

Enterprising Non-profits

Introduction

In recent years, many non-profit agencies have learned the hazards of being too dependent on a single source of funding. In a bid to diversify revenue sources, some non-profits are launching business enterprises. These organizations are facing challenges as they seek to integrate entrepreneurial activity into their culture. In British Columbia, the Enterprising Non-profits Program has been helping non-profit agencies develop the skills and make the organizational changes necessary to launch successful enterprise initiatives.

The pilot project

The Enterprising Non-profits Program began in 1997 with a pilot project spearheaded by VanCity Community Foundation in partnership with Vancouver Foundation, the United Way of the Lower Mainland and VanCity Credit Union. VanCity Community Foundation acted as the project sponsor and the project was directed by a Steering Committee of representatives of each of the agencies. Additional funding for the initia-

tive was provided by the McConnell Foundation, and consultants were hired to assist in the design and evaluation of the pilot project.

The pilot project was designed to recruit, encourage and support 10 non-profit agencies to become more self-sustaining by developing small business enterprises. Lessons learned in the pilot project were incorporated into the design of the Enterprising Non-profits Program, which is now under way.

Breaking new ground

The Enterprising Non-profits Pilot Project was launched officially in the spring of 1997. Its goals were that each participating agency would: acquire the necessary attitudes, knowledge and skills to develop and implement an effective business enterprise; make the necessary organizational changes to be more financially self-sustaining; and establish at least one new business enterprise which would be profitable within three years after completion of the pilot project. In addition, the project aimed to develop a network of non-profit

agencies involved with business enterprises in order to encourage the sharing of information, resources and skills.

The project had five phases. An evaluation team provided feedback at the end of each phase so that modifications could be made to enhance the effectiveness and efficiency of the project. Four different questionnaires were administered to participants as the project unfolded. In addition, participants completed evaluation forms after each training session and workshop. In-depth interviews were conducted with representatives of each of the 10 participating agencies, and with the two facilitators who conducted the training sessions. Finally, in April 1999, a forum was held to inform participants about the key findings of the pilot project and to obtain feedback regarding future steps.

Phase One: Selection of participants

The Steering Committee developed qualifying criteria to guide the selection of organizations for the pilot project. To qualify, an organization had to have charitable tax status, employ between 15 and 100 people,¹ and have a mandate related to affordable housing, youth, environment/ecology or reduction of poverty. Applicants were asked about organizational processes and policies, and were required to provide audited financial statements for the past two years, outline their business ideas and indicate how much start-up capital they were willing to commit.

More than 1,000 announcements were sent to non-profit organizations in British Columbia and 53 completed and qualified applications were received. The 10 participating agencies were selected based on their business ideas, committed start-up capital and organizational capacity; apparent need for project assistance; and div-

ersity in agency type, size, mandate and location. The organizations had varied mandates: four assisted, empowered or supported youth; two worked with people with developmental or physical disabilities; two provided community and health services; one assisted immigrants to integrate into Canadian society; and one provided assistance to developing countries. The non-profits varied in size from an agency with only three full-time staff plus contract staff to one with 75 full-time staff. Most had between 25 and 36 full-time staff.

The business ideas of the organizations were equally varied. A life skills organization wanted to run a 'snack basket' catering business. The international development organization was interested in developing a fair trade coffee business. Two organizations sought to create businesses collecting and reselling materials that would otherwise go to waste. An organization for people with disabilities aimed to turn aspects of its vocational programs – such as mail handling and packaging – into a revenue-generating enterprise. Another agency hoped to renovate its commercial property to include a coffee shop and tourist gift shop as well as offices for its operations. A child care association hoped to operate a community family resource centre.

Several agencies were interested in human resource businesses. One sought to match skilled immigrants with businesses that were looking for staff; another planned to operate a human resources consulting company for small firms that lacked an in-house human resources department; and the third hoped to offer health, safety and wellness clinics to local employers.

As the pilot project revealed, the organizations also had varied capacities to develop and implement their business ideas.

Phase Two – Organizational assessment and orientation

Project staff designed a tool to assess organizational ‘health’ and spent one or two days in each of the 10 agencies interviewing staff and attending meetings. The strengths and weaknesses of each organization were assessed in relation to the requirements for launching a business venture, and a set of goals was developed for each agency. These goals ultimately formed part of the contract that the agency board chair and executive director signed prior to formal admission to the project.

Immediately following the assessment, and before the signing of the contract, a workshop was held at each agency. The workshop aimed to orient board members and senior staff to the project and prepare them for the changes the agency would need to undergo during the preparation for, and launch of, an enterprise. It covered business idea brainstorming, issues in business development and activities the board would need to undertake in the coming months (primarily policy and structural decisions).

The workshops were well received, and a number of participants commented that they liked the interaction that occurred between board and staff members. Most felt that involving the boards in the workshops helped facilitate buy-in and ownership of the process. However, as part of the final project questionnaire, several respondents expressed concerns about the lack of continued board development and training during the project, noting that the support and involvement of an organization’s board was critical to business success.

Phase Three: Training and coaching

After the individual agency workshops, six one-and-a-half day training sessions were held in

Vancouver. These group sessions were intended to help the organizations move through the classic stages of business plan development and to provide information about the nature of organizational change. They also provided participants with tools for analysis and change processes that could be used to adapt traditional non-profit culture to one that included business activity. Between the training sessions, project staff were available to assist the agencies.

Each training session had several essential pieces of ‘homework’ which needed to be completed before the next session could proceed with efficacy. It soon became obvious that agencies were not keeping up, for a variety of reasons that included changes in social service organization instigated by the provincial government. A more fundamental reason was later acknowledged by all participants in evaluation interviews. Contrary to the contract provisions, only three agencies had actually assigned the equivalent of a full-time person to complete the project tasks. In addition, most (80 percent) of the agencies experienced turnover of key staff involved in the project. Says Margaret Mahan, one of the three full-time project staff assigned: “The classic dilemma of non-profits was in place – a need to produce something new without adequate resources to develop and launch. Compounding this problem was a disbelief that a business plan and attendant activities would actually require such a significant commitment of human resources.”

By the end of the sixth training session, only four agencies had completed business plans, and only three of these had dealt with the significant organizational changes needed for a business launch. In light of this circumstance, the training component was modified and extended by several months.

Phase Four: Mentoring

The project design initially called for provision of a year of follow-up mentoring services to assist agencies as they put together financing packages, launched their enterprises and encountered start-up issues. However, the extension of the training component shortened the period available for mentoring, and support was directed primarily toward completion of business plans. In general, support services were underutilized, although some agencies made extensive use of staff time and all made progress.

During this time another ‘reunion’ session was held, at the participants’ instigation, and several agencies made presentations of their business plans, no matter what stage they were at. The significance of this event lay in the very clear message participants sent to the evaluation team regarding how important the group dynamic of the training component had been to them. Most participants felt that they had benefitted from the experiences, knowledge and skills of the other participants.

Phase Five: Ongoing monitoring

Final questionnaire responses from six agencies showed optimism about the potential for their business enterprises. One organization’s enterprise was already making a small profit, while another expected to generate a profit in its second year of operation. Two agencies had hired a business or general manager to improve marketing and promotions in order to help them reach their goals. Two others whose business plans addressed the renovation of buildings reported substantial progress. One had funding commitments for more than 50 percent of its \$1.4 million project, and the other had renovated part of a newly acquired building and was planning to renovate the rest for rental to other businesses.

Most of the agencies indicated that they had undergone substantial organizational changes in support of these enterprises (e.g., hiring specialized staff, recruiting board members with business or financial experience and working towards separate incorporation of the business). Individually and collectively, participants benefit from the training received, and several organizations reported having a much better appreciation of the business development process and the steps necessary to ensure business success.

Building on these findings, the partners developed a draft proposal for a revised Enterprising Non-profits Program. In April 1999, a forum was held to inform participants about the key learnings from the pilot project and to obtain feedback on the draft proposal. This forum was attended by about 75 people representing the agencies that participated in the pilot project as well as individuals from other interested non-profit agencies.

Building on the lessons learned

Based on the results of the pilot project, the United Way of the Lower Mainland, the VanCity Community Foundation and the Vancouver Foundation agreed to continue financial support for non-profit enterprise activity. The lessons learned from the pilot project were incorporated into the new Enterprising Non-profits Program.

A key lesson from the pilot project was that enterprise initiatives need to be consistent with the agency’s mission, values and goals. David Driscoll, Executive Director, VanCity Community Foundation says: “We learned from the pilot project that the closer the business enterprise is to the agency’s current values and activities, the greater was the potential for commitment and success. Therefore, the goal of the

funding program is to support non-profits to develop enterprises that are linked with their charitable mandate and contribute to organizational sustainability.”

A funding program was developed to provide matching grants of up to \$10,000, to be used over a two-year period for the purchase of technical assistance for business planning and organizational development. According to Lesley Anderson, who worked with the VanCity Community Foundation on the project: “Feedback from participants in the pilot project suggested that while they needed training, they very much wanted to be able to tailor their own development process – hence the decision to provide funding for the provision of technical assistance. It was very clear from the pilot that organizational development and capacity-building were essential before business planning could take place. The matched grant program provides funds for both organizational development and business planning.”

The requirement for the grants to be matched by the participating organizations addressed one of the other key lessons from the pilot project – the need for real organizational commitment to the entrepreneurial effort. Moreover, the assessment criteria for the new round of funding included the requirement for “a demonstrated commitment from the organization’s board of directors that they have begun organizational assessment and development and initial market research and planning.”

The new funding program also addressed the hard-learned lesson from the pilot project that sufficient staff resources must be dedicated to the enterprise initiative. The new funding criteria required that agencies interested in receiving grants designate a staff person or persons who would be responsible for the initiative.

Enterprising Non-profits lessons learned:

- *Enterprise initiatives need to be consistent with the agency’s mission, values and goals.*
- *Ensure board and staff commitment and involvement*
- *Dedicate staff responsible to business enterprise.*
- *Include people with business experience on your board.*
- *Strive for staff continuity throughout the initiative.*
- *Use external resources (e.g., business advisors, other non-profits)*
- *Allocate the time you need and double it.*
- *Expect the organization’s culture to change and support this transition.*

It became clear during the pilot project that many participating organizations had underestimated the demands inherent in developing a business enterprise. Valerie Hunter, a program director at the Vancouver Foundations, says: “A key recommendation from participating groups was that it was critical for other non-profits contemplating the start-up of a revenue generating initiative benefit from the learnings of the pilot program. Forum participants recommended an orientation session be a requirement to qualify for funding. In addition, they insisted a fee be charged so potential applicants would take the session and the information provided seriously. They knew the challenges and wanted others to be fully aware of the human and financial commitment required so that they might be spared some of the agony they had experienced.”

To address this problem, the Enterprising Non-profits Program partners decided that any organization wishing to apply for a matching grant would have to attend an orientation session

that would spell out the challenging nature of enterprise development and the need for significant organizational capacity.

Beyond the pilot project

An orientation session was held in November 1999 to help prospective participants assess their organization's readiness to engage in a revenue-generating initiative before they made the decision to apply for funding. The orientation session also provided the opportunity for organizations to hear from other non-profits who had started enterprises.

Following that session, 10 applications were received. In March 2000, the program provided matching grants of \$10,000 to three organizations, and a grant of \$5,000 to one. These included a crisis society that planned to develop and market crisis and suicide intervention training workshops to other organizations and community groups; an association for community living that developed a woodworking co-operative of developmentally disabled youth; a food security organization that was investigating a variety of business options; and a family and youth agency hoping to develop a self-sustaining community-based enterprise to provide continuous employment to women with low incomes.

Another orientation session was held in September 2000. Subsequently, three more grants were awarded – to a neighbourhood house, with a café/kiosk that would provide on the job training for clients enrolled in an employment program; a developmental disabilities association that planned to formalize and expand its packaging business employing adults with developmental disabilities; and a media and policy institute that developed a communication services business targeting non-profit organizations.

The second round of the 'new' Enterprising Non-profits Program is now under way. In year two of the program, a total of 18 organizations received grants for business planning and organizational development activities. Grant requests were submitted from various types of non-profits, including disability organizations, family and community service agencies, youth employment programs, a seniors association, immigrant and multicultural services agencies, and a transition house, just to name a few.

The interest in the funding program continues to grow. A total of 39 organizations attended the two orientation sessions in 1999-2000 and, of these, 13 submitted applications for funding. In the second year of the Enterprising Non-Profits Program (ENP), 52 organizations attended the orientation sessions and 27 submitted funding applications. Daisy Quon, Planning Consultant, United Way of the Lower Mainland says: "We have seen an increased interest in the ENP program and in the number of applications. Regardless of the reasons for involvement – political climate, a desire for greater autonomy and increased recognition of the 'value' of the non-profit sector – this interest reflects a growing awareness of the potential for an enterprise to contribute to enhanced service delivery and the sustainability of a non-profit organization."

Groups attending orientation sessions do not always apply for funding. Says Irene Gannitsos, Enterprising Non-Profits Program Coordinator: "Informally, groups have indicated to us that they required more time to prepare their ideas and work with their boards to be sure they are ready for and interested in pursuing a business venture. Many groups seem to move back a step or two before going into the business plan phase." This is not surprising, given that one of the findings of the pilot project was to double the time people thought a project would take.

It is not easy to run a successful small business. It is even more challenging to make money while accomplishing social development objectives. Mauro Vescera, Program Director, Vancouver Foundation, sums up the experiences to date. “We find that a non-profit culture often resists change of any kind. The successful organizations are the ones that are able to respond and embrace change. They become more dynamic and willing to take risks, and are more strategic with their human resources. They have become more pragmatic in responding to the marketplace by pricing their products or services more aggressively instead of just giving everything away.”

The experience of the Enterprising Non-profits Program shows that non-profit organizations can generate revenue while advancing their social missions – if they are realistic about the demands and prepared to make the necessary commitments.

Ann Simpson

Ann Simpson works on the ‘community stories’ series for the Caledon Institute of Social Policy.

Enterprising Non-Profits Program Coordinator Irene Gannitsos can be reached at (604) 871-5477 (Irene_Gannitsos@vancity.com).

More information is also available from the funding partners: Sidney Sawyer, VanCity Community Foundation (604) 871-5373; Mauro Vescera, Vancouver Foundation (604) 688-2204; and Daisy Quon, United Way of the Lower Mainland, (604) 294-8929.

Endnote

1. The rationale was that a minimum number of employees was necessary to undertake successfully a business launch and look after regular agency activity but larger agencies should be able to self-finance their own business development process.

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1600 Scott Street, Suite 620
Ottawa, Ontario, Canada
K1Y 4N7
Canada
Ph: (613) 729-3340 Fx: (613) 729-3896
e-mail: caledon@caledoninst.org
website: <http://www.caledoninst.org>

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