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A Key Lesson Business Can Teach Charities

By Jerr Boschee

The woman advancing from the back of the room was irate. She wended her way through the tables, strode to the front, and slapped a legal pad onto the table next to me. Then she stalked out — not 30 minutes after the start of my seminar about nonprofit organizations that create business ventures to advance their social missions.

I picked up the note she had scribbled in huge black letters and read it to the 40 other nonprofit chief executives in attendance: "This," she had written, "is the most evil thing I've ever heard!"

Her reaction did not surprise me. Despite growing support for social enterprise, many nonprofit leaders are still suspicious when the conversation turns to business ventures designed to meet social needs.

In one venue after another — annual training conferences for nonprofit associations, private sessions with foundation executives and wealthy donors, faculty meetings at major universities, late-night coffee with executive directors — there lurks a fundamental distrust of the profit motive. Nonprofit board members, executives, and grant makers give it lip service when they talk about sustainability, self-sufficiency, and social goals, but their comfort level dissipates in direct proportion to how profitable the venture becomes.

What they forget is this: Social enterprise isn't new. The nonprofit world began to embrace the idea about 10 years ago. However, with a few notable exceptions, most social enterprises that emerged before the mid-1990s came from the business world — and the lessons they can teach are invisible to nonprofit leaders who ignore them because they think business approaches are illegitimate or dangerous.

An explosion of activity took place across the United States during the 1970s and 1980s as entrepreneurs, small businesses, and major corporations discovered social markets and started social enterprises. They began to run adult day-care centers; educational programs for small children, high-school dropouts, and adult students; low-cost-housing projects, vocational training and job-placement efforts; home-care services for the disabled and elderly, hospice care, and outpatient mental-health and rehabilitation services; prisons; wind farms; psychiatric and substance-abuse centers; and dozens of other businesses that deliver products and services previously provided by nonprofit groups or government agencies.

How did most people in the nonprofit world react?

They were appalled, affronted by the thought of "making money" while delivering social services and blind to the financial pressures that would gradually erode nonprofit reserves and force them to seek new sources of revenue to finance their programs. For the most part, nonprofit organizations remained frozen for nearly 30 years while businesses cherry-picked the most attractive market opportunities.

Bill Norris, founder of Control Data Corporation, invented social enterprise when his Fortune 100 company responded to the torching of America's cities during the inner-city riots of 1967. Mr. Norris immediately built plants in five inner cities and two depressed rural communities — and then proclaimed his company's new strategy would be "to address the major unmet needs of society as profitable business opportunities."

His company began to use its expertise in computing services to revitalize urban and rural neighborhoods, incubate small businesses, promote alternative energy sources, create jobs, deliver education, and respond to other social needs.

During the next two decades, Control Data's example prompted other companies to follow its lead, and, in 1982, the management expert Peter Drucker and the economist John Kenneth Galbraith, as well as more than 250 chief executives from around the world, joined Mr. Norris in Minneapolis at an international conference to promote the concept.

Mr. Drucker spoke about simultaneously "doing good and doing well," Mr. Galbraith debunked the business bromide that "our social responsibility begins and ends at the bottom line," and Mr. Norris repeated the message he had been trumpeting for years: The transformative power of business, he told his colleagues, is the ability to merge two often opposing forces — the profit motive and moral imperatives.

Mr. Norris and his admirers were creating something new, something the business world had never seen. Their social enterprises went beyond the traditional concept of corporate social responsibility by directly confronting social needs through the businesses themselves rather than simply grappling with them indirectly through socially responsible business activities such as practicing corporate philanthropy, paying equitable wages, and using environmentally friendly raw materials.

But it took nearly a generation before most people in the nonprofit arena grasped the power of the social markets. Once they did, in the mid-1990s, nonprofit groups around the world began to enhance their sustainability by adding business activities to the traditional stew of volunteers, charitable donations, and government subsidies.

A few abandoned dependency on donors and government subsidies entirely, achieving self-sufficiency by focusing exclusively on earnings from their businesses. Today, international conferences in the United States, the United Kingdom, and elsewhere annually tout the benefits of social enterprise; dozens of academic institutions have started certificate and degree programs; and the subject appears everywhere in the news media.

Yet most nonprofit leaders persist in believing that social enterprise is a nonprofit invention and zealously guard against the "dangers" of the profit motive. They still discount the ever-swelling ranks of social enterprises spawned by the business world — and ignore two other important trends as well:

- The conversion to for-profit legal status by social enterprises that begin life as nonprofit programs. For example, Vitas Innovative Hospice Care, founded in 1978 with one patient in the basement of a Miami church, by 2007 had become a $699-million business that serves more than 11,000 people each day in 16 states; and Missouri Home Care, which began in 1975 as a one-person nonprofit organization, today provides nonmedical care in the home to more than 2,500 frail elderly people in 41 rural counties while simultaneously making a profit and providing second incomes to farm spouses who act as home-care aides.

- The proliferation of social enterprises that begin life as nonprofit organizations and stay that way, but in every other respect operate as for-profit businesses because they no longer rely on philanthropy or government subsidies. These chameleons include such stalwarts as Pioneer Human Services, in Seattle, Minnesota Diversified Industries, in St. Paul, and the Delancey Street Foundation, in San Francisco — all multimillion-dollar entities that operate entirely in the marketplace.

There must be some reason the entrepreneurs who run these businesses — and hundreds of others like them — have chosen the profit motive as the best way to expand their social enterprises and benefit more people. Yet many nonprofit leaders continue to be skeptical about pursuing social goals and financial self-sufficiency simultaneously. The critics say it cannot be done and the skeptics say it should not — and both leap at every failed venture to support their views.

But let's be clear:

- Most social enterprises will fail — just as most small businesses fail. This is tough stuff, and there's no more cold-blooded animal in the world than the market, especially for entrepreneurs attempting to operate with two bottom lines.

- Most nonprofit groups should never try to start a social enterprise — they do not have the skills, the resources, or the appropriate mind-set. They are much better served by diversifying their revenue to include contributions from private sources and government subsidies, as well as revenue from the sales of products or services.

- Some social enterprises will disappoint, either lured into an earnings war that takes them far from their social mission or tilting so much toward mission they cannot sustain themselves financially.

None of these facts argues against social enterprise *per se*. Failure is part of the game. But some groups will thrive and become role models and mentors for others, including nonprofit leaders seeking new ways to further their missions.

But only if they pay attention.

There are lessons to be learned (positive and negative), road maps to follow, social investors in the wings. Yet most charitable groups are still encased in an ancient mind-set. Entrepreneurs seeking profits have a higher tolerance for risk, a greater appreciation of margins, and an eagerness to compete — but most nonprofit leaders continue to distrust the capital markets, prefer collaboration to competition, and underestimate the assets of their organizations.

Migrating from a nonprofit to a social-enterprise mentality isn't easy. It requires vision, courage, and determination — and often a complete change in organizational culture. But it can be done — in part by shedding the profit phobia and taking a closer look at what's been happening in the business world. What has worked? What has not?

The social markets began calling 40 years ago. Entrepreneurs, small businesses, and big companies listened — but nonprofit groups, with a few exceptions, did not. It's time they did — and learned from those who have gone before.

Jerr Boschee is founder and executive director of the Institute for Social Entrepreneurs, and visiting professor of the practice in social enterprise at Carnegie Mellon University. He is the author of Migrating From Innovation To Entrepreneurship: How Nonprofits Are Moving Toward Sustainability and Self-Sufficiency *(Encore! Press).*