CENTURY SERVICES:
Year I Evaluation Report on the Social Business Enterprise Model

A Mid-America Institute on Poverty
Evaluation Report

January 2001

HEARTLAND ALLIANCE

Providing paths from harm to hope since 1888

Mid-America Institute on Poverty

Heartland Alliance's Mid-America Institute on Poverty (MAIP) serves as a catalyst for the amelioration and eradication of poverty and disadvantage. The Institute prioritizes improving access to quality and affordable health care, housing and human services as a means of promoting human rights.

MAIP's strategies are rooted in:

- Stakeholder involvement in problem identification and the development and implementation of solutions;
- Practice-based research and action-oriented analysis and policy development;
- Diverse collaborations and partnerships to provide full information, a variety of perspectives and whenever possible, consensus implementation;
- Evaluation toward ever-more effective services and policies; and
- Heartland Alliance's mission of providing for the human needs and advancing the human rights of impoverished, endangered and isolated populations (particularly the very poor, the homeless, and new immigrants).

Acknowledgments

Primary Author and Project Manager:
Amy Rynell, Senior Policy Analyst, Mid-America Institute on Poverty

Contributing Authors
Paul Makarewicz, Mid-America Institute on Poverty

Peter Huffaker, former general manager, Century Services
Portions of this report are taken from (with the author's permission) the Century Services Business Plan.

Project Sponsor
Funding for this project was generously provided by the John D. and Catherine T. MacArthur Foundation.

Evaluation Overview

The Mid-America Institute on Poverty is conducting a three year (12/30/1999 – 12/30/2002) evaluation of Century Services employment activities and social business enterprise model. The goals of the evaluation are to provide:

1. a clear understanding of the social business enterprise partnership model,
2. real time information on the enterprise's impact on employees so that management may make adjustments in implementation as necessary, and
3. outcomes-based understanding of the Century Services model as an intervention designed to improve the attitude of employees toward work, help employees develop work skills, and increase the labor force attachment of hard to employ persons.

This year I evaluation report includes an in-depth literature review of the social business enterprise model, a description of Century Services program model and operations, and documentation of the initial implementation of the model. This report addresses three questions: what are the common components of other social business enterprises and the configuration of Century Services model in particular, what issues have arisen in the implementation of this social mission and business plan and what adaptations have been made, and what are the costs associated with the social elements of the mission and business plan? Information for this report was collected from four sources: literature on social enterprises, the Century Services Business Plan, in-depth interviews with Century Services management, and observations of some meetings and business operations. This report covers the start-up of the enterprise as well as year one of operations, from December 1999 through June 2000.

Century Services Background

Century Services is a nonprofit owned building services business with the dual goal of promoting workforce development by operating as a financially self-sustaining business enterprise. It is a business unit of Century Place Development Corp., which is a partner of Heartland Alliance for Human Needs & Human Rights. Heartland Alliance was founded in 1888 and for the last 100 years it has worked to improve the quality of urban life with a priority on those displaced and affected by poverty. The business is also a collaborator with Service Master, a $5.6 billion commercial and residential services firm and a leader in the building services industry.

Century Services' business goal is to be a comprehensive provider of building services including cleaning services, maintenance, and facilities management. Its mission is to satisfy their customers' needs through quality, cost-effective building services, to develop high quality workers through continuous training and supportive supervision and to profitably provide opportunities for economic development to the many potential employees accessible through Heartland Alliance.

Century Services also has the goal of helping individuals transition out of poverty and into living wage careers. The intent was to accomplish this objective using a supported work/social enterprise approach. A social enterprise, as adopted by Century Service, is a business founded by a non-profit to create jobs and training opportunities for very low-income individuals, while simultaneously working towards the goal of becoming financially self-sustaining. Supported work indicates a 'work experience…provided in an atmosphere intended to be more supportive and closely supervised than is normally the case for jobs at the lower end of the labor market. Such an atmosphere would be… conducive to the acquisition of skills, habits and credentials that facilitate transition to continued employment' (Hollister et al, 1984). The specific Century Services approach to combining these models will be discussed at length later in this report.

Introduction

We conducted an extensive literature review in order to the address the question: what are the common components of other social business enterprises? Since the field of social entrepreneurship is a relatively new field, we decided to include an annotated bibliography (see Appendix 1) as part of the report to provide the most information possible. The annotated bibliography provides detail into this emerging field and it's intricacies. Without going into great detail here, there are some emerging opinions and major trends in this literature that set a foundation for this report.

First, the terminology is not consistent. Different terms are used to refer to essentially similar concepts. Social enterprise, social purpose business, non-profit enterprise, social or non-profit venture are all terms used to 'describe a blending of business and traditional social service that attempts to use the best of both models for the benefit of clients' (McLaughlin, 1999). Another article defines it as a revenue-generating venture founded to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom line (Emerson, 1996).

Secondly, nonprofits are increasingly adopting entrepreneurial strategies. Many examples of non-profit social enterprises are given. The most common reason for starting up a for-profit enterprise within a non-profit setting is to generate revenue through earned income (diversify revenue base) and become more financially self-sufficient.

Thirdly, the options non-profits have when considering the development of a social enterprise fall along a spectrum ranging from pure business/commercial methods, motives and goals to pure social purpose/philanthropic methods, motives and goals (Dees, 1998, Emerson, 1998). Non-profits need to determine carefully where they fall on this spectrum and then plan and manage accordingly (Emerson, 1998).

The literature also suggests that a successful social enterprise will contain a variety of components including:

- Commitment to balancing a sometimes conflicting dual mission: social and business
- A focus on the non-profit's core competencies and client base
- Access to resources/capital
- Access to expert advice/good advisors/partnerships
- Flexibility, especially in terms of risk taking
- A champion/passionate leader of the venture
- Solid market analysis

Finally, social-purpose businesses need more and better ways of raising capital, especially equity. Funders need more expertise to be effective long-term investors (Emerson, 1998). Non-profits need to understand that there is a growth curve, that they are building a business just like any other small-business person does, and that it takes years. Non-profits must secure the long term 'resources, expert advice, and partnerships they need' to make the business a success. (Fromartz, 1990).

History of Century Services

Century Services is a business unit of Century Place Development Corp. (CPDC), which is the housing partner of Heartland Alliance for Human Needs & Human Rights, an anti-poverty, human rights organization providing housing, health care and human services to impoverished people. CPDC is a housing development corporation that has developed more than 1,000 units of housing and currently manages more than 600 units of affordable and supportive housing for impoverished Chicagoans. In 1998, CPDC and Heartland Alliance identified employment as a strategic issue for the agency, specifically in terms of preparation of Heartland Alliance program participants and residents for employment. Another strategic issue being explored at the same time was Heartland Alliance's asset base. It had significantly increased over past five years due to ownership of buildings and a plan was needed to better maintain these assets.

Through a relationship of board member, ServiceMaster was approached to begin discussions regarding asset management for Heartland Alliance. After assessing Heartland Alliance's needs, it was determined that the cost of ServiceMaster's assistance with asset management was prohibitive for CPDC. But other avenues for collaboration arose as options, specifically in the employment arena that had been identified as a strategic issue. ServiceMaster was involved in other similar collaborations and it was determined to be a good fit for Heartland Alliance so a three year contract was established between them to work on Century Services. Century Services was then established as a nonprofit owned building services business with the dual goal of promoting workforce development by operating as a financially self-sustaining business enterprise.

Implementation Analysis

In documenting the implementation of this enterprise, we took the approach of comparing the business plan with reality. In the following pages, headers that begin with ***initial*** indicate components that were included in the business plan or that were reported through interviews with the general manager and executive officer.

Social Mission

Initial Components of this Social Business Enterprise

In terms of social mission, Century Services was established to be a nonprofit, self-sustaining business with the goal of helping individual's transition out of poverty and into living wage careers. The supported work, social enterprise approach was selected as an intervention to accomplish this goal. The Century Services social enterprise is intended to create an environment where individuals can find economic opportunity, training for career advancement, and a source of strength to face and tackle other issues.

A social enterprise as adopted by Century Services and mentioned above is 'a revenue generating venture founded to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom-line' (Emerson, 1996). Supported work indicates a 'work experience…provided in an atmosphere intended to be more supportive and closely supervised than is normally the case for jobs at the lower end of the labor market. Such an atmosphere would be… conducive to the acquisition of skills, habits and credentials that facilitate transition to continued employment' (Hollister, Kemper, and Maynard, 1984). This model was devised with the goal of hiring low-income, hard to employ individuals. There are six key components of the social enterprise/supported work approach that were initially intended to provide a framework for the enterprise in supporting these employees: graduated stress, close supervision, peer support, social supports, skill development, and a long-term commitment.

Supported work programs meet people where they are at in terms of ability and give them a level of responsibility they can handle. The plan was for employees of Century Services to be rewarded for their small successes and then given slightly higher levels of responsibility to stretch their capabilities. Rewards, responsibility and capabilities all increase together until an individual is fully attached to the labor market and confident in his or her own ability to succeed. This process is called *graduated stress*. It allows people to be constantly challenged, but not overwhelmed. To manage the process of graduated stress, supported work programs use *close supervision* to ensure that workloads and training are individualized. Supervisors play the role of teacher, troubleshooter and role model. In addition, workers are organized into teams and techniques of *peer support* are used. Working with people who have similar backgrounds, individuals may not feel isolated or stigmatized. Workers are able to develop new personal networks within a supportive environment.

Traditional supported work programs include these three components and are subsidized. Century Services model differs from this as it has a goal of becoming financially self-sufficient and it will incorporate three additional components. Its start up was subsidized but the goal is for ongoing operations to be paid for from earned income. *Social supports*, *skill development*, and a *long-term commitment* to employees will compliment the three supported work components.

Through Century Place Development Corp. (CPDC) and its partners (Chicago Connections and Chicago Health Outreach) employees of Century Services will have access to a broad range of *social supports*. Many of the employees will be residents of CPDC housing ensuring that they have safe and stable housing – often the first step toward self-sufficiency. Caseworkers and employment specialists from the partner programs will help to support the employees and, in conjunction with Century Services' supervisors, help to problem solve whatever issues arise. For example, a caseworker might find childcare for an employee or an employment specialist might arrange for transportation. If a worker has family or personal problems, such as substance abuse, caseworkers will be able to refer them to treatment and follow-up with the employee and supervisor. The triad of caseworkers, employment specialists and supervisors provide a supportive and coordinated network that will improve the success of Century Services employees.

Century Service' training is designed to have two *skill development* components: soft skills and hard skills. Soft skills consist of the subtle and not so subtle knowledge of how to find and keep a job. They include how to interact with supervisors, coworkers and customers. Norms about showing up to work on time, regulating breaks and general work place behavior are also included. While these things can be taught in a classroom setting, they are mostly learned through experience. Workers will be reminded of these expectations during training sessions and encouraged to adopt the behaviors through supportive supervision. Hard skills consist of the technical knowledge one needs to complete the job. They might mean knowing what finish to use on which floor type, how to organize work duties, or a thorough understanding of a building's infrastructure. A knowledgeable workforce is essential to Century Service's success and time will be spent to advance worker skill levels both through classroom training and on the job training. These components of skill development are a central part of operations and will help give Century Services a competitive advantage.

Century Services *long-term commitment* to the development of its employees is the final, but perhaps the most important component of the program. The challenge is to build the employability of the employees to a level where they will not likely return to a state of poverty. For many, meeting this goal will require an extended period of time, perhaps many years. Those who are recovering from substance abuse or other serious problems may require even longer before reaching this goal. Century Services will not be a time-limited program. It is anticipated that after one or two years most participants will move onto other jobs, while others will move up to become team leaders or obtain higher skilled jobs within the company. However, those who require multi-year supports will be able to continue working for Century Services, and will continue the slow process of career development. Century Services' mission centers on encouraging people to develop personally and professionally. As long as individuals employed within the company continue along the path of development, then its social mission is being fulfilled.

Discussion of how this model actually played out in implementation will follow the next four sections on the business operations and employee recruitment, screening and orientation as these areas impacted how the model developed.

Implementation of this Initial Model

It has been difficult for Century Services to provide *graduated stress* experiences for workers. A mechanism has not yet been established to properly structure the work so as to provide employees with the increasing challenges of a graduated stress process. Century Services has had to focus more on getting the places clean – i.e. meeting contractual agreements. Also, it has been hard just getting people to come to work at their scheduled time and to do their scheduled duties. From the General Manager's perspective, it has not seemed like a good idea to change job duties in terms of gradually increasing responsibility given the above setbacks.

The provision of *close supervision* has not yet been successful. This is due to many factors. First, it is due to the quality of supervisors in the operations. They had not been deemed capable by the General Manager of providing this. Secondly, it has not become clear in the Century Services context exactly what close supervision entails and how to define it. But the primary reason close supervision was not implemented was the scattered structure of the operations makes it difficult to implement close supervision. The work sites are across the city and most are small, often requiring only one or two workers. Some sites are visited once a week for only a few hours. The additional travel costs that would be incurred by a supervisor attempting to support the worker at the sites is prohibitive and there would need to be a higher supervisor to employee ratio, which has also been cost prohibitive.

The development of *peer support* through a team approach has not reached its full potential, again partly due to the scattered nature of the sites and the small employee base. The team issue was incorporated within the quality improvement process, but it has not reached its full potential since many employees are working on their own at sites. Consideration has been given to establishing a mentoring system so that workers might call their contact at least once a day.

Regarding *social supports*, Century Services provided social service supports through linkages with case managers but the costs of their assistance is not covered within the Century Services budget. The results of the case management efforts indicated limited positive outcomes on employee performance. The relationship of the general manager with the case managers has been primarily an informal one, although it could become more formalized. The Century Services employees are told that the referring case managers do provide information during the recruiting process – i.e. they are used as a job reference. The case managers may or may not follow-up with Century Services to see how their particular clients are doing. In some instances, the case manager follow-up with the client and the Century Services general manager has been necessary. In such cases, approval is first sought from the client to share information between the case manager and the Century Services general manager. There is no formal mechanism yet for the release of employee information to the case manager though this is being developed.

One specific case involved an employee whose job performance declined noticeably. After consultation with this employee's case manager it was determined that the employee appeared to be struggling with substance use. An intervention was planned and implemented by a team consisting of the case manager, the property manager, and the Century Services general manager. The employee was given a leave of absence to participate in a treatment program. The employee did not follow through. The lack of success with this intervention could be due to many things including:

- It is uncertain whether treatment was available at the time
- It is uncertain the employee was committed to entering treatment

In the end, the employee did not attend treatment, and returned to work but was eventually let go for non-performance of duties. It was decided that Century Services was enabling him in his substance use by allowing him to keep his job and steady income.

Skill development was originally intended to focus on hard and soft skills. Only the hard skill, technical training was provided for a few months in the form of on the job training by the general manager. This training ended due to a shortage of resources, including the need for the general manager to focus his time on other priorities of implementation and the lack of money to hire an alternative trainer. Improved skill levels were noted in the employees who participated in training.

Currently there is technical training and safety training offered to the employees. The technical training involves skill development for the maintenance tasks (e.g. use of a buffer, floor stripping, floor finishing, etc.). The safety training is provided through a ServiceMaster curriculum.

In the opinion of the general manager, the ideal ongoing training plan if adequate resources could be secured would include one of the following scheduling options: one day of training a month (eight hours),or a half day every other week (residential teams), or two hours per week. The scheduling decision would have to be based on the types of contracts the business has at anyone time. New employee training should cover the following areas within eight hours:

- General logistics, policies/procedures, times sheets
- Safety orientation (1 hour module)
- Basic cleaning (1 hour module)
- Soft skill training
- Customer service

The *long-term commitment* of the program support for employees has worked for some employees and not for others. There has been a high rate of turnover of employees within the first year. For those employees who have stayed on longer, the long-term commitment of the program has been viewed as a long-term employment opportunity rather than a long-term job training or social service program.

There have been various levels of success achieved in regard to implementation of the six key components of the initial Century Services model. The components of the supported work model have been minimally implemented, with the greatest progress being made in the area of peer support. More resources and a stabilization of business operations are necessary to provide more of the supportive work model. In addition, relationships with Heartland Alliance case managers and employment specialists could be formalized in order to provide greater continuity and enhanced support for the employees. It is anticipated that financial resources via grants will be needed for 3-5 years to support the process. At this point, the focus is still on developing more effective operations, which precedes the development of a truly "supported" work environment.

Initial Process of Employee Recruitment, Screening and Orientation

When job openings become available, initially notices were sent to employment specialists and property managers within the social service programs of Heartland Alliance and CPDC. The various employment specialists and property managers then conduct initial screenings and refer workers to the general manager of Century Services.

New employees will be hired as trainees and work their way, over a period of six months to a year, to the position of regular employee. The initial orientation to the business will be very short – one or two days. Afterwards they will be placed on a work crew to be trained on the job. The team leader will be given special responsibilities to mentor the trainees and in return will receive slightly higher pay. The operations director (or once at a larger scale, a supervisor) will be responsible for additional training of the new worker. Finally, the trainee will attend regular training along with his or her entire team. The trainee will be evaluated every thirty days and given a raise depending on performance. After a period of six months to a year (depending on performance), the trainee will be promoted to the level of a regular employee and be paid a minimum of $7.60 per hour.

Regular employees will have the opportunity to attend frequent trainings to improve upon and grow their skills. Soft-skill training will be a regular part of nearly every training session. Promising employees will also be mentored for team leaders and then supervisory positions. To ensure that supervisors have the necessary skills to help trainees develop into productive workers, supervisors will attend special trainings. These trainings will steep the supervisors in the concept of 'supportive supervision' and give them concrete actions they can implement to encourage the development of workers. Given the importance of good supervisors to both the business and social success of Century Services, funds have been included in the budget to hire a consultant to develop and teach a supportive supervision curriculum.

Implementation of Initial Employee Recruitment, Screening & Orientation Process

It has been difficult for Century Service to find workers who are job ready especially in terms of soft skills (attitude, timelessness, conflict resolution skills) and have the physical stamina for the job, and to retain workers. Century Services did have some success in recruiting employees from the target population of Heartland Alliance program participants. Nine of 16 current employees came out of referrals from employment specialists within Heartland Alliance. Also, in April 1999, Century Services took over maintenance in all of Century Place Development Corp's buildings and hired the current building staff.

Wage levels may have had a small effect on Century Services' recruitment efforts. The wages paid to the employees are middle of the road in terms of wages for janitorial workers.

Century Services was unable to provide appropriate supervision to its employees. This is primarily due to difficulty in finding the proper operations supervisor. Three different supervisors have been hired. Details on this can be found in the *Personnel* section below. An additional difficulty, as mentioned earlier, is it is nearly impossible to provide close supervision of workers in small, scattered job sites. Finally, for the employees who were initially hired by CPDC and then transferred to Century Services, there were not clear lines of supervisory accountability. While working for CPDC they reported to the property managers but with the shift to Century Services they reported to the Operations Supervisor. Under this arrangement, the property managers often had a higher level of interaction with the employees as well as first hand experience with the quality of their work. The employees were not clear enough about whom to report to. As supervision is key to the success of fulfilling the social mission, this lack of adequate and intensive supervision greatly hindered employee retention.

A shift in the operational structure has led to phasing out the operations supervisor role and transferring responsibility to two team leaders. Employee recruitment has become a key operational issue for Century Services now that there are strong team leaders.

The original goal was to have a mix of "less than job ready" and "job ready" candidates and a ratio of this was calculated. But the employee pre-hire skill level had to be raised due to the unstable operations, the difficulty of the jobs themselves, the small scattered job sites, and the proper skills needed for building maintenance work. The current focus is now on job ready individuals who are lower income and may be deemed hard to employ. The skill level will continue to remain high until the business operations are stronger.

Another operational issue related to employees is the need to have an employee pool ready to start at a moment's notice if a contract goes through. Century Services has not figured out how to find, screen and keep people available but not yet hired to start at any time.

There was high employee turnover during year one of operations. This turnover was primarily due to terminations. Reasons for termination of employees were mostly due to job performance issues often related to improper work attitude. That is, they were unresponsive to their supervisor and to the customers. Termination was not due to any gross misconduct issues, though there have been allegations of this. One team in particular experienced so much turnover that new employees to the team were then hired as temporary employees with the potential to become permanent after a period of time on the job.

The employee numbers within the enterprise are also lower than expected. The anticipated numbers were based on the initial revenue projections.

As seen above, Century Services has faced many obstacles to recruiting, hiring and retaining employees in year I. Most of these obstacles are common to a new business, with the added charge of hiring people deemed 'hard to employ'. By strengthening it's recruitment and hiring process in conjunction with stabilizing operations, many of this issues will dissipate in year II.

Business Mission

Initial Business Operations Model

Century Services' business goal is to be a comprehensive provider of building services including cleaning services, maintenance, and facilities management. Its mission is to satisfy their customers' needs through quality, cost-effective building services, to develop high quality workers through continuous training and supportive supervision and to profitably provide opportunities for economic development to the many potential employees accessible through Heartland Alliance.

Century Services' strategy for entering the market and establishing a solid track record draws upon three particular strengths: the internal market at Heartland Alliance, extensive industry contacts through Heartland Alliance business relationships and boards of directors, and Century Services' social mission.

The Century Services marketing message is designed to demonstrate that it is competent to deliver quality building services based on its access to a ready labor force, training of the employees, and advanced systems and procedures adopted from ServiceMaster. ServiceMaster serves as something of a guarantee for customers given that they are the largest cleaning services firm in the country and have a well-established track record.

This message will be used to gain business services contracts first in the residential market and then within a few years in the office market. Contracts will be completed by a team of Century Services employees that will be supervised and run by an operations supervisor and comprised of a mix of "less than job ready" and "job ready" candidates. The general manager will supervise the operations supervisor.

A business advisory board was developed to oversee and guide the enterprise. This board consists of Heartland Alliance board members as well as some outside representatives. The members are called on to assist in sharpening the general manager's analysis of the enterprise.

For more detail on the initial business enterprise model, operations model and marketing strategy see the Century Services Business Plan.

Implementation of the Initial Business Operations Model

The sales model has been fully developed during year one of implementation. Century Services has secured its first outside contracts using the model. One of the advantages of Century Services is its extensive contracts through Heartland Alliance. All of the sales opportunities have been developed through networking these contacts. Currently the sales cycle consists of a long period of networking followed by a quick turnaround in proposals and the start of operations. It is anticipated that the success of the sales efforts will increase over time with the length and success of Century Services track record. Instead of sticking strictly with the residential market in year one of operations, Century Services branched out to the office market earlier than expected in an effort to increase revenues and because the board had stronger contacts in that market.

Service Provision
Century Services tried to develop two distinct service lines: residential building maintenance and commercial cleaning. This became a struggle in year one. These two services require different types of operations, skill sets and infrastructure. The residential building maintenance is the more complicated of the two. Century Services took over maintenance in all of Century Place Development Corp's buildings. In addition, Century Services also provides front desk service in one of the apartment buildings. (Their job is to monitor entranceways, contact maintenance in case of emergency, ensure that guests sign-in, and ensure that other building rules are followed.) The commercial cleaning side of the business, by contrast, was entirely developed through outside contracts. This diversification of service provision may have been too ambitious in the first year of operations.

Contracts
Although not as strong as originally projected, Century Services growth was quite significant during its first year. This growth has occurred primarily with small contracts. At the end of year one, Century Services was contracted to service 275,000 square feet. The small work sites are across the city and often require only one or two workers. Some sites are visited once a week for only a few hours.

It is anticipated that these small contracts are a good place to establish a track record to leverage in seeking larger contracts. In order to continue expanding small contracts, Century Services will have to make use of more part-time, higher functioning employees than originally intended since they often will not have close supervision.

Regarding the attainment of large contracts, labor unions have posed a barrier to entry. Unions in this industry were not initially viewed as large as they actually were (in terms of influence over the industry) and probably not an issue that would affect the enterprise for around three years. The United Auto Workers (UAW) organizes for Heartland Alliance, but most janitorial contracts in the city are with Service Employees International Union (SEIU). SEIU has contracts with many buildings that stipulate that they hire only SEIU workers, thus it has been difficult for Century Services to get the contracts that are unionized. This leaves a smaller market in which to compete for the non-union workers building contracts. Consideration has been given to negotiating with the UAW to allow the Century Services workers join the SEIU. This would widen the market for contracts.

In addition, the operational systems are not up to adequate capacity to handle a large contract. Various systems have been initially realized but require further development, such as: supply, personnel, quality control, and training. Century Services has not yet determined the incremental growth needs of the systems. Payroll and accounting systems are handled by Heartland Alliance, a partner agency. These systems have been inflexible to the business needs and have caused unnecessary delays and time expenditures.

Finally, without a track record, it was virtually impossible to secure a larger contract.

Business Advisory Board
The board was very helpful in opening doors within the market, but not very helpful on closing the deal. They were a key piece of the sales and networking strategy. This body was also good for vetting the business plan. They gave extensive feedback on the as well as contracts. There is a need

in this group for more people with industry specific expertise and contacts. More small business representation would also be helpful.

Personnel
Initially, the organizational structure of Century Services had work teams that were to be comprised of a mix of "less than job ready" and "job ready" employees and supervised and run by an operations supervisor, who was in turn supervised by the general manager. Oversight for the business would be done by the executive officer of CPDC. Determination of the staffing mix proved to be a huge operational challenge as the number of small contracts increased. The foremost challenge faced by Century Services in year one of operations however, was locating an operations supervisor capable of helping the business develop. One supervisor was hired through a general hiring process but was fired soon thereafter. Another was hired through the partnership with ServiceMaster. He was hired under the premise that they had industry expertise and could manage employees and worksites. Neither supervisor worked out.

The general manager did not have enough operational expertise to totally manage this area, though he spent much of his time doing so. The general managers time allocation was 60 percent spent on operations, 20 percent on sales, and 20 percent on non-Century Services activities. Initially the ratio goal was anticipated to be 75 percent operations and 25 percent sales in year one of operations. Given the unanticipated problem in securing a suitable operations supervisor, the general manager thinks the plan should have been to spend 100 percent of his time on operations within the first six months, then shifting some of the time to sales (30%), then moving back to a 50/50 mix between operations and sales.

After extensive interviews for a third supervisor failed, a decision was made to reorganize. See Figure 1. The operations supervisor position was eliminated and two team leader positions were added. One team leader would be the maintenance supervisor for residential maintenance contracts, and the other would be the maintenance supervisor for commercial cleaning contracts. They report directly to the general manager. The job titles at Century Services are:

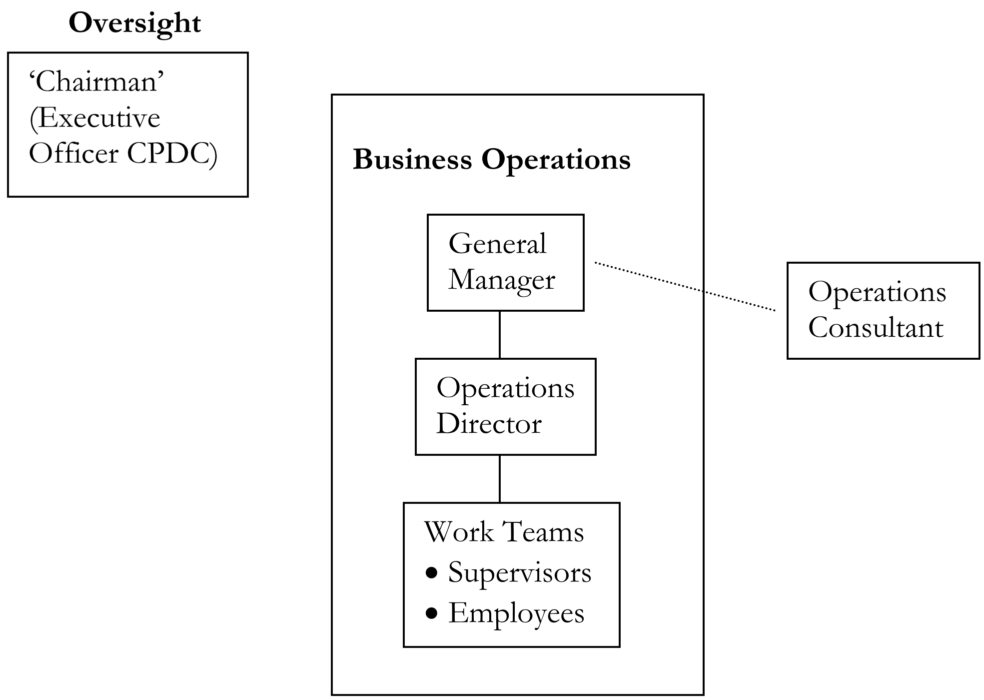
- General Manager (1)
- Maintenance supervisor (2)
- Maintenance worker (3)
- Environmental control technician (5)
- Front Desk Clerks (6)

The current supervision ratio varies across the teams. The current ratio is low (Team I=1:4; Team II=1:2) mostly due to the need to grow capacity rather than to the commitment to the social mission. Century Services has not figured out the saturation level for supervisors.

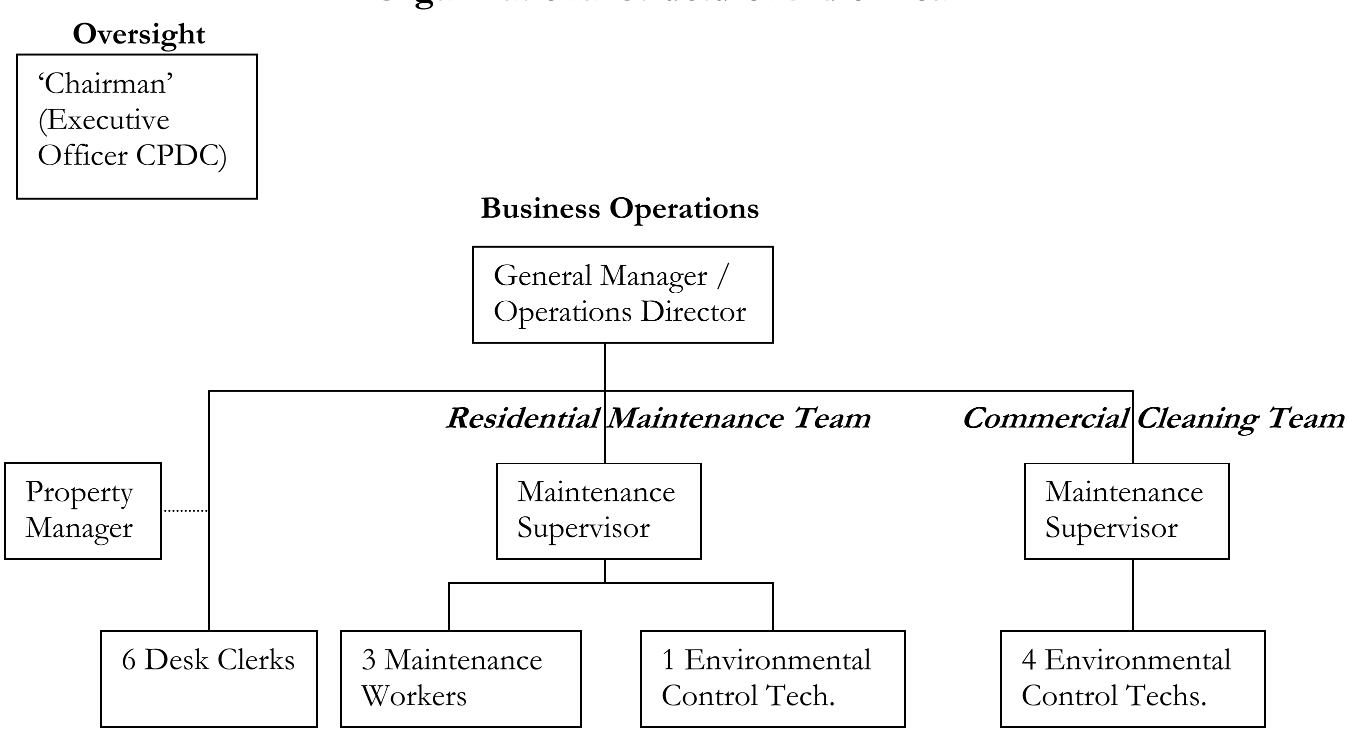
In terms of business oversight, the executive officer could not dedicate much of his time to this as he other many other job duties including starting new programs, developing housing and strategic planning. The general manager ended up shouldering some of the executive officers' duties, which, coupled with other responsibilities, spread him too thin. If this enterprise had occurred in the for-profit world, he and the general manager would have been able to dedicate more of their time uninterrupted to it.

Figure 1

Planned Organizational Structure



Organizational Structure End of Year I



Collaborations
Century Services had two collaborators: ServiceMaster and Heartland Alliance. As was mentioned earlier, ServiceMaster is a $5.6 billion commercial and residential services firm and a leader in the building services industry. ServiceMaster has no ownership interest in Century Services, and the collaboration is structured as a management services agreement with an incentive payment structure for ServiceMaster. It was initially intended that ServiceMaster would serve as a consultant/advisor, providing technical assistance and proposal assistance to the enterprise. Century Services also anticipated that the collaboration with ServiceMaster would give the new business credibility when applying for contracts.

The goals of the collaboration and of enterprise shifted many times in the early stages. Century Services struggled in its determination of what kind of business it would be, which in turn changed its expectations of ServiceMaster. The initial idea was to launch an internal asset management program that would include development of a preventative maintenance schedule, a safety checklist and an assessment of liability risk. This internal maintenance program expanded to a business that would also seek outside contracts. Finally, at each stage different conceptions of employee training were discussed.

The primary idea in partnering with ServiceMaster was for Century Services to be able to adopt a ready made operational model for building services developed by ServiceMaster. The advantage of using a franchise-type relationship in general is that without this knowledge sharing, a new business can spend an incredible amount of time and resources developing an operational model that works and is profitable. The task for Century Services was even more difficult because of the lack of experience in building services.

Adoption of ServiceMaster's model did not turn out to be a realistic goal for Century Services as it sought outside contracts because ServiceMaster does not have a specified operational model for servicing small and medium size apartment buildings, which ended up being the bulk of Century Services contracts. They specialize and excel in much larger settings. Nor did they have a franchise style operational model for the commercial cleaning side. Century Services realized that it needed to develop its own operational model. The expectations from the collaboration with ServiceMaster then shifted to consultation on the development of a specialized operations and business model. At the end of Year I this was still taking place as this type of development takes time and patience and intensive consultation.

A final shift in expectation occurred when Century Services hired an operations supervisor from ServiceMaster as another attempt to capture their operational expertise. The goal was to hire someone capable of managing the operations, while the general manager developed an original operational model. But in the end, the supervisor was not a good fit for what the business needed.

ServiceMaster provided assistance with training materials and vendor contacts. They trained the general manager thoroughly in the hands-on aspects of commercial cleaning, and specifically the best processes, equipment, chemicals, tools and training that exists in the industry. Throughout the first six months of operations there was constant contact and conversation between ServiceMaster and Century Services. The most successful aspects of these conversations focused on bringing Century Services into the industry arena in terms of processes, contract bidding and vendors. ServiceMaster has been willing to work with Century Services on aspects of contracts, but Century Services is responsible for getting the new contracts

There was good support from Heartland Alliance for the enterprise. There was a willingness to take a risk on the enterprise from the beginning. Business background and experience from the Executive Officer of Century Place Development Corp. and from Heartland Alliance's Chief Financial Officer was valuable. Support for the effort from the Heartland Alliance President as well as the two aforementioned officers, clearly showed the priority of the enterprise. It is anticipated that their support will need to be sustained for three more years to help the enterprise fully develop.

Century Services utilized the payroll and accounting systems already set-up within Heartland Alliance. There was frustration experienced on an administrative level in dealing with these systems. For example, start-up for payroll for new employees often experienced many glitches and delays that jeopardized the retention of the employee.

The Century Services general manager became involved in other Heartland Alliance projects (Sutherland Services, Empowerment Zone application) while trying to meet the demands of the enterprise. It would have been better for the enterprise if he had been able to stay focused on Century Services. Additionally, his leadership role in the development of employment programming within Heartland Alliance meant a further drain on his time. One way he attempted to address this was by changing his agency job title from Director of Employment Development to Director of Business Development.

Finally, Century Services was able to get contracts with other Heartland Alliance partners, for example Chicago Connections and Chicago Health Outreach.

Planning Process & Start-Up Time Frame

The start-up period within the first year took longer and was more difficult than expected. However, operationally, the enterprise has overcome many of the initial challenges it faced and is now organized in a more optimal manner. A few reasons for this delay have been identified.

An adequate amount of time, nine months, was set-aside for planning, business plan development and fundraising, however, parts of the planning process could have been more thorough. In general, there were many operational problems that should have been included in the planning process, but were not covered. For example, there was not a system in place for the purchasing and inventory of supplies when the business started.

Part of the timeframe difficulty around start-up was due to the decision to develop two service lines: 1) residential maintenance (painting, dry wall, etc), and 2) commercial cleaning (cleaning only, no repair work). These two areas involve very different competencies that had to be developed within the enterprise. There were not enough resources to develop both competencies, especially on the maintenance end. Supervisors had to higher skill sets.

Two areas of improvement for the business plan were noted by the general manager:
1) there should have been a separate more detailed plan written for the market side;
2) there should also have been a separate more detailed plan written for the operations side.
These additions would have facilitated a smoother start-up.

Financial Status

Initially, Century Services expected that in three years they would be well established in the residential and office building markets, with several smaller contracts representing between 5 and 10 percent of the business. Outside of the internal (Heartland Alliance) contracts, Century Services expected to need five large contracts to break even – which it planned do by the end of year three. Financial data projections from the business plan can be found in Appendix 3.

At the end of year one of operations, the general manager and executive officer felt this initial goal was too ambitious. A different start-up strategy could have been implemented to help achieve the break-even point. In the first six months, the focus could have been on the development of the services and the operations with no sales activities. Some time could also be given to market exploration. After that period, there could then have been a shift to sales. Given this strategy, the first contract would then be established by the end of the first six-month period. In retrospect, the difficulty of securing the larger contracts was not fully understood, nor was the operational risk involved should these contracts have been established.

A number of foundations provided funding to help start-up this enterprise. The Fry Family Foundation provided a grant of $100,000 to pay for the general managers salary for the first two years. This up-front support was critical in putting together the business plan. Polk also provided funding. Century Services was then able to leverage those funds to seek support from LISC and Corporation for Supportive Housing. The John D. and Catherine T. MacArthur Foundation also provided funding. They designated $35,000 of the funding for the enterprise operations and $65,000 of the funding for the three year evaluation. It is anticipated by management that the enterprise will still need approx. $200,000-250,000 over the next two years in order to continue its development and to reach a breakeven point.

In terms of earned income, detail on contracts signed as of May 2000 follows.

Internal contracts with Heartland Alliance:

- Century Place Development Corp.
- Chicago Connections
- Chicago Health Outreach

External contracts have been established with:

- ACT Charter School
- Bank of America Mortgage (Hyde Park)
- kozyhom.com

Contracts are pending with:

- Dealer Source.com
- Genesis Communications

The specific number of work hours targeted for the sites include:

Internal

Antonia:	30 hrs. cleaning / 5 hrs. Maintenance
San Miguel:	40 hrs. cleaning and maintenance.
Mae Suites:	20 hrs. cleaning / 10 hrs. maintenance
4750:	20 hrs. cleaning
Diversey:	40 hrs. cleaning and maintenance
Karibuni:	30 hrs. cleaning and maintenance

External

kozyhom.com	5 hrs. cleaning
Bank of America:	5 hrs. cleaning
ACT Charter School:	45hrs. cleaning

In terms of costs associated with the social elements of the enterprise, one thing to consider is how employees time is spent. A larger percentage of the general managers time was spent developing the enterprise model than in a normal business. Also, a larger percentage of his time was spent trying to implement the model. One requirement of the model's success is flexibility. This is an added cost on terms of recruitment of ideal employees and the time and energy spent being flexible. At the end of year one, the mix of the general managers time was 60 percent operations, 20 percent Sales, and 20 percent non-Century Services activities.

The current supervision ratio varies across the teams. The current ratio is low (Team I=1:4; Team II=1:2) mostly due to the need to grow capacity rather than to the commitment to the social mission. It is anticipated that this ratio will stay low and will reflect the cost of hiring 'hard to employ' employees. The overhead costs are high given that there is an executive officer, a general manager, and a consultant.

One cost of the model that has been temporarily discontinued is that of the training component. Currently this is unaffordable. Another implicit cost of the social model, though not a cost to Century Services, was the cost of case management provided by Chicago Connections.

As compared to it's competitors in the building services industry, Century Services has higher overhead costs and higher costs due the supervision ratio. This ratio will always be higher because of the businesses commitment to hire people considered hard to employ job seekers. Also, the business began with high overhead costs as it began with the executive officer and general manager in place as well as the payroll employees. Often small comparable businesses grow slowly without this overhead. The general manager in those situations also cleans, manages operations, buys supplies and writes the checks until the business is more established.

More time is needed to raise the investment dollars required. Success of the enterprise relies on investment. Based on lessons learned during implementation, Century Services thinks the business will work if more money can be raised. It is possible to compete within this industry, but the opportunities are not great. It is anticipated that if grant support was secured for 5 years total (4 years of operations), then a self-sustaining enterprise could be established, although it is not clear that a true supported work environment would result. However, if an investor had contributed the start-up funds as with a 'real' business, there probably would not be a return on the investment within the 5-year period. This is due to the amount of time required to build a financially, self-sustaining enterprise.

The current standing of the business is as follows:

	April 1999	**June 2000**
Full Time Equivalent	9	12
Total Employees	11	16
Square Feet Served	175,000	275,000
Annualized Earned Income	$215,000	$365,000

Targeted Questions from Literature Around Important Success Factors

Do staff members and does the board (oversight committee) have a clear understanding about the dual bottom line (i.e. need to balance business and social mission)?
Different levels of understanding exist among the various partners regarding the concept of a balanced dual bottom line. The advisory board has a clear understanding of the concept. The staff supervisors do not yet understand the full implications of this concept. Heartland Alliance representatives do understand, such as the property managers who have displayed flexibility around staffing issues. ServiceMaster also understands that concept, but may have a different interpretation. ServiceMaster sees their involvement with Century Services as part of their social mission, but ServiceMaster does not operationalize the mission in the business.

Is the venture moving toward a "market orientation" that is attuned to customer needs and competitor offerings?
The establishment of a market orientation and a self-sustaining entity are clearly viewed as top priorities for the enterprise. Within this model, grants are seen as investments in the business rather than on-going subsidies. The more financially successful the business becomes through its growth and development, the more the social mission of the enterprise will be realized.

Is the enterprise gaining credibility within the business community as a legitimate player within this market?
It is somewhat premature to evaluate the credibility of the enterprise within this market. For instance, it is unclear if other competitors know about Century Services yet. The customers see the work being completed and they have few complaints. Otherwise, little is known about the enterprise from the customer's perspective. Some frustration has been noted by the customers of the ACT Charter school due to the difficulty of implementation at this site.

What services were provided to your employees that aren't usually provided in a typical business setting?
The same services are provided but in a more flexible manner.

Is there access to financial resources beyond the start-up investor to sustain the enterprise through expansion and sustainability?
Additional grant support from foundations is being sought for the next fiscal year. At this point, the financial returns are not large enough to support market investments. It may be possible within the third and fourth years to secure some kind of equity investment from sources such as the Bank of America, Shorebank, Enterprise Fund, etc. Other financial funds are now being created to invest in non-profit businesses that Century Services could draw from.

Are there any other sources of technical assistance support that could be beneficial for the enterprise?
Technical support could be helpful in some specific areas. Marketing and sales assistance would be beneficial around strategy, materials, etc. Operational system support would also be helpful.

Other informational networks of social entrepreneurs are helpful but are not critical to the success of the Century Services enterprise business. They have been marginally helpful in that it helped the general manager become a better social venture manager.

Lessons Learned & Recommendations

The lessons learned are an inevitable part of the process. While much changed between planning and implementation, overall at this point, the enterprise is not in a bad place.

Progress towards fulfilling the social mission of the enterprise was slower than expected.

- Formalize relationship between case managers and employment specialists of Heartland Alliance through mechanisms such as a release of information and regular meetings.
- Staffing and supervision issues for small, scattered site contracts need to be worked out.
- Additional funding should be sought to reinstate the soft and hard skill training program.

The employee numbers within the enterprise are lower than expected. The anticipated numbers were based on the initial revenue projections.

- Being able to find and prepare good employees quickly is a critical factor to be addressed in year II as the business begins to seek additional contracts.
- Also, Century Services needs to create mechanisms for quick screening of new employees and to expand their potential labor pool.

The enterprise had a hard time developing expertise in two industry areas but has been successful in building some of the competencies required. There is a huge difference in developing both competencies around residential building services and commercial services. The amount of knowledge and expertise gained in year I in both types of service fields has been substantial and forms a solid place from which to continue growth.

- Focus early in year II on stabilizing current service contracts and operations prior to seeking additional outside contracts.

One of the primary weaknesses during year one was in the business operations. Currently, there is a need for stronger, more stable operations that is better managed. The supported work component cannot be implemented until the management and operations of the enterprise is more established and stabilized. The management problems are due to: 1) personnel problems attributed to the lack of a good operations supervisor; and 2) inexperience by management in the cleaning services business. In year II,

- A solid operations supervisor or manager needs to be hired.
- Internal systems need improvement including supply system and asset preservation in residential buildings.

Regarding the attainment of large contracts, labor unions have posed a barrier to entry.

- Ability to grow the business is largely dependent on Century Services working out an agreement with SEIU and UAW.

Century Services sales revenues during the first year has been significant, although not as strong as originally projected. The first year was more of a market test and operational test. It will take much more of an investment to continue moving forward.

- Financially, Century Services needs to secure another 2 to 4 years of intensive investment ($150,000 to $200,000) before being in a position to breakeven. The profit that will then be realized will sustain the business but will not be able to pay back the investment.

Bibliography

Boschee, Jerr. (2000?). What does it take to be a social entrepreneur? (On-line at http://www.socialentrepreneurs.org)

Dees, J. Gregory. (1998.) 'The Meaning of Social Entrepreneurship'. Kauffman Center for Entrepreneurial Leadership, Ewing Marion Kauffman Foundation.

Dees, J. Gregory. (1998). 'Enterprising Nonprofits: What Do You Do When Traditional Sources of Funding Fall Short?' Harvard Business Review, January/February, 55-67

Emerson, Jed and Fay Twersky, eds. 1996. New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation. San Francisco: The Roberts Foundation, Homeless Economic Development Fund.

Emerson, Jed, facilitator. (1998). The Venture Fund Initiative: An Assessment of Current Opportunities for Social Purpose Business Development and Recommendations for Advancing the Field. The Roberts Development Fund, San Francisco, CA.

Fromartz, Samuel. (1990). The Nonprofit's Motive. Inc., 41-43.

Garcia, Richard. (1999). 'Converting an AHEC to a Social Entrepreneur Corporation'. The National AHEC Bulleting, XVI, (2), 6-9.

Hollister, Robinson G. Jr.; Kemper, Peter; and Rebecca A. Maynard, (eds.) (1984) The National Supported Work Demonstration. Madison, WI: The University of Wisconsin Press.

McLaughlin, Thomas A. (1999, February). Social enterprise. The Nonprofit Times.

Reis, Tom. (1999). Unleashing new resources and entrepreneurship for the common good: A scan, synthesis, and scenario for action. The W.K. Kellogg Foundation's Philanthropy and Programming Team.

Skloot, Edward, (Ed.) (1988). "The Growth of, and Rationale for, Nonprofit Enterprise" (Introduction) in The Nonprofit Entrepreneur: Creating Ventures to Earn Income. New York: Foundation Center.

Skloot, Edward, (Ed.) (1998). "How to think about enterprise" (Chapter 2) in The Nonprofit Entrepreneur: Creating Ventures to Earn Income. New York: Foundation Center.

Thalhuber, Jim. 'The Definition of a Social Entrepreneur'. The National Center for Social Entrepreneurs. (Available at: http://www.socialentreprenerurs.org)

Thompson, Tracy. (December, 1999). Profit with Honor. Washington Post Magazine, 22.

Appendix 1: Annotated Bibliography

Boschee, Jerr. (2000?). <u>What does it take to be a social entrepreneur</u>? (On-line).

Available: http://www.socialentrepreneurs.org

This article covers the critical "raw materials" that are required of successful social entrepreneurship. Boschee defines social entrepreneurs as "nonprofit executives who pay increasing attention to market forces without losing sight of their underlying missions" (p 1.). He notes that, despite the odds, more nonprofits are becoming social entrepreneurs, either by adopting earned income strategies (designed primarily to cover more of an organization's costs, not necessarily to turn a profit) or by creating social purpose business ventures (whose primary purpose is to turn a profit). Eleven critical success factors (raw materials) are identified for social entrepreneurs:

1. Candor: honesty about the product/service, the market, the competition, the resources and other factors that determine success or failure.
2. Passion: personally ignited by the prospect of a social entrepreneur.
3. Clarity: clear on two components: 1) Why moving in this direction at all; 2) What are the driving forces behind this shift in direction. Four good reasons to begin a social enterprise are mission (doing this because it will enable agency to serve more people), survival (doing this because more traditional sources of funding are drying up), opportunity (doing this because of a market demand for services), and freedom (doing this to create more of their own money, i.e. greater independence).
4. Personal and organizational commitment: willing to make difficult decisions, take risks, etc.
5. Core values: identify core values before beginning, making sure that they can be quantified, building them into the strategic plans, and monitoring and measure them consistently.
6. Customer focus: start with the people agency is serving, not with the agency's products.
7. Sound business concept: have a product or service that works, somebody who needs it, and somebody willing to buy it.
8. Willingness to plan: prepare before beginning
9. Building the right team: develop the proper brain trust
10. Sufficient resources: implement with enough of the needed resources
11. Ability to improvise: have flexibility and adaptability.

Dees, J. Gregory. (1998.) 'The Meaning of Social Entrepreneurship'. Kauffman Center for Entrepreneurial Leadership, Ewing Marion Kauffman Foundation.

Available at: http://www.redf.org

In this article, Dees discusses a variety of different meanings for the concept of 'social entrepreneurship.' Many associate social entrepreneurship exclusively with not-for-profit organizations starting for-profit or earned-income ventures. Others use it to describe anyone who starts a not-for-profit organization. Still others may use it to refer to business owners who integrate social responsibility into their operations. After tracing a history of the development of the concept, Dees offers an "idealized" definition that combines an emphasis on discipline and accountability with the notions of value creation taken from Jean Baptiste Say, innovation and change agents from Joseph Schumpeter, pursuit of opportunity from Peter Drucker, and resourcefulness from Howard Stevenson. In brief, his definition can be stated as: social entrepreneurs play the role of change agents in the social sector by adopting a mission to create and sustain social value (not just private value), recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation, and learning, acting boldly without being limited by resources currently in hand, and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created (p. 4).

Dees, J. Gregory. (1998). 'Enterprising Nonprofits: What Do You Do When Traditional Sources of Funding Fall Short?' Harvard Business Review, January/February, 55-67

In this article, Dees notes that leaders of nonprofits are now looking to commercial funding in the belief that market-based revenues can be easier to grow and more resilient than philanthropic funding. He presents some of the major influences that are moving nonprofits into more commercialization. However, he also notes some of the dangers involved in this trend and presents a framework (the social enterprise spectrum - see Appendix 2) that can help administrators understand and assess the options they face.

Dees describes five major pressures and influences that are pushing nonprofits into entrepreneurial models or commercialization:

1. A 'pro-business zeitgeist' throughout the world has made for-profit initiatives more acceptable in the nonprofit world;
2. Nonprofit leaders are looking to deliver social goods and services in ways that do not create dependency in their constituencies;
3. Nonprofit leaders are searching for financial sustainability and view earned-income-generating activities as more reliable funding sources than donations and grants;
4. The sources of funds available to nonprofits are shifting to favor more commercial approaches, as few foundations want to provide ongoing funding and most want to invest for short periods in effort to press grantees to become self-sufficient; and
5. Competitive forces from for-profits are leading nonprofit managers to consider commercial alternatives to traditional sources of funding.

Dees also cautions that nonprofit leaders can benefit from finding effective ways to harness commercial forces for social good. But misguided efforts to reinvent nonprofits in the image of business can go wrong. Nonprofit managers are only beginning to learn what it means to search for new solutions to social problems and for effective ways to deliver socially important goods (p. 67). The author places an emphasis on maintaining the integrity of the "mission" of the social enterprise. He states that strategic and structural innovation should focus on improving mission-related performance. Caught in the current wave of commercialization, nonprofits risk forgetting that the most important measure of success is the achievement of the mission-related objectives, not the financial wealth or stability of the organization (p. 67). Dees concludes by supporting the use of a variety of options along the spectrum. He notes that social entrepreneurs shouldn't focus on commercial approaches alone but should explore all strategic options along the social enterprise spectrum, including their ability to use social causes to tap into philanthropic motivations (p. 67).

Emerson, Jed and Fay Twersky, eds. 1996. New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation. San Francisco: The Roberts Foundation, Homeless Economic Development Fund.

The authors summarize this report from the trenches by stating that non-profit business development has enjoyed modest and growing success in planning and start-up over recent years; it holds great promise for the future, but is very difficult to pursue and may not be for everyone. There are three parts to this work: case studies of several non-profit enterprises with the lessons learned, perspectives on the practice of non-profit enterprise (e.g. employee, board of directors, funders) and appendices (includes recommended readings and resources).

The concepts of non-profit enterprise and new social entrepreneur are clearly defined. The non-profit enterprise is referred to here as a revenue-generating venture founded to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom line. These enterprises are variously known as social purpose businesses, community-based businesses, community wealth enterprises, and any number of other titles. A social entrepreneur is viewed as a non-profit manager with a background in social work, community development, or business, who pursues a vision of economic empowerment through the creation of social purpose businesses, intended to provide expanded opportunity for those on the margins of our nation's economic mainstream.

The book presents a succinct description of the five types of nonprofit enterprises represented among their various projects.
1. A *sheltered* enterprise benefits from formal contracting priorities of federal or local government;
2. An *open market* enterprise receives no preference or priority in the award of contracts;
3. A *franchise* enterprise is established through granting of a franchise from another, usually nationally active corporation;
4. A *program-based* enterprise is grown directly out of the program activities of a social service organization;
5. A *cooperative* is a commonly owned corporation wherein workers control a share of the business and maintain voting and other rights while also receiving wages for work performed.

The book also outlines the attributes of the successful nonprofit business enterprise. First, nonprofit organizations have the potential to plan, create, and manage profitable business ventures. In order to realize this potential for enterprise creation, the nonprofit must have access to the technical expertise and capital resources necessary to support an effective business planning and enterprise start-up process. In addition, successful job-creation efforts must be effectively linked with the provision of housing and support services. Job creation efforts must also be pursued as part of a continuum of housing and support services. However, simply because one is engaged in the creation of affordable housing or the provision of support services does not mean one has the skills required for business development. A key factor in the creation of successful nonprofit enterprises is the presence of a new social entrepreneur. Finally, nonprofits should be supported in their efforts to explore their potential for engaging in social purpose venturing.

This work concludes with five success factors for social enterprises that may be framed around the following issues: the need to balance business and social missions; the role of effective planning; the goal of building self-sufficient, non-profit enterprises; the challenge of organizational governance, and the question of scale.

Emerson, Jed, facilitator. (1998). <u>The Venture Fund Initiative: An Assessment of Current Opportunities for Social Purpose Business Development and Recommendations for Advancing the Field</u>. The Roberts Development Fund, San Francisco, CA.

Available at: http://www.redf.org

The Venture Fund Initiative was a six-month strategy and mapping process that began in January of 1998 in six cities: Atlanta, Ann Arbor, Chicago, Los Angeles, Milwaukee, and New York City. The Initiative sought to help nonprofit organizations operating or planning to create business ventures to examine their opportunities and obstacles, to discuss these with leaders in corporations, business schools, and philanthropy, and to outline strategies to overcome these obstacles.

Besides helping individual nonprofit organizations and their businesses, the Initiative's broader goal was to clarify the needs and potential of the field as a whole. By looking at several sites, funders hoped to learn not only how particular ventures or types of organizations succeed or fail, but to understand in more detail the capacity of these ventures, their current limitations, and how local resources might be leveraged more effectively to support their work.

Many key lessons were learned. First, social purpose businesses need to determine carefully where they lie on the continuum between "pure" business and "pure" social purpose, and then plan and manage accordingly. They typically need more and better business planning and market analysis, both initially and as they evolve. And nonprofit boards need new skills and methods of operation when their organizations branch into social-purpose businesses.

Social-purpose enterprises also need better connections to sources of business expertise and technical assistance. For technical assistance to be effective, it needs to produce a lasting change in employees' skills and technical capacities, in the business's network of potential customers and sources of advice, or some combination of these. These ventures also need more in-house expertise in information technology, and more specialized, stable sources of legal/tax advice. They need managers with more skill and experience in business management than is currently the norm. And social-purpose businesses need senior mentors from the business community – those with general management expertise as well as those with experience and connections in specific industries and markets.

Related to the above, these ventures need to become part of the traditional business and social networks to help increase market penetration and credibility. This can be assisted by a better market analysis to deal more effectively with other businesses who might become customers or partners; access to the ordinary networks of business people who make purchasing and other decisions; a management career ladder by which executives of social-purpose businesses can move up and out into other, conventional businesses; and mentors from within the business community who can provide the advice, experience, and introductions necessary.

Finally, social-purpose businesses need more and better ways of raising capital, especially equity. Funders need more expertise to be effective long-term investors.

Recommendations are presented for creation of a national support network that might address capacity building needs and a range of possible capital requirements including loan administration and services, raising of grant funds for match with local funds, loan/cash guarantees, or creation of a national holding company for buildings/equipment leasing to nonprofit participants at below-market rates.

Fromartz, Samuel. (1990). The Nonprofit's Motive. Inc., 41-43.

This article presents the social enterprise effort of Charles G. Lief, a lawyer who is the president of the nonprofit organization, the Greyston Foundation in Yonkers, New York. He manages an $8-million operation that includes a baked-goods business and a housing enterprise. He has plans to build a new wholesale bakery plant as well as open up a retail bakery and an ice-cream shop. He is also aiming to expand his number of area housing units and to offer affordable home-ownership opportunities to the poor. Also under exploration is a venture fund to provide seed money to other inner-city entrepreneurs. Lief expects revenues from all his ventures to reach $15 million by 2003.

While operating these businesses, Lief also adheres to the long-standing mission of the Greyston Foundation. Greyston's goal has been to provide services and resources to its client base, which includes people who are homeless, jobless, or recovering from drug addiction, as well as those who were formerly incarcerated, have a limited education, classify as low income, or are living with HIV or AIDS.

Some nonprofits are panicked over the prospect of losing a funding stream and perceive a business as a quick fix. Lief warns against this and explains that they don't understand there's a growth curve, that you're building a business just like any other small-business person does, and that it takes years (p.42). Other nonprofits grow enamored with the idea of being able to offer jobs that provide health-care, day-care, and additional benefits. He states they go out with these big promises–that this is going to be a more humane and enlightened way to operate – but they have to make sure the product has the margins to support that kind of thing (p. 42). He also expresses concern that nonprofits may jump in without having the resources, expert advice, and partnerships they need. Thus, Greyston has taken a middle road, building businesses designed to throw off money to the foundation and also to create jobs for its clients.

Garcia, Richard. (1999). 'Converting an AHEC to a Social Entrepreneur Corporation'. The National AHEC Bulleting, XVI, (2), 6-9.

This article reviews some of the components necessary for the successful transition from a traditional non-for-profit corporation to a social entrepreneur corporation. The author covers specific attitudinal and procedural components for a successful social entrepreneurial process. The necessary philosophical attitudes required for transitioning to a social enterprise are: not-for-profits are businesses, not charities; non-for-profits must achieve operational profits in the production of their services or products, and non-for-profits must adopt business tactics typically utilized by for-profit organizations, such as competition, creativity, risk analysis, cost accounting, financial reporting, marketing and profit making.

The necessary administrative functions to be conducted in the social enterprise process are to formally establish or reestablish a mission statement, establish the acceptable risk level, and define how profits generated by the new activities will be utilized. In addition the agency should complete a feasibility study in the social enterprise process. The study should include the following items: a description of the proposed product or service, a definition and detailing of the competitive market to be served, a description of the reason for demand for the proposed product or service, a statement of how the products or service will be delivered, an identification of potential barriers to success and ways to overcome them, and provision of preliminary financial projections.

If the proposed activity is feasible the next step is development of a formal business plan. A business plan can be viewed as a grant application and should include the following items: a cover letter, a table of contents telling what is included in the plan, a summary of the business plan, a description of the corporation, a marketing plan, time line charts, a financial plan, and an appendix. Finally, the article states that it is important to establish a proper relationship with a commercial lender to cover the costs of a new venture. The corporation must be businesslike in its fiscal activities; then, it must establish a good relationship with the lender.

McLaughlin, Thomas A. (1999, February). Social enterprise. The Nonprofit Times.

In this short article, McLaughlin briefly describes social entrepreneurialism and the various types of social enterprises. He then covers the elements required for successful social enterprises, emphasizing the need to first identify core competencies.

Social enterprise is described here as a blending of business and traditional social service that attempts to use the best of both models for the benefit of clients (p. 18). Some examples of ventures that fit this definition and that employ clients from the agencies' traditional social service programs are:

- *Larkin Business Ventures*, a youth services provider that operated a Ben & Jerry's Ice Cream franchise, a concession at San Francisco's 3Com Park, a special events catering business and other enterprises employing its social service clients.

- *Rubicon Programs, Inc.,* a multi-service provider in Richmond, CA, has operated a retail nursery, a building and grounds maintenance service, and a bakery and catering business

- *Road to Responsibility*, a Marshfield, Mass., provider of services to mentally handicapped and developmentally disabled individuals, bought a motel in bankruptcy, reorganized it and currently operates it by employing its own clients.

The article finds that the essential elements of a successful enterprise are a commitment from leadership, acceptance of change, management sophistication, good advisors, and access to capital. A successful venture has to be rooted in what an individual or company knows best (core competency). Finally, social enterprise is not to be a grant replacer. It is states that community wealth creation programs should never be considered a replacement for government service contracts or foundation grants…. instead, they should be viewed as another tool in the street-smart manager's kit (p. 18).

Reis, Tom. (1999). <u>Unleashing new resources and entrepreneurship for the common good: A scan, synthesis, and scenario for action</u>. The W.K. Kellogg Foundation's Philanthropy and Programming Team.

Available at: http://www.enterprisefoundation.org.

This scan, sponsored by the W.K. Kellogg Foundation, presents an overview of changes and corresponding opportunities related to how philanthropy and social change organizations and leaders are integrating market concepts into their work, value sets, and organizational structures. It documents the current waves of change, reviews the emerging needs and opportunities, and proposes options for action for philanthropists. The report makes the case that a critical mass of organizations and leaders are engaging in these opportunities, resulting in a demand for new learning environments and related services, actions and solutions, as well as places for convening.

Three major waves of changes are identified. First, social entrepreneurs are changing civic and human services, leadership, and institutions to encompass market-based approaches for appropriate scale, impact and sustainability. Secondly, business leaders are moving from one-dimensional charity to multi-dimensional methods of achieving corporate citizenship. Finally, philanthropists, traditional and emerging, are building on a generation of social investment experiments to devise market-driven and venture capital concepts to intensify the partnerships and shared responsibility of funders and social action organizations.

New innovators are motivated by the following values and beliefs: outcomes/impact thinking; market concepts as a driver for designing social products and services; investment is more effective than charity; wealth creation should be balanced with public responsibility, and sustainability of social change needs to be supported through philanthropic and earned income

The needs that surfaced during the scan have been synthesized into three groups:

1. *Knowledge management* – capturing, archiving and using knowledge and learning for innovations.
2. *Human capacity development* – the development of people and the tools they need for leadership, organizational, financial, and planning challenges.
3. *Deal-making* – the coordination of opportunities for finding co-investment partners.

Proposed future activities for the field include creation of a knowledge management system to capture, archive, use, and diffuse information, development and sharing of effective prototypes and models, ongoing mapping, tracking, and diffusion of good practice, sharing of assessment and impact measurement processes and approaches, and trading and bartering 'know how' management expertise and products.

Skloot, Edward, (Ed.) (1988). "The Growth of, and Rationale for, Nonprofit Enterprise" (Introduction) in <u>The Nonprofit Entrepreneur: Creating Ventures to Earn Income.</u> New York: Foundation Center.

Skloot notes that the search for earned revenue is the result of increasing pressures and trends over at least a decade. He sees it as the nonprofits' response to a changing environment characterized by tighter budgets, diminishing governmental funds, increased competition for donated dollars, a more receptive national attitude toward enterprise, and the gradual acceptance by some nonprofits that commerce and charity can safely coexist (p. 2). Included is a description of a nonprofit enterprise, its products, services and property. The author concludes with some of the key benefits of enterprise.

Nonprofit enterprise exists along a spectrum of activity starting with traditional fee-for-service charges and extending into full-scale commercial activity. They can be categorized according to the product or service being sold in the commercial arena. Nonprofits can develop products for sale to organization members, participants, and the public at large. They promote the organization's mission as well as earn money. Nonprofits can provide ancillary commercial services to members, friends, and alumni or to the general public as well. The sale, lease, development, and rental of land and buildings (hard property) is also an area of earned income. Soft property includes a group of income-earning assets that include copyrights, patents, trademarks, art and artifacts, and even mailing and membership lists.

The benefits of earned income through enterprises includes the following: increased income allows return of profits to the program activities; helps to diversify the revenue base; helps to improve management capabilities; introduces new financial discipline within the organization; earned income can partially replace charitable dollars; helps to strengthen the board through a focus on both enterprise and nonprofit cause; and increases the visibility of the organization undertaking such an enterprise.

Skloot, Edward, (Ed.) (1998). "How to think about enterprise" (Chapter 2) in <u>The Nonprofit Entrepreneur: Creating Ventures to Earn Income.</u> New York: Foundation Center.

In this chapter, Skloot notes that a nonprofit must first ask some critical questions and answer them for itself, in order to determine whether the products and services it wants to bring to the marketplace are commercially viable. Ventures should never be started for the wrong reasons. Skloot presents some of the wrong reasons but also presents the right reasons and some of the key questions that will help determine if the rewards are worth the risks.

Several "wrong" reasons are discussed for starting an enterprise venture. The first wrong reason is financial weakness or desperation. The second wrong reason is the existence of apparent demand for an organization's products or services. Staff members become convinced that they can sell the product or service as a real profit. The third wrong reason is the assumption that ventures will always bring favorable publicity, which will then attract new funders. The fourth wrong reason is pressure to enter venturing from members of the board or special constituencies. The only "right reason" to move into enterprise is this: "the anticipated financial reward is worth the risk" (p. 28). All other concerns can be studied under this risk-and-reward framework.

There are four basic questions to ask in order to determine whether the rewards will be worth the risk:

1. What are the risks involved and can we afford to take them? The risks come in several forms, including financial, organizational, and reputational; there is also risk to the overall morale of the organization.

2. What are the resources, skills, and knowledge required and can we supply them? They need to be a permanent part of the organization and are often expensive to acquire.
3. How do our values, goals and attitudes differ from those required to support the venture, and can we adapt? This is often the key question.
4. What are the timing requirements for launching the venture and can they be met? Timing should be viewed in terms of the demand of the external marketplace and internal capacity of the organization to satisfy it.

Every venture must have a strong champion and an effective planning team. The champion can be CEO, vice-president, senior program director, or even the board member. The planning team will share the analytical tasks and create internal support for the enterprise.

Thalhuber, Jim. 'The Definition of a Social Entrepreneur'. The National Center for Social Entrepreneurs.

Available at: http://www.socialentrepreneurs.org/

This article notes that there are many similarities between successful entrepreneurs in the for-profit and nonprofit sectors. Both start with ideas and envision possibilities. Both are faced with challenges of creating demand, acquiring resources and operationalizing concepts. Both are action-oriented and focus on profitability. However there are important differences as well:

For-profit Entrepreneurs	Social Entrepreneurs
Strength is in personal skills, knowledge and energy	Strength is in collective wisdom and experience of the organization and its key stakeholders.
Focus on short-term financial gain	Focus on building long-term capacity of the organization.
No limit on type of scope of ideas	Ideas based on organization's mission and core competencies
Profit is an end	Profit is a means
Profit pocketed and/or distributed to shareholders	Profit plowed back into organization in order to serve more people and/or achieve greater results
Risk personal and/or investor assets	Risk organizational assets, image and public trust
Be in charge of their own destiny rather than dependent on an employer	Enable organization to be in charge of its own destiny rather than being dependent on funders' priorities.

Thompson, Tracy. (December, 1999). Profit with Honor. <u>Washington Post Magazine</u>,-22.

This article focuses on Billy Shore, a social entrepreneur, who helps nonprofit institutions link their charitable works with profit-making enterprises. Shore and other pioneers of this concept – San Francisco nonprofit guru Jed Emerson, the Conservation Company's John Riggan, the Institute for Social Entrepreneurs' Jerr Boschee – are developing a hybrid, a nonprofit run for profit. The article covers several of Billy Shore's successful social venture models.

One model, Community Wealth Enterprises, is defined by Shore as revenue generating non-profits where money is made from their good names, their expertise at solving difficult social problems, their ability to organize and train untapped labor pools, their artistic talents, even their access to inner-city youth markets. Shore also started Share our Strength (SOS) where 80% of the operating budget is generated from corporate partnerships and licensing arrangements. One partnership with American Express produced the 'Charge against Hunger' campaign in which the company promised to donate two-three cents to SOS every time someone used their American Express card. Moneys are distributed to anti-hunger groups.

Shore created the for-profit consulting firm "Community Wealth Ventures," whose business is selling SOS's know-how in creating marketing partnerships. (Annual profit of $44,000 from 20 clients, e.g. Goodwill Industries). With his Taste of the Nation program chefs provide samples of their dishes to participants who pay an entrance fee. The money goes to SOS, who then gives it away in grants to anti-hunger programs. Currently, Taste of the Nations is held each year in more than 100 cities and has raised more than $37 million to fight hunger. SOS also funds its own program, Operation Frontline, which recruits and trains chefs to teach cooking, nutrition and food-budgeting classes in low-income neighborhoods, operating in 80 cities across the country. Lastly, Shore is participating with GreaterGood.com in a shopping web site that lets consumers buy from a list of merchants who then funnel at least 5 percent of the purchase price to SOS or other charitable groups.

Appendix 2: The Social Enterprise Spectrum

	Purely Philanthropic	⟷	***Purely Commercial***
Motives, Methods & Goals	• Appeal to goodwill • Mission driven • Social value	• Mixed motives • Mission & market driven • Social & economic value	• Appeal to self-interest • Market driven • Economic value
Key Stakeholder Relationships *Primary Beneficiaries:*	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
Capital:	Donations and grants	Below-market capital, or mix of donations and market-rate capital	Market-rate capital
Workforces	Volunteers with high commitment to social mission	Below-market wages, or mix of volunteers and fully paid staff	Market-rate compensation
Suppliers:	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Taken From:

Dees, J. Gregory. (1998). 'Enterprising Nonprofits: What Do You Do When Traditional Sources of Funding Fall Short?' Harvard Business Review, January/February, 55-67

Appendix 3

Original Financial Projections