

# The Challenges of Becoming a Social Purpose Enterprise

*By John Brauer and Michele Tatos*

When a nonprofit agency decides to incorporate a social purpose enterprise into the organization, board and management need to understand that this undertaking will change both the culture and the staffing of the organization. Nonprofits that have made the transition commonly report high staff and board turnover, community and funder concern, and massive changes to the organization's internal systems.

High staff turnover may be inevitable. Employees who have joined a nonprofit organization because of its social mission may not understand or approve the organization's new direction. Developing the focus required to operate a successful and profitable business often hits a deep nerve in socially-driven personnel. Even staff members who initially support the idea may discover that they do not like how the organization has evolved when perceived or real conflicts arise between profits and people. Still others will find that, although they like and value the new direction, they simply do not possess the particular set of skills required by the new organization.

Board members, too, may find that they no longer fit in with the organization's new culture. Confusion, a change in traditional roles, and a lack of requisite expertise may impel some long-term board members to resign.

How can the organization's leaders and top managers plan for these changes? The first step is to prepare staff and board members by acknowledging that changes will indeed occur. This is important so that staff members do not feel uninformed, surprised, or even betrayed. It is also important to understand that an agency's culture cannot be reinvented overnight and that, ultimately, the culture will redefine itself over time.

As Edgar Schein, an expert on organizational behavior, notes, "The critical thing to understand about cultural dynamics is that leaders cannot arbitrarily change culture in the sense of eliminating dysfunctional elements; but they can evolve culture by building on its strengths while letting its weaknesses atrophy over time. Culture cannot be manipulated by announcing changes or instituting programs."

The second step to take in preparing for this cultural transition is to ensure that the board and the executive director are on the same page. Without some common understanding and mutual support, when the going gets tough, staff or board may find it easier to brand the enterprise a failure— financial or otherwise—and move back to the old, familiar way of doing business.

Before moving forward with any plans for a social purpose enterprise, it's a good idea to interview representatives of at least three agencies that have already created one. Among the questions to ask:

- What sorts of staff and board turnover did you experience?
- Did the implementation of the social enterprise compromise your mission or your core values?
- Is your business venture profitable?
- Given all that you now know, would you do it again?

### **Assisting Staff with Cultural Changes**

In order to bring existing staff on board at the outset, it is necessary is to define clearly what a social purpose enterprise is, and to explain how it can relate positively to the organization's mission. Take the time needed so that everyone from the CEO to the receptionist learns about the new enterprise. Make sure that there is an acknowledgment of what the old organizational culture has been and what it has meant. Remember that by validating your past culture you are also validating your employees' efforts to get you to this point. In addition, it is vitally important that all staff members know how the imminent changes may affect their own roles, their fellow employees, their clients, and the agency as a whole. Issue new job descriptions—even for those employees whose role will not change—to clarify which functions remain stable and to delineate what is new.

In the process of defining and clarifying the organization's new path, it will become apparent that some staff will be left behind. Try to create an environment where staff can voice their concerns and, ultimately, can choose to leave the agency with the knowledge that they have made the choice that was best for them personally as well as for the organization.

One of the most difficult aspects of moving toward this next level is firing staff who do not choose to leave voluntarily, and who clearly do not fit into the new organization. One effective tool to use in deciding which staff to keep and which to let go is a quadrant matrix designed by James Collins:

1. If employees make their numbers and have the right organizational values, keep them. These are the employees who will help you take your organization to the next level.
2. If employees don't make their numbers but have the right organizational values, keep them and work with them for a set period. If they still do not make their numbers, you may have to fire them. Making numbers can be taught; organizational values cannot.
3. If employees make their numbers but do not have the right organizational values, they will never fit into the organization, and can do more harm than good. These employees need to be let go.
4. If employees do not make their numbers and do not have the right organizational values, they clearly do not fit into the organization, and need to be let go.

Even when it is clear to all concerned that moving one or more staff members out of the organization is the only answer, the actual displacement process is difficult at best. Sometimes these individuals will have been with the agency for such a long time that their identity is closely tied up with that of the organization. As Carrie Portis, director of enterprise development for Rubicon Programs, notes, "Sometimes it is hard for a nonprofit to admit that a committed and loyal employee might not be right for the job."

Supervisors and managers should meet regularly with problem employees to discuss how their performance and/or attitude in the new organization do not fit. For those who must leave the organization, enough time should be allowed so that the employee can transition their existing workload or client caseload. In some cases, however, problem employees will need to be moved out as expeditiously as possible in order to preserve overall morale.

In addition, it is important to meet with all staff on an ongoing basis, to reinforce the perception that the agency is moving in a well-thought-out, positive direction. With these meetings comes the message that not all staff will make the transition—some by choice, others by necessity. Sending this clear, consistent message will help when the time comes for a staff member to leave.

Staff should be encouraged to ask questions, managers should be supported as they strive to build a qualified, invested staff, and the focus should be kept

on ways in which the change process will ultimately help both clients and the agency.

When our own organization, Community Vocational Enterprises (CVE), made the shift from treating business ventures as training vehicles to viewing them as market-driven businesses, several staff left voluntarily or had to be fired. Management made the mistake of not adequately preparing the staff. As a result, the changes were traumatic for remaining staff, and management was unclear on how to proceed.

Now CVE makes a concerted effort to address these issues head-on. Because the level of expectation for each position is clearly defined, and because staff rely on each other to achieve their individual and organizational goals, when one member of the team is not pulling his or her weight, the rest of the staff openly discuss the need for a change.

## **Building the New Team**

Whether you are working with existing staff or hiring new staff, it is imperative to know what characteristics you are looking for as you build the new team. Not only do you need clearly delineated job descriptions, you need people who appreciate how both the social and business sides of any given position fit into the organization as a whole. When interviewing prospective employees, look for candidates who can tolerate conflict (gracefully), who are open to differing viewpoints, and who appear willing to embrace change.

Building the foundation for a successful social purpose enterprise begins with the right leadership. Certain roles must be filled: a visionary to lead the organization forward; a financial expert to ensure that solid systems and practices are implemented; an entrepreneur to lend expertise and energy; and a support services champion to ensure that the organization does not lose sight of its mission, core values and client outcomes.

These roles need not be assigned to four separate people. Ideally, all management and board members will hold these values to varying degrees. Here's what they encompass.

**The Visionary:** This is a role that is usually filled by the executive director. In some cases the visionary role is taken on by the board who then hire an executive director to carry out their vision for the organization. In either case, there must be some basic agreement between the executive director and the

board as to the vision of the organization for effective growth of the business venture. The visionary is charged with bringing passion and direction to the organization, and to inspire the management under him or her to lead the organization to accomplish stated goals.

**The Financial Expert:** For the entrepreneurial venture to be successful, the organization needs someone who has a strong business and financial background. Generally, this position is filled by the chief financial officer. He or she has the responsibility of setting and monitoring fiscal goals, maintaining checks and balances within the entire organization, keeping an eye on external markets and trends, and ensuring that the “vision” is fiscally viable.

**The Entrepreneur:** This is the person with the passion and autonomy to build the business venture into a viable, competitive company. Entrepreneurs are generally driven by a strong desire to make the business a success at any cost, thriving on the challenge. It is not unusual for entrepreneurs to devote time to building the business, and to eventually hand off the daily responsibilities of running the venture.

**The Support Services Champion:** This role is generally played by a manager within the agency who has a strong investment in the social mission and core values of the organization. The support services champion is charged with ensuring that the visionary’s dream, the entrepreneur’s implementation, and the financial expert’s goals all stay focused on the primary reason that the nonprofit was originally started: to best serve the clients.

Most organizations already have their visionary leader, financial expert, and social service component in place. So let’s examine how to go about finding what you may be lacking—the entrepreneur to start your business.

Laura McLatchy, executive director of Youth Industry, describes the ideal candidate as someone who has “the right balance of confidence and humility, to both lead the employees and to learn from them. S/he is willing to take risks, but not foolhardy ones, has experience in management within the industry, and has both the head and the heart.”

When hiring an enterprise manager to start or expand your venture, a dream candidate would indeed be someone with a background in the business you are running; extensive management experience; a history of working with your target population; and a willingness to do all of this without owning a share of the business.

Unfortunately, “dream candidates” are hard to find. Your organization may need to hire someone without every attribute you’re seeking. Try to distinguish between skills that are essential and skills that can be developed through training. Hiring the right entrepreneur is key to the success of a social purpose enterprise, so don’t let time constraints pressure you into hiring the wrong candidate.

The following are the pros and cons of hiring candidates with strictly entrepreneurial, managerial, or client-focused expertise:

*Hiring an expert in the business that you’re running:*

PROS...

- Hands-on, practical experience in your business
- Knowledge of market, customer base, industry standards
- Often someone from the for-profit realm who is highly motivated and excited about “giving something back” to the community.

CONS...

- May not have experience working with your population
- May evince skepticism about how “work ready” your employees really are
- May have little experience supervising a diverse workforce
- May not have worked in an environment where there is limited capital and where implementation decisions may be slower and less autonomous

*Hiring someone with extensive management experience:*

PROS...

- Adept at motivating and managing personnel, and experienced in program development and implementation
- Likely to have experience supervising a diverse workforce
- Likely to adapt to your organization’s culture

CONS...

- May have little or no expertise in the specific business
- May have little or no experience working with a social mission
- May need help creating a business plan and making financial projections

*Hiring someone with social service experience:*

## PROS...

- Typically a promotion from within—which suggests alignment with your organization’s core values and mission
- Likely to have experience working with your target population or similar populations
- Probably well-connected with the community, which can alleviate concerns and help in gaining positive PR

## CONS...

- May have little or no direct business experience
- May require extensive business training
- May experience more problems managing the “double bottom line”

## Compensation Issues

Historically, nonprofits have paid significantly lower wages to their employees than for-profit enterprises. When you take on a social purpose enterprise you need to move past traditional nonprofit comparisons, and start looking at what for-profit companies are paying to recruit and retain qualified people in a specific industry.

You must ask yourself two fundamental questions, for which there are no easy answers: (1) Can you afford to compete with the for-profit companies to get and keep good people? (2) Should social program and business staff be compensated equally?

Most leaders in the social entrepreneurial field agree that to get and keep qualified people in your social venture, you must be willing to pay for them. You must look at what your competitors are paying their staff, and your salary base should be at least at the low end of the pay range

Says Rick Aubry, executive director of Rubicon Programs, “To think that people will be willing to sacrifice significant compensation because it is about ‘the mission’ is simply aggrandizing and not terribly realistic.”

Most nonprofit employees aren’t attracted to the nonprofit sector for the money, but for an interest in what the organization does and a desire to make a positive social impact. However, money is usually cited as the primary reason nonprofit employees leave the sector. Although candidates may want to work in their community, you must be realistic about the monetary sacrifice they would be willing or able to make.



Smaller social purpose enterprises would be hard-pressed to compete directly with for-profits, which can offer incentives such as stock options and dividends. Grants and public funds do not ordinarily allow for paying employees above the “standard” nonprofit wage. Traditional funders prefer that their dollars go into direct services. Therefore, each agency must review its overall budget to determine just how much its unrestricted funds can support.

Agencies should also consider non-monetary incentives, such as:

**Performance-based bonuses:** These should be tied to both business goals and social goals. The money for such bonuses should be built into the income projections for the business. Remember to check IRS guidelines prior to setting up such a structure.

**Vacation packages:** A generous vacation/sick leave package may be the sort of “perk” that your for-profit competitors cannot match.

**Appealing to the entrepreneurial spirit:** Managers of social purpose enterprises have a chance to join a new and dynamic field. For an entrepreneur, the opportunity exists to have all the challenges and experiences of running an exciting new business from the ground up, without having to put up their own money.

**The mission:** Don’t underestimate the power of people’s desire to work for a cause in which they believe. People who have extensive work experience in the for-profit world may feel like “something is missing,” and want a chance to fill that void in their lives.

Are social staff and business staff compensated equally? Social venture organizations have widely varying perspectives on this matter. At CVE, the pay structure is based on the requirements of the position, including skill level, experience, and education. Support service salaries are set slightly above those of other nonprofits for comparable positions, and business salaries are set to be competitive with the for-profit industry.

Other organizations funded by the Roberts Enterprise Development Fund have wrestled with this issue and have struck their own balances.

“The business side of AND is at the lower end of the pay scale for the private sector,” says Maurice Lim Miller, executive director of Asian Neighborhood



Design (AND). “We are at the higher end for social service. This maintains some semblance of balance, and we get good people. We have had some challenges accepting comparable requirements for some key positions because they are so much above the organizational pay structure.”

“We do have social and business compensation issues” says Laura McLatchy, executive director of Youth Industry. “For now, we try to be competitive within each field so that we can attract the best from each, but that means inequities exist—which we don’t really feel comfortable about. We don’t offer performance bonuses to social staff yet, but may in the future. This is a complicated issue.”

“We compensate everyone relatively well,” says Diane Flannery, executive Director of Juma Ventures. “There are no substantive differences between the social and the business sides. I wouldn’t bring in someone at the cost of having them at a much higher compensation rate. Most of the people we hire could go run their own business and get salaries twice as high, but money is not everything to them.”

Your own organization will have to decide its comfort level regarding divergent levels of compensation. Nonprofit wage and benefit surveys are a useful tool in working through this process. For business team salaries, newspaper and Internet job listings, as well as contacts in local for-profit industries, can help determine prevailing wages.

## **Conflict Between the Business Team and the Program Support Team**

Although the overall agency mission is the same, the attitudes of the business team and the program support team are likely to be very different. Business staff may complain that members of the support service staff don’t understand the importance of running the business ventures competitively, while support staff may perceive the business staff as caring about nothing but the bottom line. They may argue about who occupies the higher ground (moral or business) whenever there is a disagreement.

Here’s how such a conflict played out at CVE. Ben, a client working in CVE’s janitorial venture, had been employed within the venture for a period of eight weeks. At times, Ben showed up at the work site either several hours early or several hours late. His supervisor discussed with him the importance of showing up to work as scheduled and the consequences if his pattern of behavior continued. After numerous complaints about his erratic work

attendance, the customer using CVE's service threatened to cease using the service if Ben were not replaced. Finally Ben was sent back to the support service division of the organization to work on time management issues before he could reapply to the business venture.

The CVE social service team felt that Ben had been improving on his time management issues and should not have been pulled. They argued that the business team was more supportive of the work site's needs than of the client's. The business team was frustrated with what they perceived to be the support team's lack of business savvy and their failure to appreciate the expectations of employers.

When the support and business teams met to air their differences, both sides agreed that the decision made was ultimately best for both the client and the business. It is in neither the client's best interest nor the business's best interest to allow behaviors that would be unacceptable in the general community. And losing a work site means losing future training opportunities for future clients.

A certain degree of tension is probably bound to exist between social staff and business staff. By acknowledging the inherent conflict between the two philosophies from day one, it can be turned into a healthy tension. At CVE this principle is introduced as early as the hiring interview. In addition, it is addressed on a regular basis in staff meetings, retreats and during supervision. As a result, the inevitable clash of values has evolved into a more positive system of checks and balances.

### **Other Challenges, Other Changes**

Operating systems currently in place may prove to be ineffective in managing a social purpose enterprise. Accounting systems, as well as accounting staff, may not be able to handle the new financial requirements of a business venture. Marketing materials and methods may prove obsolete. Managerial, charting and protocol systems will also need to be implemented to deal with business and client issues that will arise. (How long can we afford to train an employee? When do we move good employees to a community employer? How do we best work with employees who have to cope with substantial issues outside their job?) It may prove worthwhile to use qualified consultants as these questions come up.

Other concerns that may need to be addressed include community stakeholder questions regarding your agency's new direction, especially if you have large staff or board turnover. Does this change mean that your agency now values profits and business over people? Be prepared to explain how your business venture fits into your social mission, and ultimately, how the inclusion of a business venture may very well ensure the long-term survival of the agency. Point out that the growth of business venture dollars means fewer taxpayer dollars are needed to support your programs, and that the clients you serve are receiving more for each taxpayer dollar spent. In addition, clients are relying less on government benefits and are now becoming taxpaying citizens themselves.

Earlier, we recommended that agencies interested in starting a social purpose enterprise interview nonprofits that have gone through this process and ask, among other things, "Given all you now know, would you do it again?" For our part, the answer is a resounding yes. The process has been painful at times, but it has provided CVE with richness in both staff and culture that would not otherwise have been achieved.

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