The single greatest challenge

Existing organizational culture is frequently the biggest obstacle for social entrepreneurs

By Jerr Boschee

Social innovators around the world have begun to reach a disquieting conclusion: Inspired vision, impassioned leadership, enthusiastic volunteers, government subsidies and a phalanx of donors are not always enough.

They serve admirably while innovators transform their dreams into fledgling programs and steer their organizations through early growing pains. But there comes a time, albeit reluctantly, when most founders and their followers begin to understand that living from year to year does not ensure the future – and that is the moment when they begin migrating from innovation to entrepreneurship. It is one thing to design, develop and carry out a new program, quite another to sustain it. So they begin turning toward commercial markets, gradually exploring the possibilities of *earned* income, many for the first time, and often with reluctance given their uneasiness about the profit motive.

The moment of realization is dawning today for some of the most successful social innovators in the world, and they are slowly moving away from a ***dependency*** model of financing that relies almost entirely on charitable contributions and public sector subsidies. The movement takes two forms:

- Some are working toward ***sustainability***, which can be attained through a *combination* of philanthropy, subsidies and earned revenue

- Others are seeking ***self-sufficiency***, which can only be achieved through earned revenue alone

However, entering commercial markets poses significant challenges for nonprofits, none greater than their own embedded culture.

The culture of a traditional nonprofit, no matter how innovative, is vastly different from the culture of an entrepreneurial nonprofit. Entrepreneurs have a higher tolerance for risk, a greater appreciation of margins, an eagerness to compete. Traditional nonprofits distrust the capital markets, prefer collaboration to competition, and underestimate the productive capabilities of their disadvantaged employees. They watch other nonprofits become increasingly sustainable or self-sufficient, but are unwilling to emulate their practices.

Instead, they criticize. “My god, the resistance,” says **Rick Walker**, who runs seven small businesses in Marshfield, Massachusetts, that employ people with developmental disabilities. “To a great extent, nonprofit people are not risk-takers, and their unwillingness to think outside very standard parameters constantly amazes me. Quite frankly, we’ve had a lot better luck getting people outside the nonprofit world to understand what we’re doing and feel comfortable with it.”

Tony Wagner concurs. He has been astonished by the resistance he has encountered from both the business community and the nonprofit sector as his nonprofit in Minneapolis, Minnesota, tries to simultaneously create a business and carry out a social mission by employing people who are economically disadvantaged. “I’ve been blown away by the level of misunderstanding and mistrust,” he says. “For all the writing and talking that’s being done about the subject, out there in the world people either don’t get it or don’t want to get it. They say you have to be one or the other.”

Why does this happen? Why is the embedded culture of an organization so often the single greatest obstacle for Board members and senior executives trying to launch earned income strategies or social sector businesses?

Because too many suffer from what **Joel Arthur Barker** calls “paradigm paralysis.” As Barker pointed out in his seminal 1992 book, *Paradigms: The Business of Discovering the Future*, paradigms can be extraordinarily useful. They help us make sense of the world by organizing incoming data streams and sorting them into categories, helping us decide what to think and do. But paradigms can be a double-edged sword. Blinders are slapped into place and we begin to interpret new information according to our pre-conceptions. We become frozen. Change becomes our enemy. Individuals and organizations begin to believe the categories they are using are the only ones available, and they slowly become paralyzed.

Institutional paralysis can be overcome, with a sufficient dose of courage. But occasionally it takes something dramatic. In the mid-1980s, when the Board of Directors of a nonprofit in Louisville, Kentucky, offered **Bob Russell** the job as CEO, he realized the existing make-up of the Board worked against entrepreneurship and agreed to accept the position only if every member of the board resigned. They agreed.

Still another CEO, who ran a sheltered workshop for people who were developmentally disabled, decided to change the basic values of his organization – and in the process invented an entirely new type of business, known today as an “affirmative business.” On a pleasant summer evening in 1973, **John DuRand** invited his 11 senior managers to a downtown hotel in St. Paul, Minnesota, where he wined and dined them, asked them to sit down – and then fired them all. Five minutes later he passed out application forms. “Starting tomorrow,” he said, “we are no longer a rehab agency, we’re a business. Starting tomorrow, we no longer have clients, we have employees. And, starting tomorrow, you are no longer social workers, you are business managers. If you can get your minds and hearts and souls around that concept, I want you back. If you can't, I'll help you find a job somewhere else." Nine of the 11 returned to their jobs. Two could not accept the philosophic shift. But, from that day, the culture of the organization changed and the primary goal became the operation of a viable business.

However, regardless of dramatics, cultural change must be systemic.

The first step usually has to be taken at the Board level. When **Charley Graham** arrived at his new post in Oregon in the early 1980s, he immediately began promoting the idea of a double bottom line. According to his second-in-command, **Roy Soards**, "he told the Board we were never going to be able to employ more people with psychiatric disabilities if we continued operating a sheltered workshop and depending primarily on social service subsidies and charitable giving. He convinced the Board that if we provided quality goods and services, people would buy them and we'd therefore be able to employ even *more* people with disabilities and help them become self-sufficient."

Kevin McDonald, founder of a moving company in North Carolina that employs former convicts, drug addicts and prostitutes, discovered that customers appreciated the change. He built his company primarily through personal selling and word of mouth. "We didn't have a very big staff," he says, "just me and two others, and we didn't have much money for advertising. We were just trying to survive as a program. So, I decided to start hitting the pavement and gave a lot of speeches. Went out to the Junior League, the Kiwanis Club, that sort of thing...and I found out they were tired of people asking for a handout. So I told them, 'I don't want your money...I want your *business...*call us up, let me give you an estimate...*use* our services.'"

Once they begin paying for actual products or services, customers become increasingly demanding, which puts a further strain on an organization's traditional culture. "When we started working with Ben & Jerry's," recalls **Julius Walls**, CEO of Greyston Bakery, which employs former convicts and others with barriers to employment, "they made it very clear that our product (providing brownies and blondies for five Ben & Jerry ice cream flavors) had to always be up to snuff or they wouldn't produce their ice cream with us. They held us accountable as a business and not as their young child. They provided a lot of assistance, but they told us from the beginning that we needed to stand up and be a business, not a sheltered workshop."

When Walls took over the Yonkers, New York, company as CEO, he discovered that the biggest obstacle he faced was helping his employees "understand what we needed to do to be a sustainable model. We had to understand we were a business with a dual bottom line. Most businesses have one bottom line – economic dividends. (At the time) Greyston also had a single bottom line, but it wasn't the economic one. There was a mentality on the part of the employees that came here that if you're really nice we'll figure something out to keep you and it doesn't matter if you're producing or if the business is doing well. But there came a time when the employees and the business needed to understand that that's not a sustainable model."

The cultural transformation can turn into a war. "By the time I got here," remembers Soards, who eventually succeeded Graham as CEO in Oregon, "there was a demilitarized zone between the production people who ran the factory and the rehab people who provided social services. We had two very strong-willed managers and each of them had their own lieutenants and armies." The opposing forces fought over resources and, more fundamentally, they fought for the soul of the organization.

It took years for the culture wars to subside, and "it was pretty ugly at times," says Soards. "The rehab people would sabotage the production people, who often had to rely on the rehab folks for employees. If the production people had a job that had to get done, they were under a lot of pressure, because the rehab people were more concerned about, 'Well, is this the proper training for this individual, they're not ready for work that's too demanding, and why don't you guys find the types of jobs that fit their needs, and no, they can't work after three o'clock because they have to go see their case workers.' We finally had to part ways with the head of the rehab division."

Hiring people from the for-profit world can be another wake-up call. "Everything changed," says **Dave McDonough**, who ran a social enterprise in Los Angeles that employed people who were homeless. "Right off the top, it was just the way the new people walked and talked and dressed and approached their day. It was a big shock to the rest of us."

Making the transition from innovation to entrepreneurship is fraught with dangers. Years ago, **Pablo Eisenberg**, Founder and Chairman Emeritus of the National Committee for Responsive Philanthropy, wrote that "far too many charities have...forgotten the distinction between for-profit and non-profit activities, between fulfilling a mission and survival at any cost....The appeal of non-profit organizations is their commitment to public service...it is not as a shadow private sector."

But, according to **Kenneth Mason**, the former Chairman of Quaker Oats, "making a profit is no more the purpose of a corporation than getting enough to eat is the purpose of life. Getting enough to eat is a *requirement* of life. Life's purpose, one would hope, is something broader and more challenging. Likewise with business and profit."

And nonprofit executive **Robert Harrington** may have put it most succinctly, and in terms social entrepreneurs would resoundingly endorse: "If you want to help the poor people of the world," he said, "step one is to make sure you're not one of them!"