easily if required?

### 4.6 Quality control

- What measures will you take to ensure the quality of your service/product?

### 4.7 Customer service

- What is your customer service strategy (e.g., policy re: forms of payment, returns, delivery)?
- How do you plan to get customer input into your business?
- Can you extend credit to your customers? If so, what are the limits and what are your credit collection procedures?

### 4.8 Applicable regulations

- To which by-laws and regulations will your business be subject?
- How will you ensure that you meet the requirements of these regulations?
- What GST/PST apply to your business?
- What associations and support groups are available in the field?

### 4.9 Insurance requirements

- Describe the insurance, and the costs of the insurance that you will need to purchase for the business (contents, liability etc.) Are you satisfied that the liability of the organization and the Board are adequately covered?
- Note any occupational safety and health risks, and your strategy for dealing with them

### 4.10 Legal services

- Describe the legal services that your organization and business will require, and their cost
- Define the legal and governance relationship with the parent organization. Are all the activities of this proposal consistent with the limitations defined by the Staff/Board: i.e., do Staff have the mandate to manage this business?

## **Assessing Viability Appendix: Viability Tools**

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### 4.11 Record keeping

- Describe your plans for dealing with record keeping (including purchase orders, sales receipts, inventory and petty cash)
- What is your report format for the Board? How often will you report?

### 4.12 Accounting plan

- How will your finances be managed?
- How will separate business records be maintained and whose responsibility will they be?

### 4.13 Banking

- Describe any banking and/or financing arrangements that will be made for the business (accounts, loans, lines of credit etc.)
- Will the business' banking be kept separate from that of the organization?
- What credit limits should be placed on this business?

### 4.14 Business support systems

- What other computer, database or business systems will be important to the success of your business?
- What are the technical assistance requirements for the start-up phase?

### 4.15 Relationship with the parent organization

- What are your official protocols for decision-making? What issues have to be brought to the Board?
- What reporting to the Board needs to be done on a regular basis?
- What scope does the business manager have for daily business decision-making?
- What education and relationship building need to be undertaken with the organization and particularly the Board?
- What is your internal-external communication strategy?

## **5. Financial Planning**

### 5.1 Statement of start-up costs

### 5.2 Budget for year one and budget estimates for year two

### 5.3 Cash flow forecast for year one

- What revenues can you expect from fundraising sources?
- What financial and in-kind support are you receiving as an investment by your parent organization? Detail this support including the cost of staff time and organizational facilities. Include these figures in 5.1 & 5.2

# Assessing Viability Appendix: Viability Tools

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## Tool 3: Social Feasibility Assessment<sup>1</sup>

Target:

- Who will be targeted?
- How do you believe that this social purpose enterprise will improve the quality of life of our target group?
- What are the expected impacts?

Social Purpose of the Business:

- What is your approach?
- How do your organization's values influence your approach?
- How do your values fit with the social mission of the parent organization?
- What is the purpose of your social enterprise? To increase the target population's employability (a training-based or linking approach) or to secure employment for people who are difficult to employ (a parallel approach)?
- Scope of purpose: is it to supplement social assistance or support people to gain full employment?
- Is it a transitional or ongoing strategy?
- Will it provide full or part-time employment?
- What is your vision for client participation and ownership?
- Describe how participants will be involved in planning, decision making and business implementation
- What are the accommodation requirements for people to be employed successfully by the business?
- What additional supports and services are required in the long-term to ensure the sustainability of employment?

Social Outcomes

- How labour intensive is the business (the more labour intensive, the better for creating entry level jobs)?
- How many jobs will be created for the investment required?
- Will they be "quality jobs"?
- How attractive will they be to the target workforce?
- Can you impart the skills required for a follow-on permanent position?
- How accessible is the chosen sector to the target population?
- Will follow-on jobs be attainable for your employees?
- Will you create a good "first job environment" for the target workforce?
- What other assets will they develop as a result of participation in the business – social, financial, physical, personal and human?

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<sup>1</sup> These questions have been based on a list of social feasibility questions developed by REDF which have since been modified and embellished. See *New Social Entrepreneurs*, pages 22-23.

## Assessing Viability Appendix: Viability Tools

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### Tool 4: Organizational Feasibility<sup>2</sup>

#### Timing

- Can the organization devote sufficient resources (human and financial) towards the significant effort necessary to start up a new business and make it succeed at this time?
- Can the organization (management, Board, staff) focus on a new enterprise right now, or are there other commitments requiring its attention?

#### Leadership

- Who will be the social entrepreneur that leads this new business?
- What will be required of the Board?
- What role will current senior management play?
- What demands will be placed on the organization's staff?
- How can this role be managed given other commitments?
- Will management time be diverted from other priorities?

#### Internal knowledge/expertise needed

- Does the organization have the technical expertise/sectoral knowledge to start and run the enterprise?
- What level of industry, functional and management experience does the venture require? How could those needs and the industry standards for compensation and structure fit with the organization's human resource strategy?

#### Capital requirements

- How much investment will be required upfront and over the next five years?
- How much of that capital can the organization invest or realistically obtain from third parties?
- How will that investment affect other organizational priorities?

#### Financial risk for the rest of the organization

- How will the enterprise be funded?
- How much cash and what level of in-kind resources (such as management time, administrative supports, fundraising support, technical and legal advice etc.) would the parent organization need to contribute to the enterprise upfront and over the next five years?
- Are there hidden costs (e.g., lost organizational productivity because of the high learning curve, organizational dissension, etc.)?
- What are the financial risks?
- How will it divert our existing resources?
- Could the non-profit survive the loss of its total investment, and/or if it were required to pay off accumulated debt?

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<sup>2</sup> These questions have been based on a list of social feasibility questions developed by REDF which have since been modified and embellished. See *New Social Entrepreneurs*, pages 22 – 23.

## Assessing Viability Appendix: Viability Tools

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- What structures could be put in place to minimize financial exposure (rent vs. buy property, slow expansion, low initial inventory levels etc.) without jeopardizing the business?

### Ability to develop partnerships

- What allies do we need?
- What technical assistance do we need?
- What kind of partnerships do we want to pursue? For what purposes?
- Do we need any guidelines for partnerships?

### Board readiness for this type of business

- How well does the current Board understand this business?
- What specific expertise could individual Board members contribute?
- How does the business fit with the Board's risk profile?

### Demonstrated success in a similar business

- Is there any evidence that this business could be successful with the target population?
- Is it reasonable to believe that a non-profit has any advantages that would enable it to reach profitability in this business?

## **Assessing Viability Appendix: Viability Tools**

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### **Tool 5: Questions About Organizational Risk and Control of the Business**

- Identify all risks to the organization and social purpose enterprise related to the social mission, finances, charitable status, and Board liability
- Review the organization's tolerance for risk in each of these areas – any guidelines regarding risk set for social purpose enterprise management?
- Assess the organization's comfort level with rapid change
- What are the tax, worker's compensation, union and insurance implications?
- What is the Board/organization's legal liability?
- What are the staff liability issues?
- Are there structural implications for the organization?
- What are all stakeholders' willingness and readiness to deal with organizational change?
- Is there an exit strategy? What are the criteria for remaining committed to the business? What revenue needs to be achieved? What outcomes need to be achieved?

**REPORT 19**

**Organizational Approaches to Building Social  
Purpose Enterprises**

March 2004

A Report by The Toronto Enterprise Fund

# Organizational Approaches to Building Social Purpose Enterprises

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## Introduction

This paper is intended to support decision makers as they consider the issues and implications related to the development of a social purpose enterprise within different organizational structures. Below, three different types of organizations that engage in social purpose enterprise have been identified based on the experience of the Toronto Enterprise Fund. The paper then explores the implications of these organizational structures in determining the mission, target group, Board involvement, social purpose and approach of the enterprise.

Different types of organizations develop different relationships with social purpose enterprises. The relationship between the organization and the business goes beyond the status of legal ownership. It is a product of the organizational culture and structure, leadership, human resources and personal interactions. Evolving over time, that relationship is vital to the enterprise's success and survival. It determines the character and functionality of the business including the:

- structure
- systems
- decision-making processes
- level of independence
- ability to draw on organizational resources

The Toronto Enterprise Fund has supported enterprise development exclusively with non-profit, social development organizations, the majority of which have charitable status, and target homeless and 'at risk' populations. Many of the funded parent organizations are involved in the provision of emergency food and shelter services to the homeless.

## Organizations Focused on Social Purpose Enterprise Development as a Mission

This type of organization has an enterprise development mission, growing businesses to promote social development and human rights agendas by creating employment and investing in the development of a range of assets with a specific target group. An integrated approach is taken, in which all resources are coordinated and focused on enterprise development.<sup>1</sup>

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<sup>1</sup> We have referred to and drawn upon the Roberts Enterprise Development Fund's (REDF) classification of organizations, adjusting the scope and terminology of their definitions of three types of non-profit organizations engaged in social purpose enterprise development, in order to fit the Canadian, non-profit context. The REDF classification is well worth reading. See REDF Boxed Set – Investor Perspectives in Heather Gowdy et al, True Cost Accounting: The Allocation of Social Costs in Social Purpose Enterprises.(2000), p.106.

# Organizational Approaches to Building Social Purpose Enterprises

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## **Mission:**

These organizations develop businesses to connect people to the economy and community.

## **Target group:**

The target group is very focused and specialized, such as low-income consumers/survivors, or street-involved youth.

## **Board:**

These organizations are led by a proactive Board with a strong vision of their role in promoting change for the target group. There is a high representation of the target population in governance and decision-making, and the Board tends to have an in-depth awareness of business operations.

## **Purpose:**

Linking or parallel approaches may be adopted. These organizations have extensive experience with social purpose enterprise development, often managing multiple businesses at the same time.

## **Relationship between the parent organization and the business:**

The businesses are registered as separate and non-profit, although they tend to share centralized administrative functions with the parent organization, which owns them legally. For linking businesses, the aim is long-term ownership by the parent organization; for parallel strategies, the long-term goal may be to develop sustainable business that can be spun off. The parallel approach tends to build active employee involvement in the development of the business, and in governance and informal decision-making processes. Leadership, management and technical skills can thus be built within the target group, possibly supporting legal ownership by the employees in the long-term.

## **Approach:**

These organizations are able to specialize, developing multiple businesses and choosing sectors carefully, and tend to develop a model/approach to the social purpose enterprise development process, which is then replicated. The businesses have a separate identity from the parent organization, which is structured as a resource/coach to the business and as an advocate for the target group. Other services and supports, such as bookkeeping and specialized training, are centralized for efficiency, although the organizations do not have the resources to provide a broad base of holistic supports to their businesses' employees. Such resources are often tapped by developing strategic partnerships with like-minded social service agencies and by referring participants to other services. These organizations are more likely to understand and support the development of accounting systems necessary for business management. Cooperation among the businesses owned by the parent organization are encouraged and facilitated.

# Organizational Approaches to Building Social Purpose Enterprises

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## **Organizational issues related to business development:**

Business development models/approaches are not necessarily replicable nor are they transferable between sectors; and shifts between sectors mean substantial new investments with a steep learning curve.

It is important to create clear expectations about exit strategies and relationships between the parent organization, the business and employees. In the case of parallel initiatives, the challenge is how to maintain sustainability, while building the capacity of employees to run and ultimately own the business.

There are two parent organizations that fit into this category:

- Ontario Council of Alternative Businesses (OCAB)
- All-a-Board Youth Ventures

## **Organizations Providing Wrap-Around Integrated Services that Include Social Purpose Enterprise Development**

Here, the parent organization runs one or more businesses to provide on-the-job employment experience and training, but also offers a range of complementary employability and technical training programs. The organization tends to be focused on a specific target group. Involvement in the business may be available to a smaller subset of participants/employees, while most are involved in training programs and activities.

### **Mission:**

The mission is directed at broader social and economic goals, to build employability, food security and livelihoods, although the organization does recognize business development as a key component of its delivery strategy.

### **Target group:**

A broad-based target group is usually identified, such as youth or women, and a holistic approach adopted to support that group to develop a good base of employability assets.

### **Board:**

Strategic and problem-solving, the Board is actively committed to learning about and adapting to new business-oriented concepts and practices. Its role becomes to manage change and build a new culture in the organization.

### **Purpose:**

These organizations often focus on strategies to link their participants/employees to the economy. Linking involves working with people for a set period and then supporting them to move on to mainstream employment, creating a flow through situation. In some cases, however, enterprises do offer ongoing employment to those who wish to continue working.

# Organizational Approaches to Building Social Purpose Enterprises

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## **Relationship between the parent organization and the business:**

The organization seeks to control ownership, maintaining the business as a central component of its work to link people to the economy. These businesses will probably not be spun off, since they are so closely linked to other programming, and they tend to be registered as non-profit. Although the business has a manager, the Executive Director and/or a senior manager of the organization are still actively involved in decision-making and operations.

## **Approach:**

All programs, including the business, pull together to meet the main objective of livelihood development. This approach integrates services in a new way that combines market-oriented thinking. If the organization has multiple businesses, they are often in complementary sectors and organized to offer support and services to each other. Over time, this type of parent organization is able to increase its commitment and ability to support the objectives of the business by adapting existing systems and services. While participants/employees have access to a range of employability-oriented supports and services, the organization must make referrals to external agencies in order to ensure a solid base of supports.

## **Organizational issues related to business development:**

This type of organization is the most likely of all three types to experience broad-sweeping, fundamental organizational change as a result of its engagement in social purpose enterprise. The Board must find an appropriate balance between managing risk and working at the policy level: micro-management is undesirable, but arms-length stewardship is often untenable.

The organization also has to reorganize in order to coordinate businesses and activities more efficiently: for example, one funded organization is seeking to integrate and combine separate businesses to ensure efficiency of organizational resources and to focus energies. There is the danger of a split within the organization, where the business may be perceived as better or more important than another program or department. As a result, some agencies have worked to increase the functional integration of separate components of the organization.

There are five parent organizations that fit into this category:

- Working Skills Centre
- Somali Women and Children's Network
- FoodShare
- Riverdale Community Business Centre
- Sistering

# Organizational Approaches to Building Social Purpose Enterprises

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## Organizations Pursuing Program-Based Social Purpose Enterprise Development Strategies

There are also businesses that have been started by programs or divisions of large, multi-service social development agencies with strong community development agendas and broad social agendas. REDF noted that some “parent non-profits have more broad-based missions, and have multiple programs serving one or more constituencies. One or more of these programs may involve the operation of small businesses, while others may be social service programs independent of the business and serving a client population that may include, but is not limited to, employees of the business(es).”<sup>2</sup>

### **Mission:**

The organization has a broad social development mission. The division of the organization creating a social purpose enterprise will have responsibility for focusing its goals while also ensuring that there is a fit with the parent organization’s mission.

### **Target group:**

Although the parent organization will likely have a range of target populations, the target group of the division or program that sponsors the social purpose enterprise tends to be focused.

### **Board:**

The Board sees social purpose enterprise development as one of many strategies, and less central to the mission of this type of organization. In these organizations, the staff leadership for the enterprise often comes from a division or department that can more directly benefit from social purpose enterprise development. There is, therefore, a less direct relationship between the Board and the business, and the Board appears to have less direct ownership and commitment to social purpose enterprise than is the case with other types of organizations. Advisory Committees are commonly established to report to the Board on the progress of the enterprise.

### **Purpose:**

These types of organizations largely pursue linking strategies designed to fit the employment-oriented mission of the agency and to increase organizational effectiveness – e.g., to fill a gap in the organization’s spectrum of services. The development of social purpose enterprises is also a reflection of the organization’s work to innovate in response to a new context requiring different solutions. This type of organization is the most likely of the three to introduce business as an earned income strategy.

### **Relationship between the parent organization and the business:**

These businesses are registered as non-profit and are completely owned by the organization, however, they often share the same status as funded projects in the organization. The business begins to develop a business identity and an arms-length

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<sup>2</sup> ibid.

## **Organizational Approaches to Building Social Purpose Enterprises**

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relationship with the organization, a process that can create tensions over time as the cultures diverge and operational requirements differ. Although the business attempts to function separately, it often has limited flexibility and is subject to control within a highly structured institution, and thus faces a challenging situation of responsibility without decision-making authority or business autonomy.

### **Approach:**

These larger organizations tend to structure social purpose enterprise delivery departmentally or divisionally. The businesses can draw on the supports and services provided by other divisions of the organization, increasing the ability of the social purpose enterprise developer to focus on business development. Participants/employees have access to a slate of basic needs, supports and services within the parent organization. Yet organizational systems tend to be highly structured, and unable to respond to the requirements of the business, which may end up keeping separate sets of books, for more effective management and decision-making.

### **Organizational issues related to business development:**

It is hard to break out of the project-based mentality of this type of organization. Nevertheless, active Board understanding and ownership of the social purpose enterprise must be cultivated if it is to survive beyond its current funding arrangements. The business requires a special commitment to a longer-term perspective that shifts the way in which the organization operates. In a highly institutional, bureaucratic environment, it is also difficult for social purpose enterprise staff to develop control and operational flexibility in the management of the business: the Board is more removed from the operation and as a result less committed or willing to take risks for the business.

Social purpose enterprises in these organizations encounter efficiency and decision-making setbacks created by the centralized structure of accountability including bookkeeping, financial management and decision-making. Structural solutions will ultimately be required, and alternative ways of positioning the business within the organization will need to be negotiated. While ownership is expected to remain tightly held by these parent organizations, their enterprises will ultimately be structured separately to allow them more operational control and leeway. Many of these organizations are unionized, presenting particular challenges to building the business and employing low-income people. Careful discussion and planning with the union will therefore be required.

There are three parent organizations that fit into this category:

- YOUTHLINK®
- Dixon Hall
- Eva's Phoenix



**REPORT 20**

**Building Board Leadership**

March 2004

A Report by The Toronto Enterprise Fund

# Building Board Leadership

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## Introduction

For a successful social purpose enterprise, staff from both the organization and the business must collaborate to build leadership and Board buy-in. Board guidance is essential in developing a viable enterprise, pursuing a relevant social mission effectively, and ensuring a “fit” with the parent organization. This paper reviews the role of the Board and other organizational leadership in the development of social purpose enterprise. While no prescribed approach for building social purpose enterprise leadership in organizations has emerged from the experience of the Toronto Enterprise Fund, some general learning has, and is summarized below.

## Commitment and Communication

It is important to have high-level organizational commitment and enthusiasm before proceeding with a social purpose enterprise. Board development must be woven throughout the different phases of business development in a flexible, learning oriented manner. This prepares the Board to deal with continually evolving operational and governance issues. Over the long-term, a strong relationship with clear, consistent communication will keep Board members interested and committed to the venture.

## Sources of Organizational Resistance

Through the process of developing social purpose enterprises, Boards and leaders may encounter numerous sources of organizational resistance related to:

- The stress and inconvenience caused by rapid change
- Concerns about a shift in mission
- Tensions and contradictions caused by merging business and social values/approaches
- Uncertainty regarding decision-making and authority for the business in decision-making
- Conflicts related to personal turf
- Perceptions that this new direction means more work with no corresponding resources, becoming an add-on to already overloaded job descriptions
- Tensions between existing financial structures and new financial reporting requirements to operate the business

These sources of resistance must be resolved if the social purpose enterprise is to have a fertile environment in which to develop.

# Building Board Leadership

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## Stages of Board Buy-In

Three levels of Board leadership and buy-in, **Enacting** → **Tailoring** → **Owning**, have been identified by Community Wealth Ventures in the United States.<sup>1</sup> These stages resonated with our experience of the Toronto Enterprise Fund.

### Enacting

The decision to proceed with the development of a social purpose enterprise cannot be taken lightly, and most organizations invest substantial time at the level of Board and senior staff, weighing the options and implications of engaging in social purpose enterprise. Beyond the practicalities of business start-up, an organization must determine if the social purpose enterprise will divert it in any way from its social mission, and if the very nature of the organization will change as a result of its decision to proceed. Exploration of social purpose enterprise starts informally, to familiarize decision makers with the idea and consult them about it. Many parent organizations then engage in a more formal inquiry process, reviewing the enterprise in light of the organization's vision, culture, resources and social mission.

The role of the Board during the enacting phase is to explore the desirability of a social purpose enterprise approach for the given organization, ensuring its best interests, minimizing risk, and preventing failure. The early stages of social purpose enterprise development require a great deal of decision-making regarding policy and governance issues, and hence demand a great deal of Board attention, understanding and support. Boards are often highly engaged in intentional learning and systematic decision-making at the enacting stage, and devote more energy into understanding the implications of building a business approach into their social development work. In building the enterprise, organizations will be wise to pursue due diligence with research and expert advice.

During the early days of building a social purpose enterprise, the organization will be unlikely to secure external funding; and so the Board will have to commit to spending on additional staff time, technical expertise, and other in-kind costs. The formal relationship with the business begins when staff are hired, and many organizations will involve Board representatives in this process.

### Tailoring

The relationship of the parent organization to the social purpose enterprise is determined by the process of Boards working together with the senior staff of the organization and the manager of the enterprise to negotiate and lay out systems. Over time, Boards of organizations involved in social purpose enterprise consciously adapt their role in the process as they become more aware of the demands of the business and the implications for the organization. We have found that there are as many decision-making relationships and processes as there are social purpose enterprises, but some common patterns have emerged that are related to the type of parent organization.

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<sup>1</sup> Community Wealth Ventures Inc. Presentation, "Culture and Board Buy-In", 4 December, 2002.

## Building Board Leadership

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Once the business is operational and there are fewer strictly policy-oriented issues with which to deal, the Board's role becomes more ambiguous. In many cases, Board involvement wanes after the active decision-making of early start-up. At this stage, Boards may rely too heavily on management and/or the steering committees they have created, and can lose touch with the enterprise. If this happens, Boards may be brought back to decision-making about the business in the context of an operational crisis that requires an immediate response.

The less effective Board communication and collaboration with the enterprise becomes, the more likely a conflict between the enterprise and the parent organization. It is critical for Board and management to share a common vision for the organization and the social purpose enterprise.

Business issues evolve and Boards turn over, so Board development work is still needed for quite some time after organizations begin to develop social purpose enterprises.

As social purpose enterprises advance to the growth stage, some Boards have renewed their commitment to learning, augmenting their access to expertise, managing change and ensuring due diligence on policy issues, in order to break out of crisis management mode.

### **Owning**

Board ownership and buy-in are the result of the organization's ability to change its culture, and to gain enthusiasm and proactive support both for the notion of a business approach to social development, and for the implementation of a particular business idea. They take a long time to build.

We have seen that Boards tend to take a provisional approach to social purpose enterprise. Once it has been confirmed that the social purpose enterprise is within organizational purview and will not deter the social mission or harm the organization in any way, Boards are often willing to proceed conditionally upon the availability of funding, and upon the achievement of some basic expectations of social returns.

Until Boards and managers of parent organizations can internalize a more entrepreneurial culture, it takes time for the organization to define its expectations of business returns. Boards often do not ask enough of business performance; they simply require the business to stay within its project budget.

At some point, the organization has to review the progress and impact of the social purpose enterprise and make a decision about whether the organization will proceed with the business. A commitment to the merit of the approach and the benefits of the social purpose enterprise lead to ownership. This in turn facilitates the organization's shift from a project-based mentality towards a more investment-oriented perspective, making a practical commitment to assure sustainability. Once ownership has been established, the organization will see more clearly how to adapt its mission, Board expertise and operational structures to support and accommodate the hybrid social purpose enterprise.

# Building Board Leadership

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## Characteristics of a Committed Board

### **Commitment to proceeding, and learning along the way**

A committed Board understands the complex dual purpose of a social purpose enterprise, and wants to learn more about adapting the organizational culture to support this dual purpose.

### **Confidence and trust in the people involved**

There is confidence and trust in the team who is developing the social purpose enterprise, usually because of a strong relationship with organizational managers who are fully aware of risks and liabilities.

### **Support for principles and direction**

Hostile sentiments have been dealt with in a productive way, avoiding a potential rift in the organization by involving everyone in the new initiative.

### **Desire to contribute to the success of the venture**

The organization is prepared to make a financial investment (in addition to grant money) in the venture, and is able and willing to leverage information and support through external alliances and contacts.

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