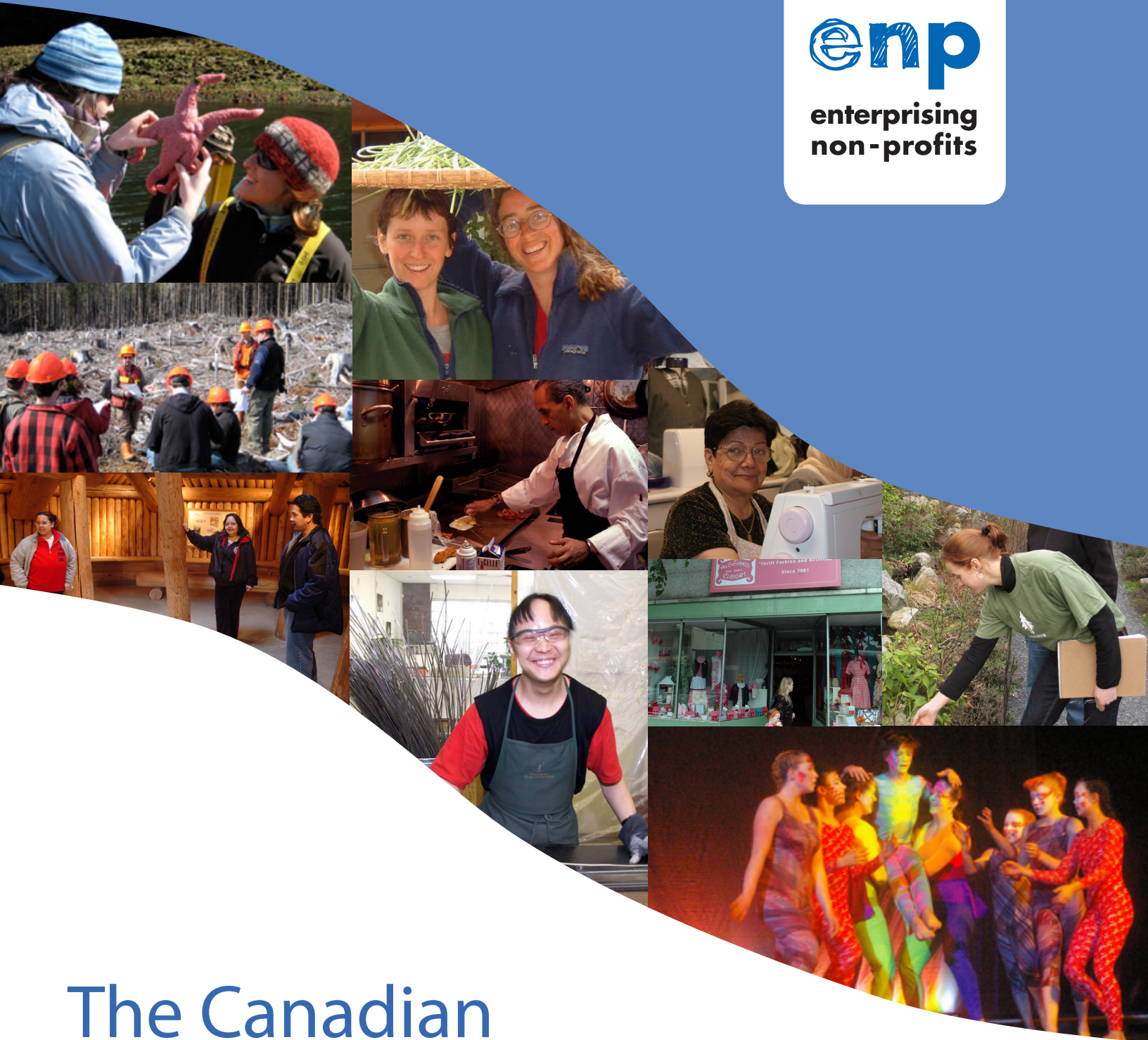




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The Canadian Social Enterprise Guide

2nd Edition

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The Canadian Social Enterprise Guide

2nd Edition

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About Enp

The Canadian Social Enterprise Guide is a publication of the Enterprising Non-Profits Program (*enp*). *Enp* provides support to non-profit organizations that are starting or expanding a social enterprise, using a business model to meet a market need, further their mission, and/or contribute to their sustainability. *Enp's* mandate includes improving access to information and research about social enterprise and providing tools for practitioners and funders in the field.

The Canadian Social Enterprise Guide is just one component of *enp's* commitment to providing resources to the social enterprise sector.

Our Supporters

The Canadian Social Enterprise Guide was developed and written based upon the experiences of non-profit organizations, funders, and consultants engaged in the field of social enterprise across Canada. This resource would not have been possible without the support of *enp's* general funding contributors whose support has contributed to creating this Guide:

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The *Canadian Social Enterprise Guide* is available online as a pdf or in hard copy, at an accessible price. For more information on pricing and ordering, send an e-mail to: info@enterprisingnonprofits.ca or visit us on the web at www.enterprisingnonprofits.ca.

Introduction

If you're thinking about starting an enterprise activity that will support both the mission and financial needs of your non-profit organization, this is the Guide for you.

You may be the leader of a non-profit organization facing challenges related to delivering programs on a tight budget, or a board member who has heard about a different approach to providing a service. You may be responsible for a program that has seen funding diminish over the years. Or you may be the fortunate recipient of some new assets that could be used to benefit the clients you serve or your organization's financial bottom line. If you're interested in exploring approaches to generating revenue or offsetting costs by using an approach other than knocking on doors or writing funding proposals, then you're in good company.

More and more non-profits are exploring income-generating enterprises as a way to:

- enhance their programs and services;
- achieve their missions more effectively; and
- generate new revenues that enable them to stabilize and diversify their funding bases.

These non-profits are developing innovative ways to meet social, cultural, and environmental needs. They are also seeing the benefits of challenging their organizations to generate resources through the marketplace. For these non-profits, thinking like a business provides an advantage that is well worth the challenge it poses for their organizations' non-profit culture.

Between the wishful thinking and the execution of a business idea are the successively demanding steps involved in planning an enterprise. Their importance is often understated. Unfortunately, skipping some or all of the planning steps can lead to organizational dilemmas, or even disasters, when unanticipated problems arise, as they always do. Fortunately, good and thorough planning can mitigate organizational risks, improve communication, and increase your non-profit enterprise's chances of success.

Most available resources are based on American experience, leaving significant gaps in terms of Canadian context, culture, charity law, and other regulatory issues. To support the efforts required to properly think through and plan a social enterprise in Canada, we have produced this exclusively Canadian resource for Canadian non-profits and co-ops.

Why we wrote this Guide

While enterprise development among non-profits has grown

exponentially in the past few years, many non-profits still face great challenges in getting their ideas off the ground. If they can readily access the best available information about how to plan their social enterprises, the road toward start-up will be less stressful, and their businesses more likely to succeed.

Specifically, non-profits have indicated a need for information in clear language about the following questions:

- How can you tell if your group is ready to embark on a social enterprise?
- What are the steps in a social enterprise planning process?
- How do you identify and assess enterprise opportunities?
- How do you plan for a social enterprise?
- How can you measure social returns in a business setting?
- What do you need to know about the legal context?

To ground the Guide in reality, we talked to leaders of non-profits across Canada that have started and are operating social enterprises. We also based our approach on our experience at the Enterprising Non-Profits Program (enp), which funds and supports non-profits to plan, develop, and strengthen their social enterprises.

Who this Guide is for

This Guide is primarily for project managers, executive directors, board members, and staff of a wide range of organizations that are starting to develop or think about creating a new enterprise or expanding/formalizing their existing revenue-generating programs.

The Guide will also be useful for students, corporate social responsibility businesses, government, industry, consultants and funders.

How to use this Guide

You can use the Guide either just as a primer to learn about social enterprise or specifically as a workbook. Each section includes templates that you can adapt to your particular situation. We have included a variety of vignettes that show how different types of organizations and social enterprises have addressed fundamental challenges, and how they have prepared themselves for success by committing significant effort to planning. We have also tried to present several alternative approaches to each of the planning tasks that you face. There are additional resources including a podcast series dedicated to social enterprise development and a searchable database of worksheets, manuals, case studies, and news items available to you for free at www.enterprisingnonprofits.ca.

Chapter 1. The What and Why of Social Enterprise

While social enterprise has been around for a long time, it is currently experiencing an unprecedented evolution and emergence as a valuable tool for community development and non-profit sustainability. What ten years ago was being touted as innovative practice is now a significant element within non-profit sector program delivery options; it is gaining a place in public policy, and it is achieving new levels of market success.

Along with this growth of social enterprise has come an increasing interest among non-profits and their funders in learning about what social enterprise is and how it can contribute to social mission and community outcomes. This introductory chapter provides a basic context for social enterprise development in our country.

Specifically this chapter describes:

- the growth of social enterprise in Canada;
- how social enterprise is contributing to healthy and sustainable communities;
- our definition of “social enterprise” and related terms;
- answers to common questions about social enterprise;
- reasons why groups decide to start a social enterprise;
- benefits of starting a social enterprise;
- the range and types of non-profit social enterprises.

The growth of social enterprise

Operating social enterprises is not new

For non-profits and charities, operating an enterprise is nothing new. Museums and art galleries have long operated gift shops as a way to generate revenue to support their exhibits and promote arts and culture. Service organizations such as the YMCA and YWCA have used fee-based programs to support their charitable activities. Co-ops have been a thriving social movement since the 1800’s in Canada. And many non-profit social service or relief agencies have operated thrift stores as a way to generate revenue for their activities or provide low-cost goods to the community.

Today we can all point to non-profits that earn some portion of their annual budgets from earned income activities such as charging fees for services, selling publications, or leasing out office space or equipment.

Reasons for the recent growth of social enterprises

There are four major reasons social enterprise is gaining in popularity among non-profits and charities in recent years: the understanding that there are some needs the market will never meet on its own; the opportunity to advance mission-related goals; diminished and changing nature of government funding; and the promise of social enterprise as a vehicle for social innovation.

Diminished government funding

Non-profits and charities continue to be faced with the pressure to diversify or raise their own revenues due to significant changes in the government's role in providing social and other services. Changes include cutbacks to funding, demands for greater accountability, and the devolution of public services to the private sector. Government funding programs are becoming increasingly oversubscribed and more difficult to access, especially for newer or emerging non-profits.

Where government at all levels has withdrawn from providing many community and social services, some non-profit organizations have stepped in to fill the gaps. An example of this is a women's resource centre that has started a property management company in order to generate revenue for the organization's charitable purposes.

Government funding relationships with non-profits have also shifted as services have been devolved. Some non-profits are now contracted by government, in the same way that some private corporations are, to undertake service delivery.

For the non-profit in this situation, it is a step into the world of social enterprise, preparing proposals in response to tenders, negotiating and fulfilling contracts, with the government as customer. It requires an entrepreneurial bent and financial planning systems, from which some non-profits have scaled limited government contracts into full-fledged social enterprises.

Meeting needs the marketplace does not fill

Non-profits understand that there are needs that the market will never meet on its own. More and more non-profit organizations are creating revenue-generating businesses that provide social benefit in areas where the market has not responded.

In the field of community economic development (CED), the greatest incentive has been to provide employment and training for individuals who face significant barriers to participating in the workforce.

Training programs that provide supportive work environments have learned to capitalize on clients' need to enter the labour market by operating as businesses. These businesses can generate work experience

and will sometimes provide less costly goods and services for a disadvantaged community. Two examples are a cafeteria that trains street-involved youth to prepare low-cost meals for people with chronic health issues and a woodworking studio that sells goods created in a supportive work environment.

Increasingly, social enterprises are emerging as totally new non-profit organizations that are created out of community advocacy efforts to meet needs that are not being addressed in the marketplace. For instance, social co-operatives are initiated by communities to provide meaningful employment for persons with disabilities. And new environmental social enterprises such as market gardens, tree nurseries, and car- and bike-sharing co-operatives have arisen out of the work of community volunteers. Many environmental activities that are now considered mainstream activities were originally developed by or as innovative social enterprises.

Potential to further the organization's mission

Non-profits are becoming increasingly aware that social enterprise offers another approach to advancing their organization's mission.

A social enterprise can meet the needs of clients and their community and at the same time, the organization's clients can gain a valuable set of skills. This type of enterprise may offer services that increase the organization's ability to deliver on its mission, or sell items that promote the organization's mission. Examples include social enterprises that provide professional and consulting services to existing and new markets, such as translation services, counselling, communications services, disability awareness, and fee-for-service home care. A specific illustration is a community group that opens a dental clinic to provide treatment but also functions as a preventative health centre for children and their families. As the clinic markets its services, it simultaneously improves awareness of the importance of prevention, and teaches dental hygiene skills. Non-profit housing providers are already in the business of being landlords. Recently, more housing providers have been exploring ways to further their mission by creating jobs for their tenants that they would ordinarily contract out to private providers. Examples of this are grounds keeping, painting, cleaning, and food services. Often these enterprises start as employment programs within non-profit housing and evolve to full-blown enterprises with a broader community clientele.

Arts and culture organizations often rely on revenue generating activities to increase their self-sufficiency and address their mandate. They operate revenue-generating performance spaces, galleries, and concert halls as a primary way to achieve their mission of promoting the arts. They may also commercialize products (for example, sell art) even when their primary activities are focused on education and training programs. Increasingly the promotion of creative industry and the arts as social enterprises is being employed as a strategy for neighbourhood or



Inner City Renovation

is a general contractor and construction manager located in Winnipeg, Manitoba.

It was initiated by Community Ownership Solutions Inc, a community development corporation (CDC) with a mandate to create quality jobs for low income people in Winnipeg's inner city.



Photo: J. Kowal

The Cleaning Solution

is a contract cleaning company with a focus on quality, health and environmental safety.

Their mandate is to help individuals recovering from mental illness who are ready and able to return to the workplace.

regional development.

In sum, Canadian non-profit organizations have been looking for and have found new ways to replace or adapt to diminishing and changing government funding, to meet needs that the marketplace has not filled, and to meet their clients' needs in creative ways.

Inner City Renovation

The biggest reward you can get in starting a social enterprise is to see the change you're making to people's lives. We've paid more than \$1.4 million in wages and benefits since start-up. If you can imagine the difference that makes to households — that is just huge. And imagine the difference to people's self-esteem and their personal relationships. Think about having a health plan, social networks, and social supports.

Every month, we have social activities. This month we're going to a ball game, bowling, to play billiards, and on retreats. When someone is sick, there is support. It's a real community, and people know they're part of something that's bigger than just the individual and the job. One of our employees had a heart attack coming to work and died on the spot. He was 32 years old. And everyone in the company came to his funeral. We had an Aboriginal service, with an elder, where we talked about our relationship with the man who died and received something of his to remember him by. I received his tool belt. We've created a caring community where people support one another.

This is what social enterprise is all about, these are things that are hard to quantify, and even harder to talk about. -Marty Donkervoort

The Cleaning Solution

There is a sheer abundance of non-monetary rewards that I receive from day to day: the beaming smile when a new employee slips on a company shirt, the strenght of the connectedness employees feel for their job sites, the unwavering loyalty to the company, the appreciation for work and for performance feedback. -Shaugn Schwartz

Social enterprise as a vehicle for social innovation

In the same way that communities, governments, and for-profits have looked to non-profits to address some of our most pressing social problems, social enterprise is now seen as a promising vehicle for social innovation. The growth of social enterprise around the world has provided the opportunity for non-profits to create new integrative approaches to environmental sustainability and to health and social care through social enterprise.

A new generation of social entrepreneurs who want to be part of the

solution to major social issues are inspired by this new potential for social enterprise. They are bringing their business and social skills to the table, along with a passion for designing and leading innovative projects that bridge private enterprise and non-profits and exploit the best of both those worlds.

Contribution to Sustainable Communities

Today the social enterprise sector is also becoming recognized as key to building healthy communities. In addition to creating new jobs and enabling non-profits to sustain their services, there are many areas where social enterprises are positively impacting healthy and sustainable communities. These include:

- **Addressing Environmental Issues:** Recycling, education, eco-tourism, car-sharing – all are social enterprise models of addressing critical environmental issues.
- **Stimulating Economic Revitalization:** In specific communities social enterprise is a key element of economic diversity and early development particularly in inner-city and depressed rural communities
- **Reducing Poverty:** Poverty is attacked by social enterprises by providing the training, skills, resources and related opportunities for a living wage, building affordable housing, and operating appropriate support systems to move low-income persons out of poverty permanently.
- **Providing Accessible Health Care:** In rural communities, for immigrants, low-income families, seniors, and others, affordable and accessible health care is critical.
- **Integrating Immigrants:** New Canadians are a vital component of many communities, and the effective integration of their skills and culture can be offered through social enterprise.
- **Providing services and products to an underserved community:** Social enterprises are effective and efficient at helping meet the basic needs for the hardest to serve in many communities.
- **Developing social and cultural capital:** Social and cultural capital are key elements of healthy communities, and many social enterprises address these needs.

About the key terms in this Guide

A broad definition of social enterprise: A business directly involved in the production and/or selling of goods and services for the dual purpose of generating earned income and achieving or contributing to social and/or environmental aims.

Definition of social enterprise used in this Guide: We use the term social enterprise to refer to business ventures operated by non-profits, whether they are societies, charities, or co-operatives. This Guide does



Live Local Alberta is a not-for-profit corporation dedicated to helping communities and independent businesses thrive. Live Local encourages local purchasing by consumers and businesses and helps connect local economies together in a network of trade. One way they do this is through the Eat Local First program which educates Edmontonians on the importance of shopping and eating locally. Eat Local First also operates a food delivery service which connects consumers with local farmers.

not focus on for-profit businesses or for-profit co-operatives, even if they achieve a social purpose.

Non-profit enterprise: Throughout the guide, we use the terms social enterprise and non-profit enterprise interchangeably. Both refer to an enterprise that is operated by a non-profit. Social enterprises and non-profit enterprises are both defined by the fact that they are businesses (or ventures or enterprises).

Business, venture, enterprise: This guide uses these three terms interchangeably. A business (venture/enterprise) involves producing and/or selling goods and services, for a direct market exchange of monetary value, on a regular, continuing basis.

Blended value: Value that consists of a blend of economic, social, and environmental components. While non-profits are generally thought to be responsible for generating social and environmental value and for-profits for generating economic value, in fact both types of organizations generate all three value sets, in different proportions.

Social entrepreneur: Any person, in any sector, who uses entrepreneurial principles and earned-income strategies to pursue sustainable solutions to social problems. Social entrepreneurs differ from traditional entrepreneurs in two important ways:

How many social enterprises are there?

While there is no research that can provide a definitive answer to this question, the Canadian Revenue Agency (CRA) does collect statistics on how charitable organizations generate revenue. In addition, in 2002, CRA asked organizations to report revenue from three different sources. Two of these sources were government and fundraising. The third source was a category that encompassed market-driven activities. These activities included charging fees, receiving revenue from the rental of assets or sale of services and performances, and selling hard and soft property.

On the third source, market methods, Canadian charitable organizations reported generating gross revenues of \$27.9 billion in 2002. To put this figure in context, the reported gross

revenues of charitable organizations for market-driven activities in Canada represented over 2.8 percent of Canada’s 2002 gross domestic product.

In total, charitable organizations reported 43,795 instances of revenue generation through these activities. The most prevalent activities across Canada included the following:

Type of activity	
Rental of halls and equipment	7,678
Education, courses, seminars, conferences	5,363
Food, cafeteria services, meals, catering	4,417
Bookstores, publications, tapes	4,061
Shelter, rooms, housing	3,645
Artistic performances, theatre, concerts, exhibitions	2,933

- their earned income strategies are tied directly to their mission; and
- they are driven by a blended value proposition... a balanced consideration of financial, social, and environmental or cultural returns.

Social entrepreneurs assess success in terms of the impact they have on society as well as in profit and return on investment. Many social entrepreneurs work through non-profits and citizens groups, though not all do.

Common questions

The following are some of the common questions people have when they first start thinking of starting a non-profit enterprise. These questions will be addressed more fully later in the Guide.

Is it legal for a non-profit to operate a business?

The short answer is yes, but this Guide contains a full chapter (Chapter 7) on the complications and qualifications.

Do non-profits have the capacity to start and run businesses?

There are real differences between the skills required to start and run a non-profit and those required to start and operate a business. The good news is that many of the business skills can be acquired in the non-profit context.

Setting up and operating a successful enterprise requires many of the same aptitudes required for being a successful service delivery agency: a desire to meet a need (or demand), an ability to balance many competing interests, a capacity for planning and people management, and an ability to make tough decisions.

There are people with business skills who are interested in helping non-profits attain their goals. They can share their expertise for a good cause.

Non-profits share with entrepreneurs a vision of creating a better future and a commitment to following through to see it happen.

How will this process change the relationship between the board and staff?

Governance issues are never easy to deal with, but navigating them is an essential part of the ability of a non-profit enterprise to meet its goals and be successful. Board members need to work together with staff, share information, and make certain decisions. Everyone in the organization must be prepared to identify, manage, and take measured risks.

In the end, starting up a business can raise the level of board discussion, utilize board members in new and meaningful ways, and even bring in

board members with new skills.

Will our organization earn revenue and become independent of other funding sources as a result of starting a social enterprise?

Possibly. Social enterprises vary in the amount of revenue that they earn. Like any small business, they are unlikely to earn a profit in the first three to five years of operation. In fact, in the early years, they are likely to require a significant investment of time, energy, and money, as they become more efficient, and the product or service builds credibility and a market. Also, just like other businesses, social enterprises must continue to reinvest in the business to stay relevant and to grow.

As they become more successful and known in the marketplace, social enterprises can bring in anywhere from 5 to 100 percent of an organization's revenue. Thus, in some cases, an enterprise will earn only part of the revenues required for it to achieve its goals. This is particularly true for enterprises that provide training and work for persons needing employment supports. For these, funding from government and foundations will almost always be needed to offset the costs of training and special workers' accommodations that private workplaces do not generally provide. Ultimately, you will have to decide whether the social benefits are worth the effort of fundraising or generating the additional revenue through other sources.

Chapter 5 discusses the importance of developing realistic financial projections as a key component of your business plan.

Should our proposed business be integrated into, or separated from, our charitable activities?

The answer to this question depends on many other issues and needs to be addressed from several perspectives, including the legal implications, as discussed in Chapter 7. Many enterprises are run as a division of a non-profit, without separate incorporation and governance. At the most basic level, start by separating the enterprise's financial record-keeping from that of other programs or departments in your organization. This will enable you to track the business's financial progress and make more timely business decisions.

At a structural level (separate staff, separate buildings, etc.), arguments can be made either way in the abstract, but in your real case you will find that there will be many factors to take into consideration.

Reasons for starting a social enterprise

There are many different reasons why non-profits think about starting a social enterprise. They range from purely financial to purely mission-based. Most often, they're some combination, a blend of the two. In the course of using this Guide, you will have an opportunity to articulate your

reasons for wanting to start a social enterprise and to assess them in a grounded and realistic way.

Check to see if any of the following are similar to the reasons why your organization is considering running a business:

We have purchased, been given, or fostered an asset that would allow us to look at generating revenues. It represents a great opportunity for us.

A non-profit may have a unique asset such as a lodge, a heritage house, or a new community centre. Given the physical asset, the non-profit has the opportunity to examine whether it could generate revenues through new social enterprises that would be housed within the space or through rental of the space.

For years, museums and art galleries have used some of their space to operate gift stores to support their services, promote local artists, and generate revenue. Recently, more non-profits are looking at the feasibility of purchasing their buildings and using rental income for unused space to offset their mortgages/operating costs. Some of these enterprise ideas include creating a media centre that would rent space to independent filmmakers, or renting storefront space to another non-profit or business in the community.

Assets can be more than physical property. They can also include human assets such as staff experience and expertise or clients' skills; or intellectual property such as an innovative service approach, data-base, proprietary software, or a product that grows out of a project.

We want to diversify our funding. We think that running a business can provide us with an unrestricted source of revenue. This could help us with some of our core administrative expenses.

True, social enterprises can provide non-profits with the opportunity to diversify their sources of revenue. However, social enterprises are not likely to be the solution to financial problems in the organization. For one, in the initial years, a social enterprise requires a non-profit to invest significant time, money, and staff resources to ensure its success, long before any surplus is generated. An organization interested in starting a social enterprise should anticipate that the business will not start generating profits for three to five years after it is launched. It is a long-term strategy for a non-profit, not a short-term solution. Beyond that, many mission-based social enterprises simply aim for breakeven.

We currently operate free programs/services for low-income clients in the community and want to see if we can sell these services/programs to new markets.

If you have programs or services that you offer to the community as part of your charitable or community mandate and have developed staff

"I believe that social entrepreneurship will be the driving force in the world over the next 100 years, the single biggest movement that's going to change the way we live."

- Jeff Skoll, founder of e-bay and a philanthropist in the field of social enterprise.

expertise and the organizational capacity to deliver them well, it is a logical next step to look at whether there is a further market that will pay for these services.

These potential customers might include the general public, government, the business community, or other non-profits. The key is to think of these skills and experiences as organizational assets, and to be realistic about potential new markets.

Some examples include: counselling services in a specialized area of expertise; interpretation and translation services in many languages; cross-cultural, diversity, and disability awareness training; conflict mediation; or community nursing services.

Chapter 4 discusses an approach to identifying a business venture that can come from what your organization is currently doing.

We already provide some fee-for-service programs in the community. We want to examine whether these programs can generate more revenue if we operate them in a more business-like manner.

Many organizations are already charging a fee-for-service for programs/ services. They see the potential to increase marketing these services, develop a more profitable business model, or expand/extend their services. For some non-profits this has involved an informal operation, and with dedicated attention and planning, their initiatives may have the potential to generate more significant revenue.

Examples of successful fee-for-service programs include interpretation/ translation, GIS mapping services, and consulting in emerging areas such as non-profit social auditing, municipal tax shifting, smart growth, or skills accreditation.

We want to provide employment opportunities to the clients we serve.

Many non-profits work with individuals who have a difficult time finding or keeping a traditional job. A social enterprise could provide flexible part-time or full-time employment opportunities to your clients who have been excluded from a mainstream work environment.

A social enterprise can provide meaningful work to individuals with multiple barriers because it can offer support, on-the-job training, counselling, or flexible hours. For example, mental health consumers can work for a landscaping business that provides part-time work and a therapeutic work environment of gardening and being outdoors. Newcomers can gain valuable Canadian work experience while earning income, and receiving language training, credentials assessments, and access to child minding. Aboriginal street youth can work in a restaurant that also provides them with the support they need to make life changes,

such as finding stable housing and reconnecting with family members.

Some non-profits are placing their own clients in work that they would otherwise contract for, such as landscaping, painting, or food services, and this can be a first step in social enterprise development.

We already have a mandate to provide training and skill development to the community. A social enterprise could provide an opportunity for people to gain practical experience and skills that can be used to find regular employment.

Many non-profits want to combine the running of the social enterprise with training opportunities for the clients who they work with.

The jobs are not meant to provide part-time or full-time employment but rather training that will help clients make the transition into the general work force. Examples of this might be a thrift store that helps individuals learn retail skills and then helps them find employment based on the skills they have developed. Non-profits have started printing businesses to prepare persons with disabilities for mainstream work, coffee kiosks to train young people in “barista skills,” or restaurants and catering businesses to develop serving, hosting, food preparation, or baking skills.

The goal of these social enterprises is to operate training and skill development programs in the context of a real-life business to combine the skills with practical on-the-job experience. These enterprises work closely with the business community, and sometimes trade unions, to find potential employers interested in hiring graduates, and they help the trainees with placement.

We operate within a geographical area that is economically depressed. The low-income people in the community need jobs, but we cannot attract conventional businesses to this neighbourhood.

In Winnipeg, community economic development organizations have supported social enterprise development as a way to provide needed services in the community, generate jobs, and revitalize the community. Walking in the Downtown Eastside of Vancouver, you can see a number of social enterprises: restaurants and cafes, a small grocery store, two dental clinics, a catering company, an employment agency, a bicycle rental and repair shop, and a bottle return depot. All provide jobs and/or services for local residents; and many such initiatives have opened up storefronts that were previously boarded up.

Social enterprise can be an approach not only to city, but also to rural revitalization. In rural areas a “cottage industry” social enterprise model has been applied successfully to create significant social and economic impact. For example, a rural non-profit in Trail, BC, is creating meaningful jobs and integrated employment for persons with disabilities, while offering needed services to the community, through the development and co-ordination of multiple small-scale business enterprises.

We have identified a need in the community for a certain service, and we think that we are the best organization to provide it.

One day, you may realize that there are no businesses providing a particular needed service in your community. Before proceeding too far, though, it is important to take a step back and make sure that the service is not only needed, but is a business in the sense that someone would pay for what it will offer. If it is a new idea that has not yet been tried, your market research and feasibility assessment will be critical. Examples include a dental clinic that operates to serve low-income families on a reduced-fee dental plan, a temp agency operating in a growing rural region, and a green construction co-operative.

We have heard about a successful social enterprise in another part of Canada, and we think that given our mandate, potential partnerships, and volunteers, we can make it work in our community.

Definitely, there are hundreds of successful enterprises run by non-profits across the country, and many more examples in the US and the UK, and you may want to replicate one in your own town. A familiar not-for-profit example is Habitat for Humanity, which has been very successful in replicating their ReStores across the country. (ReStores are social enterprises that sell recycled building materials and generate profits for Habitat's work in building affordable housing). Through strong partnerships with corporations such as Home Depot, Habitat for Humanity has opened 32 stores in communities across Canada. The stores operate with committed volunteers and a strong brand name that is identifiable across the country.

When you are looking for a business idea for social enterprise, it is helpful to look at the models already tried and tested and to directly contact those that interest you to learn whether their service approach is portable and replicable. Co-operatives have long used this approach of replicating successful models in a variety of sectors including housing, childcare, and social care. And social franchising, while not yet popular in Canada, has become a route to the development of some social enterprises in the UK and US.

Organizational benefits resulting from social enterprise

While your organization may have a specific reason or motivation for wanting to start a social enterprise, it may also realize a number of other benefits as a result of developing and operating a social enterprise. This section takes a look at these possible benefits.

Enhanced organizational capacity

Many organizations that have developed and operated enterprises report that the experience has contributed to building capacity within their organizations:

- Existing staff and board gained new skills and new ways of thinking and operating, or used their skills and experience in new ways.
- The enterprise allowed the organization to attract new board members, staff, and volunteers, and to diversify the skill set and expertise of the board and staff.
- Changes in operational and/or financial procedures and systems resulted in improved efficiency and effectiveness of the organization as a whole.

The enterprise led the organization to make new contacts (private business owners, business associations, etc.), which in turn expanded the skills and resources available to the organization.

Saskatchewan Association of Rehabilitation Centres

An interesting dividend is that our members saw the benefits of operating recycling depots in the rural areas. Traditionally there had been the rural “ghetto” Out of sight, out of harm – that was the centre where the disability people went. Now the public had to come to the recycling depots at the centres to get the refund on the cans. The centres became more mainstream, our members who worked there became more mainstream, and members of the community opened their eyes to the capabilities of people with disabilities. - Ken Hominic

Increased visibility and awareness, and enhanced reputation

The operation of a social enterprise often creates opportunities for an organization to enhance its image and visibility in the community, which can lead to a greater awareness of and support for its programs and charitable activities.

The enterprise can become a great public relations tool and offer a new channel for organizations to reach clients and the public:

- A café run by a neighbourhood-based community service organization provided a new venue for the organization to conduct outreach activities and make local people aware of its services.
- For a women’s resource society, establishing a property management company resulted in increased media attention and the publication of several articles about the organization. These articles not only provided free advertising for the property management enterprise, but enhanced awareness of and support for the organization’s mission-related work in the community.
- A training program and social enterprise print shop geared to developing skills and creating careers in the print industry for street youth has garnered significant attention from government and corporate leaders about social enterprise as a poverty reduction strategy. It has been cited as one player in a pilot government social procurement strategy.
- For a non-profit housing provider, housing men who have been in conflict with the law has leveraged their social enterprise activities to



SARCAN is the recycling division of the Saskatchewan Association of Rehabilitation Centres (SARC), which strives to provide employment for people of all abilities, protect the environment, and contribute to Saskatchewan’s economic development.

develop a positive relationship with the local board of trade.

Attracting and retaining donors and investors

Partly as a result of enhanced organization capacity and increased visibility (the two benefits mentioned above), launching an enterprise can attract new and sometimes unlikely donors:

- Clients of the enterprise may also become regular donors.
- Investors who contributed capital for the start-up of the social enterprise may feel that they have a greater stake in supporting your entire organization and may help you get funds for other programs and services. There is also a new trend among funders to see an investment in a social enterprise as a way to make a time-limited commitment that will reduce dependency on their resources.

Creating social capital

Social enterprises, in particular those that rent space or operate businesses with lots of public traffic, have the added benefit of becoming community hubs - places where people can meet, share news, and build new connections. Social enterprise cafes, farmers markets, laundry services, even print shops have created inviting and inclusive environments that build community and reduce isolation, while generating revenue and/or providing much needed training or employment for clients.

Range and types of non-profit enterprises

A social enterprise can take on a remarkable diversity of forms:

- From a product perspective, it can create anything from planter boxes, compost, or patio furniture to packing cartons, meat pies, and cookies.
- From a service standpoint, a social enterprise can deliver anything from consulting services, recycling, or property management to training, courier services, lawn maintenance, cafes, or restaurants.
- From a fiscal perspective, non-profit enterprises can generate anywhere from 5 to 100 percent of the costs of a program or of an entire organization. Income sources can range from, on the one hand, high-end businesses with private clientele or discounted services paid for by low-income clientele to, on the other hand, government contracts or government-funded services.
- From an outcomes perspective, non-profit enterprises can provide pre-employment services for Aboriginal youth, supply food or dental services to low-income children, improve watershed management and increase fish stocks, or support employing mental health consumers or people with developmental disabilities.
- The list of possibilities may not be endless, but the field of social enterprise has plenty of room for growth.

It is not always easy to classify or categorize the types of social enterprises. You will find several different approaches and a lot of different language used to describe them. For our purposes, three broad categories describe the nature of social business activities:

- enterprises that fill a need in the local market;
- mission-delivery businesses;
- revenue-generating businesses.

In reality many social enterprises have components of more than one of these types. The most important thing to be clear about, before launching into social enterprise, is your organization's primary purpose and how the enterprise will relate to this mission.

Enterprises that fill a need in the market

One of these types of enterprises provides training opportunities and/or employment to the clients whom they serve. These enterprises may or may not aim to be self-sufficient, but all tend to be concerned with both the financial and social returns. Often, due to the social costs associated with supporting a disadvantaged population, these kinds of enterprises rely on some grants and donations to support their activities.

The products or services produced and sold by these business may or may not be related to the mission of the organization.

Common types of employment enterprise business activities include restaurants and catering, packaging and assembly, cleaning/janitorial or landscaping businesses, and woodworking and craft businesses.

Many employment development enterprises aim to create permanent, flexible jobs, with competitive wages. Others focus on career or trade development or micro-enterprise ownership opportunities. They typically serve people who face barriers to employment or are disadvantaged mentally, physically, economically, or educationally; for example, recovering substance abusers, members of inner-city minority groups, mental health clients, at-risk youth, and people with disabilities.

This contrasts with a training business, whose principal purpose is to provide transitional employment or short-term on-the-job training and skill development for a specific target group to enhance their employability and integration. Training businesses are most successful when they have specific strategies and dedicated staff (or organizational/business partners) that help link trainees to mainstream job opportunities.

Mission-based enterprises

These enterprises are designed to generate income from the sale of products or services that are directly related to their organization's mission or program areas. Payment may come from clients or from a



Phoenix Print Shop is a commercial print shop run by Eva's Initiatives, a non-profit charity that operates three shelters for homeless youth in the Greater Toronto Area. The enterprise offers offset, digital & wide-format print services, and complete finishing services to corporate clients, and provides training and employment for homeless youth. The shop has connected over 100 youth with career building opportunities in the vibrant graphic communications sector. Most youth who complete the training connect with full-time work, and many return to school via an in-house Scholarship Fund.

Renaissance is a charitable organization whose mission involves the professional and social reintegration of people having difficulties joining the labour market. It accomplishes this mission, in part, by operating a Montreal-based chain of second hand stores called Fripe-Prix. Every year, approximately 200 employment training participants are employed in these stores for 6 months and then placed in private sector employment. The stores provide affordable clothing and household items to the community while creating employment opportunities for individuals with significant employment barriers. Renaissance is affiliated with Goodwill International.

third party like a government agency; for example, for home care or childcare. In this case, the product or service that the organization sells directly accomplishes the organization's mission.

Mission-based enterprises can be of two types:

- They earn income directly from their regular program delivery. They may charge clients or third parties; and the charges may cover all or some costs of operation. Such businesses might be, for example, for training, counselling or business incubation.
- They are initiated as distinct social businesses to generate revenues that will be used to support the organization's mission. Environmental and culture/arts enterprises often fit within this category. They often use existing staff expertise and resources.

Revenue-generating enterprises

Employment development and mission-based businesses are programmatic in focus. But another category of social enterprise includes business activities that are really ancillary or secondary to an organization's mission or core purpose. These enterprises are more likely to serve the function simply of generating revenue for the organization to support its charitable or non-profit work.

Often these enterprises build on organizational competencies and underutilized assets, or they provide services/products that are complementary to their mission. They can be businesses that earn income through selling services or products to markets outside the normal client or target group; for example, selling counselling services to the general population at higher rates than those charged to targeted clients.

This broad category can also include businesses that generate revenue from the following:

- **Hard or soft property:** This includes renting underutilized assets such as office space or equipment during downtime; for example, a charitable organization that prepares and provides free meals to the homeless may rent out its kitchen facilities at night time to a private food processing company.
- **Ancillary services:** These include convenience stores, thrift stores, hospital cafeterias, etc. These services may not be directly related to fulfilling the mission of the organization, but enhance the service or convenience provided to target groups; for example, a thrift store can provide both training opportunities for clients and inexpensive clothing for people whose lives are in transition.
- **Other unrelated businesses:** This catch-all category could include a wide range of business activities that have no relation to the mission of the organization or the members or clients it serves. For example, a disability organization sells donated articles.

Conclusion

We hope this chapter has provided a broad survey of the field which will serve as a helpful orientation for the more specific chapters that follow. You will find in the later chapters the kinds of detail that will make a truly practical difference in exploring the potential for you in seriously considering and ultimately launching a social enterprise.

Chapter 2. The Social Enterprise Development Path

There are many approaches to developing a non-profit enterprise and many starting points for this process. This chapter presents a common set of enterprise development stages and briefly discusses the key elements and goals you can achieve at each stage. You should know that, in reality, your process may not necessarily be so linear. Opportunities and challenges will arise that require you to improvise, accomplish some tasks before others, and take measured risks. Ultimately, your ability to work through these unforeseen circumstances will depend on the strength of your vision, and how well your vision is communicated to your partners and allies.

The process of building and operating a sound business is difficult enough. Passion and commitment are what get any business idea off the ground. In the non-profit world, where participants are already motivated to making the world a better place, entrepreneurial zeal will help you stay up later at night, make one more phone call, and motivate others. This energy can be sustained by an individual, but more often it requires the support of a team of dedicated advocates. Either way it should not be reckless. Passion for achieving your goal needs to be matched and informed by a grounded planning process. In fact, your commitment to a clear process for developing the enterprise idea is key to managing the business once it gets off the ground.

To stress again, the path of social enterprise development moves through a succession of necessary phases, from clarifying your vision and objectives to mastering the challenge of growth and change in your business.

Phases of the Social Enterprise Development Path

1. Your vision and objectives
2. Idea generation/opportunity identification
3. Pre-feasibility analysis
4. Feasibility study
5. Business planning/capacity building/legal context
6. Launch preparation
7. Start-up
8. Performance measurement
9. Growth/reinvestment, adaptation, and evolution



“The whole reason for an organization like **Summer Street** to exist is to facilitate community inclusion and involvement. We have approached this from many different angles over the years, but our philosophy of community enrichment has always guided us in developing strong and lasting partnerships.

It is our job to help people with intellectual disability tap into the unlimited possibilities that are out there, so that they can lead a fulfilling life.”

- Bob Bennett,
Executive Director

Phase 1: Your vision and objectives

You feel the time is right for your organization to start a business.

Before you start to commit resources to the effort, it is worth reflecting on what that will mean for your mission, and what the relationship will be between your organization and the people who purchase your services or products.

We suggest that you start with the “big ideas” that will guide your organization on a daily basis if you develop an enterprise. By considering questions about your vision and social objectives, you’ll be in a position to address these fundamental questions:

- Will starting an enterprise help you achieve your organizational mission?
- How good a fit is the enterprise idea with your overall social mission?
- What do you want to accomplish through your social enterprise?
- Is a social enterprise a good way to achieve these objectives, or is there some better way?

This process of inquiry is essential for giving you the arguments to convince internal and external stakeholders as you commit resources to developing your enterprise. More importantly, they will provide benchmarks against which you can track the progress of your business in meeting your social or environmental goals.

Articulate the vision for your social enterprise

At this stage, try to explore your reasons for undertaking a social enterprise.

Many non-profits are familiar with developing the big picture for their organizations (articulating their vision, mission, and goals) as part of strategic planning. As a values-driven organization, your highest purpose, and unique niche, should be contained in your vision and mission statements. Take a similar strategic approach to social enterprise development: Start with the vision and what you want to accomplish. Find out what the big picture might look like, and what niche you might fill.

Here are some questions to help you paint a picture for the desired future of your social enterprise. Where possible, get not only your key staff but also your management and board involved in this visioning.

- Describe your ideal vision for how the enterprise will operate in five years time.
- What values does it express?
- What results have you achieved by then, and what approaches were used?
- What are your customers saying about your enterprise?

Summer Street Industries

For 18 years Summer Street has focused on creating viable businesses as part of our overall strategy. We've been involved in a number of endeavors but our most successful and enduring are mail and packaging services, catering and most recently trophies and awards. Our businesses have played a major role in influencing perceptions and lowering barriers and are key to building our brand in the community.

Any business has to deliver consistent, quality products and services to succeed. We're no different and in addition, our personal outcomes-based philosophy means that we also have to address the goals and aspirations of the people we serve. - Bob Bennett

Ever Green Environmental

Since undertaking the transition to a social enterprise model, Ever Green has empowered individuals who face significant workplace challenges – owing to health, literacy, numeracy and other work skills and life skills challenges - to achieve and maintain employment. In fact, some 44 employees have maintained and extended their employment, a remarkable achievement for a population for whom the ability to sustain employment is measured in weeks or months rather than years. A number of employees have been able to move into supervisory positions, and several employees were enabled to move into employment in the private sector. Ever Green's success has allowed us to draw in employees who had completed pre-employment development with other community-based organizations. Employees have increased their work place productivity, advancing their capability from 80,000 units daily to 125,000 units daily, an increase of almost 56 percent.

In most "supportive" programs, participant success is measured by participant engagement in the program, and an acceptable level of performance of tasks. The measures are highly individualized, and the standards of performance set fairly low. In Ever Green's case we enable employment engagement through the creation of a flexible work schedule empowering individuals to extend their work hours over time – from 8 hours to 16 hours to 24 hours and ultimately up to 40 hours weekly.

By taking this approach, we have been able to empower almost 46 percent of these employees to reach full-time hours (40 hrs per week), while another 34 percent of these employees work at least half-time hours (20 hrs per week). - Mike Wadden



"Ever Green's success can be attributed to our blending of 'supportive employment' and 'competitive' employment practices."

- Mike Wadden, President

- How are people throughout your organization talking about and acting in relation to the enterprise? What about external partners and funders?
- How is the enterprise furthering the overall vision and values for your organization?

Some key longer term goals will evolve from your answers to these questions. As well, other questions will arise about whether this or any social enterprise is the right fit with your organizational mission and vision. These are vital pieces of information that will help guide your subsequent development and planning steps.

Articulate objectives and strategies for your enterprise

Your next step is to formulate your social, organizational, and financial objectives for the enterprise, as well as some initial strategies for attaining them. There are several categories of questions to answer at this stage, each involving research and concerted discussion.

Exploring your venture's social mission will involve looking at how closely your current organizational mission is aligned with the intended business mission.

At this stage it is important to question your assumptions about what the social enterprise can accomplish, for whom and how. Take the time to identify what you do not know, as much as what you are confident about; and seek out the information you need to clarify your objectives.

Your answers will form the basis of a logic model for enterprise development. Here are some different sorts of clarifying explorations you may need to address:

Set social objectives

- What are your social objectives for the enterprise? This may include your objectives for clients, staff, your local community, and the environment.
- What needs will the enterprise address in the marketplace and society as a whole?
- What gap is this venture filling?

Discuss your organizational and financial objectives

- What are your organizational and financial objectives for the social enterprise? (For example, is it for diversifying your funding base, or replacing a certain percentage of your income with earned revenue from the enterprise?)

Define who is being helped and how

- What individuals and/or groups do you want to directly impact through your enterprise?

- How will the enterprise do what you want it to do? How do you know this?
- What strategies best connect with your organization's capabilities, assets and interests?

Determine what resources are needed

- What resources are needed to reach your enterprise objectives?
- What strategic use of resources will provide the most leverage to your intended beneficiaries?
- What resources are you prepared to invest to develop the idea?
- Where, specifically, should limited resources be spent?

Define desired social outcomes and indicators:

- What social outcomes do you want to achieve through the enterprise and for whom?
- Are these linked directly to your social objectives?
- How will you know you have achieved your objectives? What success indicators will demonstrate your accomplishments?
- How do these outcomes relate to your organization's social mission?

Define organizational and financial outcomes and indicators:

- What organizational and financial outcomes are to be addressed through your social enterprise?
- How will you know you have achieved these?

Phase 2: Generating ideas and identifying opportunities

At this point, you may already have a couple of enterprise ideas – a business opportunity that seems like a good fit or a program you are ready to expand. Or you may be starting out without a specific idea, but with a keen interest in social enterprise and some concrete organizational or social objectives you would like to address. In either case, we recommend that you specifically set to the task of generating as many good ideas as you and your stakeholders can come up with. Chapter 4 discusses an approach to structured brainstorming that tends to bring out the best ideas (those most likely to both meet your goals and to succeed).

Phase 3: Pre-feasibility analysis

Even if you have narrowed down to a couple ideas that seem top notch, you can still benefit from putting the ideas through a number of screens to test their feasibility just in a preliminary way. Chapter 4 discusses the process of screening ideas, using a number of criteria, to the point at which you can decide on beginning to carefully study one of them.

Phase 4: Feasibility study

At this point, carrying out a full feasibility study will give you a chance to take a sober second look at a business idea. With the information you get from your feasibility study, you will be in a position to decide whether or not the idea is worth any additional investment of time, resources, and energy. The full feasibility study will also help you define the risks involved and start thinking about how to reduce or address them. The study will lead to a business plan summary which will help you test people's enthusiasm for the concept and possibly introduce the business idea to potential investors. The tasks for this feasibility study phase are also described in detail in Chapter 4.

Phase 5: Business planning

Once your organization has decided that the business idea is sound, that the necessary major investment is worth making, and that it is the right fit with your organization, you will need to guide the implementation process with a serious and detailed plan. The business plan will identify how you will create your products or deliver your services, the skills you will need, the marketing channels you will use, and other technical issues such as pricing, governance, financing, and legal issues. The work in this phase is described in Chapter 5.

On the financial side, the business plan is used to convince investors or funders, showing how and when your enterprise will stop receiving subsidies and start generating profits (if this is indicated in your plan) and how those profits will be reinvested. You will learn about building financial projections into your business plan in Chapter 5.

In your business plan, you will have to investigate your organization's position in relation to the enterprise. This means making sure that your planning won't be wasted due to legal barriers. For example, if you are a charitable organization, you will likely want to maintain your charitable registration, and Chapter 7 discusses the relevant charity laws and policies in Canada and presents several options for organizing your enterprise in relation to your non-profit so as to protect your charitable status. Or, for example, if your business requires legal permits or special forms of liability insurance, you will have to ensure that these issues are addressed as well.

Phase 6: Launch preparation

This Guide does not cover specific issues related to preparing to launch. However, once all your planning and preparation is finished, you will be set to implement your plan. This will include finding funding and/or investments and loans for the start-up phase, building the case for your products or services, and making sure that everything else is aligned for start-up.

Phase 7: Start-up

While this Guide does not give you strategies for start-up, your business plan should describe most of the issues that need to be addressed, as well as a plan for addressing them. Other issues will arise, but your preparations should be solid enough at this point to ensure that nothing will take you off course. Start-up will be the most exhilarating (and sometimes the most exhausting) part of your work so far.

Phase 8: Performance measurement

All along the way of your enterprise operation you will need to measure your performance on several levels. Chapter 6 discusses the importance of planning your evaluation strategy before you start your enterprise. If you begin with your vision for the social or environmental impact of your business and with a set of clear objectives, you will be able to identify measurable progress indicators and you will be able to develop a way to collect and report on the information you have gathered throughout the business development process.

Phase 9: Growth/reinvestment, adaptation, and evolution

These areas are beyond the scope of this Guide (but, we hope, not beyond your grasp!). As with any other business, failure is a risk, and the time required to succeed in business (however you define that success) will probably be longer than you originally anticipated. If you reach this phase, you will see that many of the planning processes for growing and achieving scale are quite similar to the initial business planning process.

Conclusion

In this chapter, we have reviewed all the phases in bringing a social enterprise to life. Now you can move on into the other chapters in this Guide for detailed practical information on each of these essential phases.

Chapter 3. Organizational Readiness

This chapter provides you with ways to prepare your organization for the challenge of starting a social enterprise. It describes the process of assessing three types of readiness:

- basic organizational readiness;
- social enterprise readiness; and
- business readiness.

Once you have reviewed these sections, we recommend that you specifically gauge your own organization's readiness. You can use the self-assessment exercise provided towards the end of this chapter. Based on the results of this self-assessment, you can identify specific activities and decisions that are necessary and develop an action plan to enhance your readiness. Following the exercise are practical tips on preparing your non-profit for its entry into creating a social enterprise.

The social enterprise challenge

As much as starting a social enterprise is an opportunity, it is also a challenge, no matter how good your business idea seems to be or how many supporters you have.

It is popular knowledge that most small businesses fail within the first three years. Social enterprise is not immune to these same challenges and to the market forces that impact all small businesses. But there is an important difference that makes developing a social enterprise even more complex: the enterprise is embedded in a sector and organizational environment that thinks and works differently than the for-profit sector.

The table below outlines differences between a for-profit business approach and the day-to-day mandate and modus operandi of a non-profit. This dichotomy is not always so clear, for the lines between private and social enterprise can become blurred. Not all privately owned businesses operate exclusively to generate profit for shareholders - increasingly, private enterprises are committing to socially and environmentally responsible practices. And not all non-profits lack entrepreneurial cultures. Some are indeed well versed in managing in a complex environment, in taking calculated risks, and in rewarding innovative and entrepreneurial thinking on the part of staff.

The key here is to recognize the fit of your own organizational culture and mandate with the needs and resources required to successfully operate a business venture. The challenge is to be as honest as possible in your assessment.

“Ensure that the organizational readiness piece is done well. It would have been easy for us to barrel through this piece and gone ahead with the feasibility study but having this piece done well and bringing in a facilitator allowed us to come together as an organization, seek the best ideas and solutions to our current challenges and gain the buy in necessary for success from all the people in our organization.”

- Haida Gwaii Society for Community Peace

COMPARING THE FOR-PROFIT AND THE NON-PROFIT *

For-profit Business Approach	Non-profit Organization Approach
Primary goal is to make profit	Primary goal is to fulfill social mission
Culture of (and need for) quick decision-making	Culture of slow decision-making with multiple layers, including board
Expected to invest in infrastructure such as technology & business management	Expected to apply bulk of financial resources to direct services and programs to clients or community
Must achieve financial goals as priority	Must achieve social and financial goals concurrently
Focus on what customers want	Focus on what clients or community want and need

*Adapted from [Eko Nomos Social Enterprise Workshop series](#)

Non-profit organizations that operate social enterprises are accountable to multiple stakeholders - clients and community members, funders and investors, and customers. The rules governing private enterprise may seem simple in comparison. What is important to realize is that there are high transaction costs in managing these multiple accountabilities and bottom lines, and the process can lead to tensions around mission focus. For some non-profits the transaction costs, or the capacities required to keep focused, will be too high to proceed with social enterprise.

Organizations that manage to implement a business will face additional challenges in maintaining or growing that business. A continual cultural shift needs to take place, towards becoming more entrepreneurial; and there are additional pressures on the organization in terms of staffing, financing, and maintaining existing programs and services.

Any organization that wants to develop an enterprise must be sure it is ready to undertake these challenges. After doing an organizational assessment, many non-profits will decide not to proceed with their social enterprise idea at that time. They may take steps to get ready, or simply take a pass. This is not a failure but an informed decision that will save them from mission drift and expending unnecessary resources.

Take some time to think about your own agency and examine its readiness. There are three main dimensions to consider: organizational readiness, social enterprise readiness, and business readiness. Begin by ensuring that your non-profit has already developed sufficient capacity to effectively plan, deliver, and evaluate your existing programs and services.

Basic organizational readiness

Eight important features of organizational development enable you to successfully plan and launch a social enterprise. By ensuring that your organization has built its capacity in these areas, you will be better

prepared to take on the challenges of starting a business.

1. Clear vision and mission statements

Your board and staff must understand the values upon which your vision and mission statements are based.

The vision statement is what you want to be. It is written in broad general terms and is based on your agency's stated values. The mission statement sets out what you want to do. It is stated as an activity, but it is not necessarily time-limited or completely achievable. It refers to your unique organizational niche.

2. Strategic plan

A specific strategic plan must have been adopted, by which your agency has identified opportunities and threats and can respond and change the plan as situations arise. Thus the staff and board of your organization will need to periodically review the plan.

Your strategic plan identifies how you are going to accomplish your mission statement. It outlines your broad strategic goals, objectives, activities, resources needed to accomplish the activities (staff, financial, etc.), timelines, and evaluation criteria.

One of our colleagues, Leslie Tamagi from the Vocational and Rehabilitation Research Institute (VRRRI), has stressed answering this key question, Does your proposed venture fit with your strategic plan? She holds that a critical element to think about before engaging in a social enterprise is whether you have laid the groundwork with your stakeholders regarding your interest in pursuing a business venture. Is your board prepared to take on a business? Does becoming a business owner fit with the long-term goals and plans of the organization? Are you familiar with the risks and legal liabilities involved in owning and operating a business.

Embarking on a business venture requires not only a comprehensive business plan but a conscious decision that your agency is prepared to assume this major undertaking. Trying to operate a profitable business will challenge every aspect of your organization, from your human resources policies and procedures to your accounting system. It is important that you carefully consider the potential benefits, challenges, and implications before embarking on such a considerable shift in your future.



Operating 24 hours a day, seven days a week, more than 30 **VVRI** employees at the Calgary International Airport ensure that complementary baggage carts are strategically located to meet the demands of departing and arriving travelers.

With more than 3,000 carts to manage, baggage cart retrievers have developed an intricate system for collecting the carts from all over the airport terminals and parking lots, placing them when and where they are needed most.

The Vocational and Rehabilitation Research Institute

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3. Internal change

Your organization must have the capacity to manage change in a positive manner.

To assess this, examine your recent experiences in planning and implementing internal change in response to external pressures or opportunities. If your organization truly values innovation and provides a forum for staff input into planning and operations, you will be more likely to develop a creative business environment and an enterprise that is innovative and responsive to existing and new opportunities. Look at how your staff have initiated and managed significant new projects in the past.

4. Internal conflict

Your organization must have the skill to manage internal conflict.

This is important in operating a business within a non-profit structure, simply because you will be dealing with a different (for-profit) perspective that conflicts with the non-profit culture. Looking at past experiences, examine whether your organization has the ability to deal constructively with conflict and fosters a non-threatening atmosphere for communicating problems. When a business is operating and presents daily challenges, your organization will have to respond quickly to decisions. Managing conflict and learning how to mediate and resolve concerns will facilitate effective decision-making.

5. Financial management

Your non-profit needs to be clearly aware of its financial position and to have developed a likely financial scenario for the next two to three years that has defined the likely threats and opportunities and your organization's intended responses to them.

No matter how small or large your social enterprise idea is, your ability to understand, plan, and manage finances is fundamental to any business development and operation. For example, early on, you will need to know how much money you have just for investing in the study and development of the concept, as well as, ultimately, how to judge such things as whether your sales and cost projections for the enterprise are reasonable. These are capacities that are built on a good financial management track record for your organization in general. This means that your overall financial "house" is in order: regular audits, ongoing contact with an accountant, internal or external skills to prepare budgets and develop cash flow projections, regular financial statements that compare expenses to budgets and projections to understand variances, and incorporation of financial analysis into the non-profit's overall planning process.

6. Cost-effectiveness

Closely related to financial management, cost-effectiveness must be considered when your organization evaluates its services and programs.

A business manager focuses on the financial bottom line and assesses how each element of the business affects costs. If your organization already has a practice of examining cost-effectiveness when evaluating its services and programs, you can more easily translate this experience into effectively managing the enterprise.

7. Personnel

Your agency must have explicit personnel policies, with clear job descriptions and lines of responsibility and authority. But more than that, it will have a culture that encourages staff to be creative and to take risks.

Important evidence for a sound base in personnel will be a record of a stable staffing complement and low staff-turnover. Also a healthy organization demonstrates that it values the contribution of staff to achieving its overall results and impact in the community. Remember, when you begin a business, your staff will be your key resource, both those who operate the business and those who provide your core services.



The Centre Town Community Laundry Co-op (CLC) is a not-for-profit facility that provides affordable laundry services to low-income residents of Ottawa. Along with clean clothes, members enjoy a sense of community and a network of support.

8. Learning organization

Your organization must be committed to ongoing learning.

This will be evident at both board and staff levels. As part of their introduction, board members will have gone through a specific process to learn about the organization and their role in achieving its mission. New staff, too, receive specific orientation and further are encouraged to develop new skills and knowledge.

For your business to be successful, you will need to value learning. After all, staff and board will ordinarily have a steep learning curve in planning and implementing the business. Knowing how your organization has learned from past program and organizational development will help you assess your readiness for taking on a new venture. Moreover, you will also need to know how to collect and respond to information about how well you are achieving your social and financial goals, including client, staff, and customer satisfaction. Has your organization operated with good information resources on its internal affairs?

Summary

This list has highlighted eight significant organizational behaviours and attitudes that can help you make the transition to an entrepreneurial approach. It is unlikely that your organization will excel in every area. However, you should be aware of the key issues (issues that will clearly inhibit your success) that need to be attended to before starting an enterprise. Where learning and capacity development is required you can map out an action plan and timeline for these inputs as part of your organizational readiness and development process and add to this as you go on to assess both social enterprise readiness and business readiness.

Centre Town Community Laundry Co-op

If you're going to do a community economic development social enterprise, it's very, very important to have a strong board. It's a lot of work and it takes the effort of the whole organization. We had a chair of the board from the beginning until last year, and she was very, very into the organization. She loved it and she was the force behind it. She was completely into it and put a lot of effort and hours of passion into it. In the beginning, you need that person. You need a strong treasurer. You need open-minded people who know what the organization does, not only through the monthly meetings.

Members of the board should have a link with the people who they serve; members should know them. They should know where the members are coming from, what their issues are. -Marianela Santamaria

Social enterprise readiness

This section discusses four general areas of activity that your organization can enter into to ensure an easier transition towards a revenue-generating approach.

1. Understanding the concept of social enterprise

Board, management, and all other staff should understand and be interested in the idea of a social enterprise for your organization.

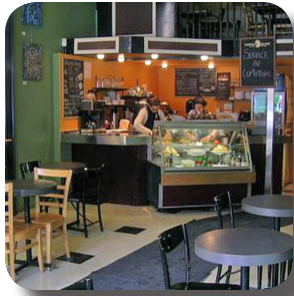
The idea for a social enterprise may start in one person on the board or staff, or maybe a department within your organization, but it is important that all on your board, management, and staff come to understand what a social enterprise can accomplish and what the potential is for your organization and its clients. You do not want to move too far in the planning without getting the support of everyone in the organization for the concept of social enterprise.

While a careful feasibility study will in the end be necessary, your board and staff, in any case, must understand, in general terms, how feasible the social enterprise might be and what the risks and the challenges are. In any organization there is over time at least the possibility of significant turnover in both board and staff, so it is important that the concept of social enterprise is embedded throughout your organization. Visioning around social enterprise should involve staff, board, and management, and even clients. Although the new business will be only one aspect of your programs and services, it will have a significant impact on the overall organization and could affect the jobs of individual staff members and the services that clients receive. Some organizations establish a staff/board enterprise development committee to oversee planning and implementing their business idea, rather than allocate the task to just one key person. Some organizations will send representatives to social enterprise workshops or conferences and ask them to report back at board and/or staff meetings. Only thereafter would an organization address the idea in detail. The point here is that the organization has to support further developing the idea to see how it fits with the organization and brings value to its mission.

2. Outside buy-in

Outside stakeholders should be informed and supportive.

Although outsiders will not have decision-making authority on the business idea for your organization, they are important as donors, partners, government contractors, supporters of your work. So they too need to be brought into the picture. Good business development means knowing when to bring in external input and/or to inform stakeholders who may have a role in helping move the process along. As your idea develops to a point where you need to build external support or need



Building Team Capacity

“At the board level, we have to build the capacity of the team to be empowered to start the enterprise. If a problem comes up, they have to take action. You have to create the capacity to resolve problems.

Training is very important, both for the board and with employees.”

-Carole Lachance,
Le Bufacin

outside input, you must share it with others. After all, will your donors and funders continue to provide support if you start a business? By sharing your idea with others, you may also open up new opportunities for partnerships and allies, for funding, or even for investment in the enterprise.

3. Potential competitors, potential allies

You must know the field of potential allies and competitors.

Look again at your programs and services in the community and then carefully identify current and potential allies and competitors. These could include other agencies, individuals, and, especially, private businesses. Stay current on what others are doing in your field, and look for partnerships with potential allies. Be clear about your own niche or special competencies that make your organization best suited to the business idea you will be pursuing. In doing so, you will be much more able to assess what you can bring to a partnership, and you will be more able to recognize how you can deal with the competition.

4. Setting aside resources

Staff time will have to be specifically allocated for developing the enterprise, and both board and other staff will have to be putting in extra effort.

Social enterprises cannot be run off the side of your desk (although they often start that way!). You will need to assign dedicated staff time and adequate resources to plan for the enterprise. You may need as many as two people part-time to plan and develop the business idea. Even though you might eventually hire from outside the organization to launch the enterprise and operate it, staff need to see that there is an initial role for them in the planning stage. Acknowledging staff competencies and enabling them to develop their skills further through social enterprise development can be motivating and may reveal internal resources that will be critical to operational success.

Now let us take a look strictly at business readiness.

Business readiness

Once your organization is ready to commit to an enterprise, you will need to ensure that you are building organizational capacity in the areas that are directly relevant to your business idea. You will need an increase in financial and marketing acumen, analytical capacity (for business-related decision-making), and so forth. There are at least five types of skill resources you must have at hand.

1. Business experience

There must already be, or must be added, significant business experience at both your board and staff levels.

If your existing board does not have business expertise, look at recruiting someone with that experience to your board. You may need someone with specific experience in the industry or sector, or it may be business in general, an accountant, a lawyer, architect, or someone with sales and marketing experience. They should know that other board members will be counting on them for special advice, and when any new members join the board, make sure that they are aware of the enterprise and are committed to supporting this type of activity.

If you already have relationships with the business community, find ways to bring in those professionals early on in the planning process. An accountant can advise you about your financial position to take on the risk, while a lawyer can help you set up the structure to operate the business.

One best practice in social enterprise development is the creation and convening of a business advisory group, outside the board and staff. This voluntary group need not be engaged in organizational governance, but can inform your staff and directors on critical issues related to the industry, marketing, and product or service development and make important connections for you when you need them.

2. Staff champion for the initiative

The champion of the business will have the ability and authority to move the idea forward.

In any organization a new idea has its champion. If there is not already an appropriate person to be the key mover and shaker, she or he must be found. When assigning existing staff to the enterprise, an organization must find someone who has the passion, and either knows business or is interested in learning more about social enterprise. Ideally the champion will have a small team of other devoted staff members. You may ultimately hire someone external to manage the business, but it is important to designate a senior staff person who, if not already well grounded, is willing to learn about enterprise development, and has the energy, leadership, and authority to drive the process forward.

3. Financial and information systems

Your organization must have a strong book-keeping and accounting system that can track your business venture separately from the finances of your organization.

You will have to ensure that you can isolate the revenues and the costs in

running the business, so you have a true picture of its on-going financial position. As your organization moves into operating the business, you might have to develop entirely new financial systems to manage the business. Your ability to manage information in a timely manner is important for supporting decisions that will have to be made.

4. Capital to plan and launch

The organization has to be able and willing to contribute capital to the enterprise for its development stages and to have in mind highly likely or even guaranteed sources of capital for actually launching the enterprise.

You must have given some thought to how you might raise the capital needed to plan and to implement the business. For most organizations early stage work is accomplished with a patchwork of funding from a variety of sources. Some questions you might consider in general terms include the following:

- Does your organization itself have the capital reserves that will need to be invested in the venture?
- Does your board recognize the importance of planning for the long-term and committing resources (financial, human, and time) to this enterprise?
- Do some of your funders provide grants for research & development (R & D), start-up and implementation?
- Are there funders you know who understand social enterprise, who may provide multi-year grants to get the enterprise on a firm footing?
- Do you have the potential to get low-interest loans and lines of credit?
- Could you realistically go without generating a profit for three or more years?

5. Human and other resources

Staff must already have the required skills, or you must have a plan for acquiring those skills, either through hiring or through training.

Think about the particular areas of expertise required by your business. Take the time to explore with your key staff the skills and experience they already have, or need to acquire, to develop the business. Look around for cost effective training if needed. Also, consider recruiting human resources and other experts to help you launch the venture. If, for example, you anticipate having large amounts of inventory, like a building materials re-seller, look out for volunteers or advisors who have experience with inventory management. You will, of course, need to identify the specific physical requirements for operating a business. For example, if you are planning to start a catering business, your resources must include appropriate space, kitchen equipment, suppliers, a means of transportation, and so on.

Do This Agency Self-Assessment

Now that you have reviewed the readiness discussion we have provided, you can use the following assessment exercise to help you identify just how ready your organization is to start a business, or if you require further organizational development. It will help you to identify those areas of your organization that may need some planning work before you start your enterprise. You can also use this questionnaire to identify those areas of your organization that can help you build your business acumen as you develop the enterprise. (If you are accessing this chapter online, you can download the questionnaire for separate use in the resource library at www.enterprisingnonprofits.ca).

AGENCY SELF-ASSESSMENT QUESTIONNAIRE

Basic organizational readiness	Points Weak to Strong			
Does your organization...	1	2	3	Notes on how to improve
have its vision, mission, and goals articulated and supported by your board and staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have a strategic plan that's current and up-dated on a regular basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have experience in planning and implementing internal change?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have experience dealing with internal conflict?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
know its financial situation and have possible scenarios for the next 2 – 3 years? Have financial stability; e.g., for the past 3 years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have diversified funding?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have clearly defined lines of accountability and is results-oriented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
have a demonstrated commitment to continual learning and innovation, and encourage staff to take risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
examine cost effectiveness in evaluating your activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Subtotal:				

Social enterprise readiness	Points Weak to Strong			
	1	2	3	Notes on how to improve
Does your idea fit with your organization's competencies, assets, and strengths?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Is your board, management, and staff interested in the concept of social enterprise? Do they understand social enterprise? Do they support further investigation of social enterprise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Does the social enterprise idea fit with your mission? Is there a value fit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Have you set aside staff time for developing the enterprise? Are your staff and board willing to put in extra effort?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Do you have outside stakeholders (clients, members, donors, funders) and do they support social enterprise?	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
Do you know your potential allies or competitors? Have you thought about partnerships that would support your organization?	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
Subtotal:		

Business readines	Points Weak to Strong			Notes on how to improve
	1	2	3	
Do you have business experience on your board or among staff? Is there an internal champion?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Do you have strong book-keeping/accounting systems that can track your business venture?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Have you thought about how you can raise funds to plan and launch the enterprise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Do your staff have the necessary skills, or do you have an idea of how to build these skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Do you have the space or equipment that may be needed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Do you have some capital to invest in the enterprise development?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Subtotal:				
TOTAL:				

How to assess your score:

21 to 30	Low level of readiness. Lots of work to do.
31 to 49	Medium level of readiness. Some significant issues or key areas require attention.
50 to 63	High level of readiness. Ready to go!

Even if your overall score is encouraging, take a look to see if there are some individual instances of only 1 point (Weak) on a particular question. You will need to pay some attention to strengthening the organization in that respect before going further in your plans.

Health and Home Care Society of BC

Our goal was to answer the question “How much do we need to charge for our flu clinics to make a 10% profit?” Our business consultant worked twenty-three hours with us to develop a value stream map for our flu clinics. To make a value stream map we defined the steps needed to deliver a flu clinic, then we calculated the time and cost to perform each step. Our consultant used this information to develop a price setting tool which can be updated as our costs and other inputs change. Just in time production was another new concept that we were introduced to. For the first time since we started flu clinics in 1997 we made a 10% profit. Our profits went to our Chinese and Western Meals on Wheels program in Richmond and Vancouver and we are now using this knowledge in other programs we sell. - Wendy Williams

Practical tips for getting ready

Where the assessment has identified areas in which your organization needs improvement, you can undertake specific practical activities to enhance your readiness. Ideally, many of these strategies and activities can be embedded a strategic plan for your group, and the information on your progress can be communicated regularly to staff and board. Here are some suggestions for organizational readiness, social enterprise readiness, and business readiness.

Building organizational readiness

You may decide to use one or more of the following approaches:

- Hire a consultant to help, and structure his or her work around the issues you have identified.
- Engage the board in a quick assessment of the organization’s strengths and weaknesses.
- Develop an organization-wide business plan that includes the social enterprise.
- Review and update or create a strategic plan for your organization. Ensure that you review and revitalize the organization’s mission, vision and values.
- Review and continually improve your organization’s means of communicating, both internally and externally.
- Review your board governance, including policies for board members.
- Prepare updated job descriptions and staff policies.
- Develop a list of priorities for your organization and the tools required to achieve them.
- Review your training and education budget, and staff and board policies. Make it a priority for everyone in the organization to learn something new.



Photo: Cindy Hughes

Health and Home Care Society’s Health Promotion Services has been operating since 1997. They offer immunizations, health education, screening tests, occupational health and other services, customized to the needs of our clients in workplaces, pharmacies and to individuals in 120 communities throughout the province. By using these services, businesses promote good health to their staff or clients while providing much-needed support for charitable programs in the community!



Enterprising Women Making Art (EWMA)

was launched in 2003 as a development initiative of Atira Women's Resource Society, a not-for-profit organization committed to the work of ending violence against women. Blending art, community and social entrepreneurship, EWMA is a self employment initiative that works with emerging women artists and artisans in Vancouver's Downtown Eastside to participate in a democratic and equitable social enterprise that coordinates the pooling of resources to produce and market women's visual art and handmade products.

- Discuss how you could set aside resources. Include a review of your financial management systems in general.
- Engage outside stakeholders to share their perspective on your organization and where it is heading.

Building social enterprise readiness

Here are some ideas that you may find helpful. Discuss the challenges of starting an enterprise among your board and staff. Develop draft scenarios (best- and worst-case) and discuss them openly, ensuring that both mission and budget implications are identified.

- Invite other social enterprises to speak to your staff and board. Ask them to share their experiences, including the challenges, the benefits, and even the failures, of operating social enterprises.
- Do site visits to other enterprises. See what a difference they are making in their communities and for the staff working in the business.
- Look out for social enterprise networks and join in their professional development offerings.
- Attend conferences and forums on social enterprise. For example, the Social Enterprise Council of Canada plans conferences every two years, and other regional groups host workshops and conferences focused on social enterprise.
- Participate in listserves, discussion forums, and wiki's for social enterprise, including the "Ask an Expert" section of the *enp* website, the Social Enterprise Alliance's (SEA) listserve, and the Canadian Social Enterprise Forum, to pose questions and offer your experience in social enterprise.
- Access resources or similar business models online, through your library, or through other organizations that are willing to share resources.

Enterprising Women Making Art

You have to have an entrepreneurial spirit within the organization. This doesn't mean you have to have run a business, but you need to be entrepreneurial and have a culture of risk taking. You also need a champion who's the person who cares the most and has the greatest passion for the organization and knows the organization better than anyone else. You need someone absolutely committed to the organization and who will see the social enterprise thru to the bitter end or its success. -Janice Abbott

Building business readiness

Improving your business readiness is a more specialized task. This section includes suggestions for working on business practices, skills, and aptitudes.

- Recruit new board members - financial institution staff, accountants, and people with business experience in the sector you are planning to enter.
- Hire staff with business experience and train them to understand and work in the non-profit sector.
- Train existing staff in the business skills, or offer to sponsor them in a business course of studies. Skills training for existing staff can be as intensive as taking an MBA program or as limited as attending a single evening course through a continuing education program.
- Build a mentorship approach with other social enterprises.
- Assess your board's ability to read and understand financial statements, and experiment with better ways of reporting and discussing.
- Develop a working group that involves board and staff members working with a business person.
- Consider creating and convening a business advisory group to support staff and board throughout the business development process.
- Develop a risk management plan and an exit strategy.
- Apply for grants to hire business students or seek out ways to provide student placements or internships in exchange for market research or public relations on your business venture.
- Contact your financial institution and ask for a workshop on business practices for non-profits.
- Contact your local Canada Business Service Centre in person or online. Recent changes in policy allow non-profit as well as for-profit entrepreneurs access to their services.

Conclusion

While the following chapters in this Guide focus on more technical aspects of business development, you can continue to assess and improve your organization's capacity to be successful. Reflect on these issues at every stage of the business development process. In fact, you must do this as you write a business plan and work to obtain financing for your enterprise.

As new tasks arise throughout the business development and implementation process, review the list of issues you identified earlier, and pay attention to your readiness action plan. Make sure you are addressing those issues in a timely way to facilitate your enterprise development process.

Some of your areas of weakness may be ongoing and require more attention. In other areas, your organizational capacity may have weakened. In either case, systematically and periodically reviewing your capacity as an organization and enterprise will help you to assess, understand, and correct any problems.

Chapter 4. Idea Identification and Feasibility Analysis

Many a great business starts with an idea that is relentlessly pursued by a dogged entrepreneur. While this process isn't unknown in the field of social enterprise, there are many reasons for being cautious about the idea you pursue. It is not a matter of just some sorts of sectors being better than others. Indeed, many different business ideas have been embodied in social enterprises.

Enp has provided grants for successful development for the following common business ideas:

- Two landscaping businesses
- A packaging and assembly services operation
- Arts, entertainment, and recreation services, such as festival ticketing services and performance and event production and planning
- Construction site preparation or, more specifically, demolition, reclamation, land-clearing, and materials recovery services
- Professional development training workshops
- Food and accommodation services, including coffee shops and a restaurant that also conducts catering and food service contracting
- Health services, including a home health care business serving seniors
- Professional and technical services, including translation and interpretation enterprises, a communication and general management consulting firm, and website evaluation and testing services
- Real estate services, including property management services, conference facility and rental office space
- Retail/wholesale trade, including office supplies and equipment and health and personal care stores (hearing and communication aids)
- Manufacturing, including food products, transportation equipment, and wood and giftware products
- Information and cultural industries, including production and distribution of information and cultural products such as videos and interactive games

So there are really a host of different possible businesses. The real issue is how you go about the idea selection process. That is what this chapter is all about.

Know what to expect

Deciding on an enterprise idea to implement as your non-profit business can be a time-consuming and sometimes frustrating process. Over the



“Should non-profits enter the business world? As a non-profit who successfully operates businesses we have to say yes, but only if the business opportunity:

- ☑ Fits with your mission, vision and values.
- ☑ Fits with your strategic plan.
- ☑ Doesn't pose risks to your reputation.
- ☑ Provides a social return on investment with minimal risks.”

- Leslie Tamagi,
VRRRI

period of months while ideas are brought up and tested, participants may feel challenged, either because their ideas aren't considered among the best, or because some of the best ideas are found to be more burdensome than seems practical.

This feeling is natural, and can be part of a healthy transition in the way that an organization thinks through a problem. In fact, for most organizations, the selection process is a good introduction to the process of identifying, analyzing, and resolving other business or organizational problems.

This chapter provides a structured process that you can use to identify and screen potential business opportunities. It outlines how you can complete the following steps:

1. Preparation
2. Generating ideas
3. Quick screening
4. Second screening of ideas
5. Feasibility study
6. Business plan summary

You can use these steps to assess and prioritize the potential opportunities. But keep in mind that there are many possible approaches to generating ideas and to deciding which ones to pursue. You don't have to use this particular approach. What is important is that you have a systematic approach to the enterprise selection process that your key stakeholders agree to. This will ensure that you don't waste your resources taking on a business that won't work for you, and helps you focus implementation once you have committed to developing a particular idea.

The value of a structured process

There are good reasons for being methodical. Following a structured process of enterprise selection can help you to:

- Develop commercial products and services that will meet the needs of members, clients, and customers.
- Possibly develop an enterprise idea from the activities in which you are currently engaged.
- Enhance the organization's ability to get funding (grant, venture philanthropy, and/or investment funding).
- Support the organization's approach to being more entrepreneurial.
- Develop businesslike approaches to gaining support from the corporate sector or other stakeholders.
- Decrease the risk of failure.

Several benefits of this process may not be self-evident. A proper enterprise selection process can help build your organization's ability to proactively respond to a changing environment. It can also help you manage these business activities and the associated organizational changes required within the context of your organization's values, mission, strategic and business plans, and structure.

The approach you eventually take to creating product or service ideas depends on a range of factors, including your organization's state of readiness and the availability of resources. It may also involve different combinations of board, staff members, volunteers, and stakeholders in teams that are diverse in terms of their relationship to the agency, their role in daily operations, and their level of expertise in business planning.

Steps in the process

To repeat, the steps involved in generating ideas and assessing them for their usefulness are as follows:

1. **Preparation.** This includes the process of reviewing the mission and objectives as identified in the previous chapter, assessing your organizational strengths, understanding your potential market, and building support and enthusiasm for the business development process. Develop a rough set of criteria (e.g., compatibility to mission or perhaps low need for capital or whatever) for the ideas you will be seeking.
2. **Generate ideas.** Create a long list of enterprise ideas through a brainstorming process that involves agency clients, staff, and other stakeholders.
3. **Idea screening.** Edit your long list of enterprise ideas by comparing each idea to your evaluation criteria, determining how closely they fit the criteria.
4. **Feasibility study.** Research one or two of the most promising ideas. Ultimately, the feasibility study will enable your organization to decide whether or not to invest further time and resources in that particular business idea.
5. **Business plan summary.** Summarize the key elements of the business idea. This document will form the basis for your business plan and allow for preliminary promotion of the idea to potential supporters and investors.

Now, let's discuss each of these steps in detail.

1. Preparation

Before generating or screening ideas, take the opportunity to assess your organization and its market. You may have already started or completed these actions as you assessed and improved your organization's state of



With roots in a faraway place, 'Haween' comes from the Somali word for women, and the business employs new Canadians who have participated in training programs and social support through a sister organization. Haween is anything but strictly business; it brings a unique collective cultural attitude to how it regards its people and their skills.

"Anybody who wants to start a social enterprise should consult with people in the field in which they want to start their business. You have to research and understand your field very well."

-Haween Enterprises

readiness.

Build commitment and support for the process

Going through an idea generation and screening process will be a major effort. Assumptions are going to be challenged. People's pet ideas may be rejected. Your organization's comfort zone may be pushed.

Before jumping in, take the time to develop your key stakeholders' commitment and support to the process. Jointly develop a process for proceeding. This gives you an opportunity to address potential challenges before they become roadblocks.

Review mission and objectives

We have stressed this repeatedly, because it is so essential. In Chapter 3, you addressed the task of clearly identifying the vision and social objectives for your enterprise because upfront goal setting is critical to social enterprise start-up. The desired outcomes of a social enterprise are multi-faceted and involve a combination, a blending, of financial returns and social impact. Understanding these desired outcomes and the relative priorities will offer you some of the criteria by which you will be selecting the ideas to explore.

For example, when considering financial goals, define what "large" and "small" profit actually means to your organization. Not all social enterprises generate a profit. You will want to consider reliable grants as a part of the income stream for the business if you are not relying solely on earned income to support the enterprise.

Do leading-edge networking and research

Using the Internet, interviews with experts, interviews with potential or existing customers, and press reports, find out who the innovators are and what the innovations are, worldwide, that affect your clients and industry.

Don't restrict your search to a narrow definition of your industry - look for parallels in other sectors. For example, if you want to create training jobs for people with disabilities, look also at programs creating jobs for the homeless. If you're interested in restaurants, look also at other service concepts that may give you insights on the restaurant service.

The point of this research is to inspire and motivate, and to understand trends.

Perhaps you will want to revisit the section on common social enterprise ideas at the start of the chapter.

Assess your organization's strengths and weaknesses

Yes, you may have done this at an earlier stage, but you need to do it

in the context of looking at business ideas. At this point, try to be as expansive as possible. True, how your organization creates value includes providing employment and creating products, but think also about the other forms of value that your organization creates - the values of your social or environmental mission.

This is a good time to reflect on the community impacts of your work: for example, the strengthened families, healthy children, and more sustainable communities that result from your mission-related work.

Assess your potential customers' needs

Understanding your current customers is the most important step towards developing a strong idea. Before you start brainstorming, talk to your current and potential customers. Try to understand and see things from their point of view. Rather than simply designing a business that fits your needs, see what you can do that will address their unmet needs.

2. *Generate ideas*

This step will help you to transform the information and inspiration you have gathered in the preparation step into a number of specific enterprise ideas to meet your mission and objectives.

Generating ideas starts with a brainstorming process. Brainstorming is an individual or group process for generating alternative ideas or solutions on a specific topic. Good brainstorming focuses on the quantity and creativity of ideas. Concentrating on the quality of ideas is much less important than fostering the sheer quantity. After ideas are generated, they may be grouped, evaluated, and prioritized for subsequent research or consideration. Here's how you do it:

- Bring together a group of stakeholders, including your board, staff, and potential customers.
- Review the results of the preparation step and make sure everyone understands the subject of the brainstorming exercise. Collect as many enterprise ideas as possible that are relevant to your desired social and financial outcomes. Some questions which may stimulate ideas include:
 - » What is your organization already good at?
 - » Who benefits, or could benefit, from the services you provide?
 - » How does your organization create value today?
 - » What is going on in the market?
 - » What are competitors doing?
 - » What are your current and potential customers' biggest needs?



NICS School of Decorative Painting. NICS is a social enterprise operated by the Niagara International Children's Society, now based in Toronto.

How they got started...

Le Bucafin. We conducted a survey of the neighbourhood and found that there was a need in that area for a community service. People in the community identified three service needs: a place to socialize, a place where they had access to the Internet, and a safe laundromat.

So we decided to create three businesses in one and that decision was definitely grounded in the needs of the people in the neighbourhood.

You have to respond to the needs of your constituency; you can't create new needs but really focus on your community's needs. For us, it needed to be a project that fits with a low-income community. We had to find a type of enterprise that would be easy for low-income people to work in.

Many Nations. A strong desire to bring about change and to protect the future of aboriginal people led to the inception of Many Nations Benefit Co-operative, a member-run financial services organization tailored to meet the needs of aboriginal communities. Many Nations came into being as a result of dedicated leadership and a strong vision.

The vision began almost 20 years ago in Onion Lake, Saskatchewan, when that First Nation exercised its right to self-determination by taking direct control of their education system. The Director of Education for Onion Lake at that time, Joe Carter, believed that, "There had to be a way to provide aboriginal organizations and their employees with affordable and culturally appropriate group benefits, including pensions."

The solution was to create a pension plan that specifically addressed the needs of First Nations employees. This was an innovative idea and was soon adopted. The efforts of an inspired network of leaders and business professionals resulted in the creation of Many Nations Benefit Co-operative. Joe Carter became the first Chairperson and continues to be actively involved in that role.

Live Local Alberta. The Good Food Box evolved out of a discussion about how to meet the food security needs of low-income Edmontonians. The social enterprise now "facilitates the growth and distribution of locally grown and processed food by creating an on-line purchasing portal that matches suppliers of local, healthy food with people and institutions that wish to purchase local product". Lessons? The development path isn't linear – it's more like a spiral. If you stick with it, you build on previous ideas and research and come out of it with a concept you hadn't dreamed of – and one that's more likely to succeed in the long term.

NICS School of Decorative Painting. NICS had been providing professional training to painters, specializing in decorative painting, for several years when it landed a contract to train social service recipients and social housing tenants. It became apparent to the Executive Director that it would be a challenge for many of the trainees to obtain traditional unionized positions once they graduated because their personal circumstances – many were single mothers - prevented them from working the normal 7 am to 7 pm shifts expected in the industry. NICS started its own social enterprise to

offer flexible work shifts, and got off to a roaring start in 2009, with painting contracts worth more than \$200,000, nearly 50 people trained, a third of whom found jobs.

Sources of business ideas

When you're brainstorming or researching to find business ideas, use this list to help you. Most organizations can think of possibilities in each of these categories:

- ***Products and services that directly fulfill your mission.***
Earned income can often be generated directly from the value created by your core work.
- ***Existing product or service offered in a new geographic segment.***
What you do could be valuable outside your neighbourhood, whether it's offered directly by your organization or under license through another organization.
- ***Existing product or service offered to a new customer segment.***
What you do might have value for other types of customers. Many successful businesses have been created by offering a modified version of a social service to a full-fee client (such as corporate counselling programs).
- ***New product or service leveraging staff resources.***
What skills do your staff have that could create something new?
- ***New product or service leveraging client resources.***
Your clients have value as a customer group. You have access to your customers. What else might they need from you or a partner?
- ***New product or service leveraging real estate/hard assets.***
Your excess capacity or infrastructure can become a business.
- ***New product or service leveraging intellectual property/soft assets.***
If you have spent money developing a way to serve your clients, other non-profits or companies may be willing to buy your knowledge through a consulting service or under license.
- ***New product or service offered to a new geographic or customer segment.*** Growing an enterprise with both a new product/service offering **and** a new customer base is not recommended because the potential risk involved with doing any new activity is multiplied. To reduce risk, focus on either providing a known product to a new customer base or offering a new product or service to a group of customer where there is mutual understanding and awareness.

Unrelated business

Businesses unrelated to your on-going operations aren't usually a good choice because of potential legal and tax difficulties as well as lack of familiarity with the field, but it's possible that you simply have a great business idea in its own right. When you pursue something for which

you bring little to the table besides an idea, consider joining with a knowledgeable partner to reduce your risk.

3. Idea screening

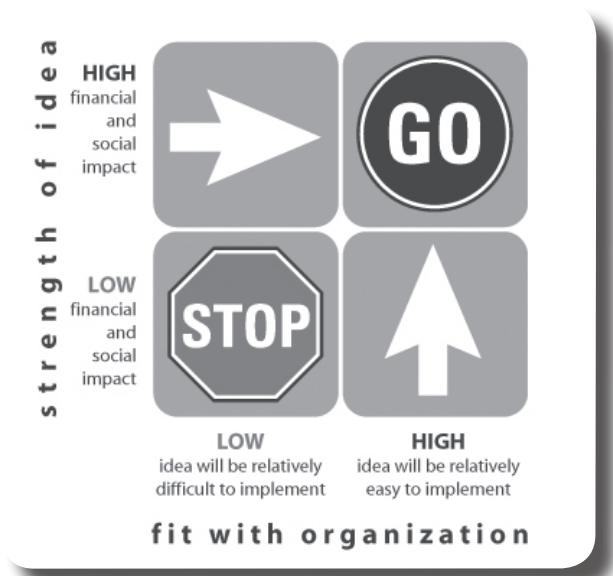
As a result of the brainstorming process, you will probably have far more business ideas than you can realistically analyze in depth. It doesn't make sense to do studies and write business plans on ideas that are in the end likely to be passed over. Generally speaking, you will, in this step, pare down the number of ideas to be more fully explored. Initially, from the meeting in which you brainstormed, you probably need to take a look at all the ideas and pare them down to perhaps five for further screening. In a later context, these five should be pared down to two possibilities, at the most. This section describes how you can approach the screening and sifting process.

We suggest here that one way to reduce the number of ideas is by roughly assessing the market potential of the idea and its likelihood of success. For this purpose, it is useful to think of success in two dimensions:

- **The strength of the idea:** Does this concept have market potential and a business model? Will it advance your mission either by generating lots of revenue or by strengthening your service delivery?
- **The fit with the organization:** Can your organization implement this idea successfully in the current market?

Thinking about these two dimensions, chart each enterprise idea using the matrix below.

Enterprise ideas that go in the upper-right quadrant have a high potential for success. If the idea ends up in the lower-left quadrant, do not pursue it.



Using a scorecard to assess initial potential

Use a simple scorecard for your selection criteria to judge strength and fit. You can rate the idea against the series of criteria presented below, simply using your and your colleagues' best judgment to justify each rating.

STRENGTH OF IDEA	FIT WITH ORGANIZATION
<i>Use the following ratings:</i> 0 = Poor 1 = Somewhat Good 2 = Good 3 = Very Good	
1. Does the enterprise provide a strong financial impact? 0 1 2 3	11. Is anyone enthusiastic about the idea? 0 1 2 3
2. Does the enterprise provide a strong social impact? 0 1 2 3	12. Does the product fit with the organizational values, mission, and culture? 0 1 2 3
3. Can the product be clearly defined? How developed is the idea? 0 1 2 3	13. Does the enterprise employ one of the organization's particular strengths? 0 1 2 3
4. Does the product address a significant customer problem? Are they willing to pay? 0 1 2 3	14. Would the enterprise create a lot of undue strain on the organization? 0 1 2 3
5. Does your organization have a competitive advantage? 0 1 2 3	15. Do you have the skills to run this business? 0 1 2 3
6. Is it likely that this product will be profitable? 0 1 2 3	16. Are skill gaps easy to fill with existing working conditions and salaries? 0 1 2 3
7. How much investment/start-up costs are required? What is the pay-back period for the initial investment? 0 1 2 3	17. What are the operational keys to success in this industry? Do you have them? 0 1 2 3
8. Do you have relationships with out target customers? 0 1 2 3	18. Will the traditional enterprise model need to be modified to fit our social criteria? How will this affect the success of the business? 0 1 2 3
9. How difficult is it to enter the market? 0 1 2 3	19. How much risk is there in the idea? 0 1 2 3
10. How big is the market? Is it growing? 0 1 2 3	20. How easy is it to address the risks? 0 1 2 3
Strength Of Idea Score:	Fit With Organization Score:

As indicated in the chart, add up your scores for questions 1 to 10. This is your strength of idea score. And add up your scores for questions 11 to 20. This is your fit with organization score.

- A score above 25 on both the organization and financial sides means that you have a strong idea. You will be justified to go on to the next steps of assessing the idea.
- If you score high on the strength of idea but not on the fit with organization, it may be difficult for you to gain the resources or support required even though it is generally a good concept. Consider something else first, or get help to address organizational barriers.
- If you scored high on the fit with organization side but not on the strength of idea side, this likely isn't a good social enterprise idea. You may nevertheless want to consider whether it still has enough value as a charitable program. However, if you don't think you can readily raise money to make it happen, you should not go further with it.
- If you scored below 25 on both strength of idea and fit with organization, go back to the drawing board and consider additional ideas.

4. Feasibility study

In the idea screening step, your objective was to eliminate the ideas that were either not a strong fit for your organization or did not provide a significant business or social impact. Now the formal feasibility study can test the key assumptions that determine whether this enterprise actually would have a good chance to succeed. The study is an opportunity to refine and explain the concept, and to test market reaction. Generally speaking you will want to: consult potential customers and funders, and evaluate competitors; and do some preliminary market research, such as a focus group or survey, to gain confidence in the value of the concept.

Organizations do their feasibility studies in various ways. You may wish to apply for funding to hire a consultant to conduct the study, or you may have someone in your organization who can do it.

You can choose to do a feasibility study on one idea (usually the idea that scored the highest on the assessment scorecard), or you can decide to do a feasibility study on two or more ideas. That depends on your resources. It would be reasonable to spend the equivalent of three to six full-time person days preparing a single feasibility study.

Sample criteria for developing a feasibility study

The feasibility analysis is focused on understanding whether the organization could make the enterprise work. This involves considering four key criteria:

- Strategic Alignment – Will the enterprise further your mission?**
- Market Opportunity – Will customers purchase your product?**
- Operational Capabilities – Can you make it happen?**
- Financial Potential – Can you achieve your profitability goals?**

You can use the detailed examination of these four criteria, using the questions outlined below. While it isn't necessary to answer every question definitively, don't avoid a question just because the answer is difficult to research or will detract from your excitement about the idea. Try to provide concrete evidence for each answer.

Strategic Alignment

- How appropriate is this product to your organization?
- Does it fit with your organization's values/vision/mission/strengths/skills/resources?
- How difficult will it be to promote, produce, or deliver?
- What organizational structure would be best to move your enterprise forward?
- What skills will be needed on your board of directors and at the staff level?

- Who will manage your enterprise?

Market Opportunity

- Who is your customer(s)? What are their demographic characteristics?
- What will your customer be buying (the product or service and its key elements)?
- What is the customer need you would address?
- How, when, and where will they buy it?
- Which customer/market segments will you target?
- How large is the market (i.e., how many potential customers)?
- How often do customers purchase? What is the average value of each purchase?
- Is it a mature or immature market? Is there growth potential?
- What are the market trends?
- Has the market demonstrated support for your product?
- Which market niche would your product fill? How would you differentiate yourself in the market? (Remember that customers will ultimately base their purchasing decision on quality, price, and experience, and not on charitable grounds. If you're counting on goodwill to sell your product or service, you're planning a fundraiser, not a business!)
- Who are your competitors? What are their strengths and weaknesses?
- How does your product or service differ from what is already offered (e.g. price, quality, service)?
- What is your competitive advantage?
- Who might become your competitors in the near future?
- Is there room for another provider in the market?

Operational Capabilities

- How long will it take to produce or procure the product?
- Which suppliers will you use? How much will they charge?
- How would you make this actually happen?
- What would have to change to facilitate success?
- Will you need a new facility?
- What additional management/staff are required? What will be the cost? Do they require training?
- How would you inform your market of your presence?
- What are your plans for distribution?
- Who are your external partners?
- What product testing is required?
- What are the key steps forward? General milestones? Timing?

- What could go wrong?
- What would be the impact if it did go wrong?
- What can you do to prevent it?
- At what points could losses be cut?

Financial Potential

- What are your potential start-up costs, including technology, staff, materials, equipment, marketing, and planning?
- What will your operating costs be?
- Approximately what price might you charge? How would the price be determined?
- What is your sense of a potential profit for a sale?
- Do you anticipate cash flow issues, including seasonal demand or high initial costs?
- How much working capital is required?
- What might your sales assumptions be in the first few years? Numbers? Growth?
- How long will it be until the enterprise breaks even?
- What are the key drivers of profitability? Can the enterprises operate at this level?
- Are there any potential sources of financial and human support for the different stages of development?

Sources of Information

Each of the feasibility study questions may require you to use a range of information sources to find satisfactory answers. Potential sources of information include:

- Interviews with potential customers, social enterprise operators, suppliers, existing staff and clients, industry associations, or funders.
- Visiting similar enterprises to understand how the business works, key success factors, potential pitfalls, staffing requirements, and cost drivers.
- Industry magazines, reports, and business directories.
- Internet research to determine competitive businesses, pricing, and value propositions.
- Site visits. Consider whether the business will be located at your current site or if another location is required. If your business is retail-oriented, take a look around your neighbourhood. This will give you a sense of the potential customers and their buying patterns. Which competitors are nearby? What are they doing right or wrong?
- If you already have a relationship with the target market, the records of complaints, service requests, or anecdotal feedback from employees who deal with customers most frequently may be a goldmine of information.

- An accountant, lawyer, financial institution representative, or business consultant.
- Small business advisory centres

Is it feasible? Deciding whether or not to move forward

Having prepared your feasibility study, you should be able to make the important decision whether or not to move forward on the idea. While you and others may be very excited about your idea's potential, you should prepare yourself for being able to walk away. Keep in mind that:

- Pursuing this idea will still require a tremendous additional investment of staff and financial resources as you're at a very early stage in the process.
- Moving forward with this business idea will require involving a broader constituency. You will need to build a business reputation with existing and new clients and with funders and possible investors.
- Making the idea a reality will require convincing many other individuals and groups. And that requires that you stay true to your mission and build a credible business case at the same time.

If your staff and board decide to continue to develop the business idea, think about at what points in the future you can back out of the process. This is necessary (and healthy) because as you move forward with your business plan, you may uncover some unexpected information that



Blue Lake Forest Education Society (BLFES) is a non-profit, charitable organization that focuses on providing education opportunities to children and youth through experiential learning programs.

The Blue Lake Forest Education Society

The feasibility study that Blue Lake conducted played a major role in the development of the project we are currently working on. I have always thought that one of the greatest strengths as a Society is Blue Lake's ability to plan and carefully analyze a situation before moving forward. However, going through the process of the feasibility study forced us as an organization to ask questions that we would not normally think of. The social enterprise that we were considering was constructing a lodge and training centre to facilitate forest and environment education programs as well as job training programs. When not being used for these purposes it would be rented out to private user groups to generate some extra revenue for the Society. We thought we had a pretty good idea of what we wanted in terms of the size and location of the building and we thought that our next step would be to round up the funding and proceed. After receiving some funding from Enterprising Non-profits and the Kootenay Woodlot Education Society to complete a feasibility study we thought that it would be wise to put things on hold until after we had completed the feasibility study. Honestly I didn't think that too much would change, but that the study would help to confirm what we already thought would be the best route to go. I was wrong. We carefully looked at the social, environmental and economic factors associated with this construction project and I started discussing

plans and ideas with a diverse group of people who used the Blue Lake Centre or worked at the Blue Lake Centre, all of whom were outside of the “executive” group. Through this process I was able to discover what the Society’s actual needs were for this facility and not just what the Board of Directors and Managers thought they were. What we ended up with was a design that would accommodate current and future needs of the Society. When compared to our initial plan the new plan had major design changes, was in a completely different location on site, and fit better with the lay of the land. -Jody McInnes

makes it important for you not to move forward. For example, the cost of materials may skyrocket, or a well-financed competitor may start to provide the same product or service at a lower cost. In addition, public policy can make or break a social enterprise. If legislation or funding programs change, your business may become unprofitable, even before you start.

As you plan the implementation phases of your business, the go/no-go decision points will become clear. For example, if you require a large amount of capital, your planning group may develop a limited time frame in which to raise that capital. After that time period, your group may assess your progress and decide whether or not your time will be wasted by continuing to work to raise capital.

Other points at which to consider a “go/no go” decision could be:

- before design of the facility begins;
- before construction begins;
- before a supplier or partners are confirmed;
- before stock or equipment is purchased; or
- before staff are hired.

Alternatively, you may be able to pilot your business by producing small batches of a product or providing services on a time-limited basis. You will want to evaluate these pilots closely to ensure that it is beneficial (or even profitable) to continue.

It is a difficult decision to walk away from a business idea that seemed strong. However, doing so will ultimately allow you to apply your time and energy in another direction that will benefit from the work you put into your first idea and from the lessons you learned. You have to be prepared to drop your first idea and consider another.

If you and your organization’s decision makers decide to move forward with the business idea, create a summary of your feasibility study. This will enable you to have early conversations with potential clients, markets, and investors. This document, called an executive summary business case, is described in the next section. It will help you test the waters at the same time as it serves as the starting point for a full

business plan (discussed in Chapter 5).

5. Business plan summary

The purpose of the executive summary business case is to quickly generate interest in your idea. It's an introduction and doesn't need to be comprehensive, but it must be compelling. Your goal is to help your reader grasp the unique value of what you are trying to do. A good business case shows how you are different and why you will succeed. It is a step in the sales process.

You can use this document to sell the concept to potential investors. These might include a board whose members could invest time and energy, or the venture philanthropists and financial institutions who could invest money to help you to develop a business plan or conduct a pilot study. It is also a useful test of business feasibility. (If you can't make a compelling case for the idea in this format, it may not be such a strong idea after all).

In no more than two pages, briefly present your business case. Include the following:

- The problem. Briefly demonstrate the problem you address.
- The solution (your program or business idea). A short and compelling description of why you can solve the problem better than anyone else. Potentially include the business model, strategy, why you're more competitive than others, people who would make it work, sustainability/profitability, and exit strategy.
- The "ask." From the perspective of the funder/investor, state specifically what you want (financial help and the expertise or other resources needed from any partnership).
- The social return on investment. Briefly describe how society will benefit from this investment. If possible, quantify this.
- The financial return on investment. For venture capital/financial investors, include the financial return on their investment.
- Your organization. Describe the role, effectiveness, and desirability of your organization as a partner with the funder/investor (stated in terms of your organization's financial viability/cash flow, managerial capabilities, and successes, with funding such as donations and grants from others re-stated as investments in your organization).

Criteria investors may use to assess an idea

The following includes some of the criteria that interested investors may use to assess an idea. Always try to describe your idea in these terms. Investors use these criteria because they work. A strong fit with these criteria is a good indicator that an idea will be successful (as well as get you the funding). Of course, these are the same sorts of criteria for a sound business that you yourself have considered all along.

Financial criteria	Social criteria
<p>Good business idea Is this a good business idea?</p> <p>Is there a significant customer base for the products or services to be produced?</p> <p>Can they be sold at a high enough margin to make a profit?</p> <p>Is there a competitive advantage?</p>	<p>Good service idea Is this a product or service that's really needed in the community?</p> <p>Would it result in significant improvement in the life of enough people?</p> <p>Can it be provided at a cost that makes sense?</p> <p>Does this approach to solving the problem offer some competitive advantage over other ways of doing it?</p>
<p>Right strategy Is there a good strategy to achieve business success, financial return on investment?</p> <p>In the strategy, are the financial assumptions in the business plan credible and include a reasonable exit strategy?</p>	<p>Right strategy Is there a good strategy in place to achieve a significant social impact?</p> <p>Has a good business plan been developed to implement a sustainable strategy?</p>
<p>People to make it work Are the people in the business the ones who can make it successful?</p>	<p>People to make it work Are the people running the organization capable of making this successful?</p>

Conclusion

Now that you have a clear idea of the likely pitfalls of this enterprise and have developed a document that sets out the potential benefits, you are ready to move ahead on your idea. With your executive summary business case, you will be able to generate interest in your enterprise idea. The next step is developing a full-fledged business plan. That document will help to generate commitments for real partnerships and capital for start-up and operating costs. It will also help your organization to mitigate the risks associated with this work. Chapter 5 will describe the business plan process in detail.

Chapter 5. Planning for Your Social Enterprise

At this point, you have done the preliminary work of ensuring that you are ready for the challenge. You have used a systematic approach to select a promising and exciting business enterprise that fits your organization. And you have completed your feasibility study and your executive summary business case.

So now you have made the commitment to begin developing a detailed business plan. Congratulations! While it isn't likely to be without its bumps and detours, the journey to creating a business plan can be a gratifying experience.

As you launch into the planning process, or even the initial planning to plan process, take comfort and inspiration from all the entrepreneurs who have turned their dreams into reality by devoting the necessary time and resources to creating blueprints for their ventures.

All types of organizations, both non-profit and for-profit, in all stages of development, from start-up to growth to maturity, can benefit from the discipline and adventure of business planning. It won't be easy. It is not as if you will be persuading an investor with a few figures written on the back of a napkin. But the hard work will help to transform your social enterprise idea into a social enterprise reality.

Business plans: Powerful and positive tools

Business planning, both the process and the resulting document, can provide incredibly powerful and positive tools for a new enterprise. A business plan is not just a forecast about one program, function, or resource. It is, rather, a framework that blends expectations about multiple factors and articulates them in a format that convincingly presents future opportunities for the venture.

There are many reasons for completing a business plan, including the following:

- **Identifying risks.** Through your narrative, assumptions, and financial forecasts, you can determine and document the potential impact of various risks.
- **Measuring outcomes:** Because it specifies and seeks to measure the outcomes, it will not only help you to assess your business impact, but it will also fit the current trend among non-profits and their funders towards outcome-based rather than need-based approaches to funding.
- **Showcasing your management team.** Business planning (both the process and the document) demonstrates social entrepreneurs'

ability to achieve their missions.

- **Building alliances.** The documentation of alliances are what social investors are increasingly looking for, as evidence of the kind of collaboration that will ensure optimum use of their investments.
- **Verifying your thinking and the venture feasibility.** The business planning model ensures that you have carefully checked out such things as market viability and financial stability.
- **Providing an operational framework.** A good business plan will provide a roadmap that guides implementation of the enterprise. This can be an invaluable tool for day-to-day operations and for ongoing strategic planning, performance evaluation, marketing/communications, financial management, and managing human resources as the enterprise develops.
- **Attracting investment.** Whether your potential investors will be lenders, equity buyers, or grantors, they are increasingly looking for evidence of careful planning to use the resources sought by the social entrepreneur.

High quality business plans

The good news is that your business plan does not have to be an epic treatise. While it is true that sometimes the business planning documents of major corporations may run into the hundreds of pages, that scale is not needed for the kind of lesser enterprise that you are considering. Indeed, it is much more likely that your plan will help you succeed if it is written in a succinct and practical format and style. No investor will want to hear you say, "Sorry to burden you with a 100-page plan; I just didn't have the time to edit it down into a 25-page version."

Some people like to think of a business plan as a story with characters, a plot, and a theme. In many ways, they are right. You are telling the story of your enterprise. You are trying to engage the reader to follow you through from beginning to end, and to make the ending a happy one by having them agree to invest in or partner with you. However, balance is essential. You need to find the right balance between narrative and numbers, between solid text and visually stimulating graphs and figures; and you will need a tone that is optimistic without being unrealistic. Yes, your plan should inspire you and your stakeholders, but it must also represent the realities that you and your management team will have to work within.

A business plan is a kind of road map. Ask yourself whether your plan has somehow become a utopian road map that ignores the detours, toll booths, and traffic jams that any social entrepreneur must face. Make sure that it complements and supports any prior work done on organizational change and development in your non-profit. If the plan varies considerably from previous results of the work done by your organization, it is possible that you are erring too far on the side of optimism.

The plan tells stakeholders where you are going with your enterprise and how you plan to get there. With a solid business plan in hand, you and your management team will be able to regularly refer to it to ensure the venture is not going off course and that it accurately reflects market conditions, operations, and assumptions. At the same time, those conditions will change over time, so a plan is never a final document. It demands periodic re-thinking. The best business plans quickly become dog-eared and flagged with Post-It notes. Beware of the plan that sits immaculately on your top shelf accumulating dust! But there is a side benefit from this need to continually revisit and refine a plan: this process sharpens critical thinking, analytical evaluation, and decision-making skills.

Planning to plan

If you are overcome with the desire to turn on your computer right now and start writing your award-winning business plan, you should consider the advice of the famous educator Effie Jones who believed that “failing to plan is planning to fail.” Planning the plan is perhaps the most important phase of the entire process.

Take the time now to talk to people, seek input and advice, reflect on what has been achieved in the run-up to this stage, identify what still needs to be done, and assess the resources required to get you there. Talk to representatives of other organizations who have developed similar plans and ask if they will share them with you on a confidential basis. Ask them what lessons they learned along the way, and what they would do differently.

Your worst nightmare...

- Board members aren't happy. Even after significant investment of time and resources, the board withholds a key approval.
- Staff time commitment has been underestimated. Key staff burn out and leave.
- Key people in the organization resent the attention given to the enterprise and even feel that there is a conflict between the non-profit's mission and the business goals.
- Decision points weren't well-defined. The organization has gotten in deeper than it intended.
- Financial needs were not well enough defined. The organization is ending up investing more money than it intended, more than it can afford.
- Legal implications aren't adequately investigated. Roadblocks appear after significant investment.
- Investors have misunderstood your process and goals. They withdraw funding.
- Insufficient “outside” assistance was engaged. The organization has been diverted from its focus while development takes place.



“Having a business consultant come in and review our business plan as well as business feasibility was invaluable. It gave the leadership team, the board and the staff and volunteers an opportunity to consider the store in a way we had not for some time.”

- Howe Sound Women's Centre Society

Where should you start?

The social enterprise business plan is a natural successor to the work that your organization has already undertaken. If you have already worked through previous chapters, you know how important it is to think in a detailed way about your organizational readiness and development, market research, opportunity selection, and feasibility studies.

By the time that you are ready to develop a business plan, the enterprise idea you are working on has been subject to several tests and has shown itself to be achievable and to have significant benefit in terms of financial or mission-related outcomes. In essence, you have determined that this idea is worthy of all the time and resources that will be required to lay out a firm plan and make that plan a reality.

Ask yourself what, specifically, you hope to achieve with the plan.

Again, avoid mission drift by starting with and sticking to a clearly articulated vision and mission statement. Check again the following:

- Are you clear about how this new venture will complement your existing non-profit organization?
- What are the expected social impacts of this venture? Will you be able to monitor and evaluate your performance with respect to achieving your social mission?
- How effective will this enterprise be in terms of achieving your social mission?

It may sound counter-intuitive or even defeatist, but it is important to think now about sun-setting your venture. Planning for an exit at the very start of the process will help you structure the venture and its relationship to the parent organization with much greater clarity, objectivity, and foresight. You don't have to approach sun-setting as a response to the question, "What if our business fails?" Instead, you can approach it from the perspective that another organization (or business) may want to take over the enterprise, or that you may be so successful, you will feel the need to sell off the enterprise and shift to replicating your business to enhance other communities.

Planning the Exit

As you develop your business plan, you will see that you cannot simply walk away from the commitments it will entail with regards to the organization, staff, partners, and fundraising activities. If, after all, the business does indeed fail, a clear and well-planned exit strategy will help you maintain the confidence of all those who have been involved along the way.

Key components of an exit strategy include the triggers for exit, resources for exit, and updates on what costs may accrue upon exit.

Triggers: These are the events that by design will lead to a decision to fold the business. They may be, for example, a pre-determined amount of an unacceptable level of subsidy required within a certain time period, a specific disappointing ratio between accounts receivable and accounts payable, or a realization that social or environmental goals are not being met. Make sure that the organization's decision makers agree upon these triggers.

Resources: Such things as paying off creditors, wrapping up employment contracts, and paying any penalties for cancelling contracts will have to be handled. Will the sale of assets cover these, or will exit reserves need to be set aside?

Updates: As you develop your business plan and move forward to implement it, keep a list of likely costs that would accumulate if the enterprise fails. Include these costs in a separate plan that you update annually.

Who should be involved?

Consider what expertise and information is required to develop your business plan. Reflect upon the people you know in your organization (staff, volunteers, board members) as well as in your broader community (suppliers, clients, similar agencies) who possess some of the necessary skills and the requisite time to contribute to the process.

Many organizations strike an outside advisory committee of four to eight key individuals to help guide the process.

Unless the executive director is given a reprieve from all other duties to champion the development of the business plan, it is more practical for another staff person to be appointed to this role. Make sure that that person is not burdened with other time-sensitive responsibilities. A high-quality plan cannot be written as a task that takes second place to other demands. Often the person who leads the business planning process will end up playing a key role in the start-up of the venture, so give careful thought to who undertakes this work and how to deal with that shift in responsibilities.

At some point in the process of developing a business plan, most organizations will decide to retain the services of professionals. Your decision whether to hire a consultant, coach, writer, editor, or accountant (or any combination thereof) will depend on your specific needs and your budget for professional services. Note that the best results will come from hiring people who develop the plan with you, not for you.

Many organizations prefer to hire a business planning coach who will be actively involved in all the different stages of the project. In the early stages, they can help to identify necessary information, devise a realistic work plan, and create a framework for the document. In the later stages, they can help to review the plan, recommend changes, and perhaps

even assist with implementation. During the intervening stages, they can coach the staff champion through the process, acting as a resource and advisor. The advantages of retaining a coach over a consultant include cost savings, empowerment of internal staff, cultivation of skills that can be transferred to the venture, and greater autonomy over the end product.

It is highly advisable to retain external accounting professionals to help with compiling and presenting financial statements. They will need your internal accounting and book-keeping staff to provide relevant financial information upon which they will project start-up costs, assets and liabilities, and cash flows for the venture's initial stages. Ensure that, as part of your arrangement, they set aside time to thoroughly review all the financials with whoever will be responsible for "selling" the venture. Readers of the business plan will often come up with hard questions about the numbers and how they were derived. Your champion may jeopardize your credibility if he presents the plan but is unable to demonstrate at least basic financial literacy about it and certainly an easy familiarity with the specific numbers you are presenting.

How long will it take and how much will it cost?

A social enterprise business plan can take anywhere from three months to a year to complete. The length of time it takes you will depend on the unique characteristics of your organization and such practical considerations as how much time over how long a period and how many resources you can dedicate to the process.

- Start by identifying the key pieces of information that are needed to compile the plan. You may need to update your feasibility study market research, re-evaluate your future competition, or hone your social performance model.
- Gather the members of your advisory team - including any retained professional experts - and start constructing a timeline based on a realistic evaluation of what needs to be done.
- Develop a budget based on the expenses identified in the work plan. Will you be comfortable with the typical costs of up to \$20,000 for extensive professional involvement in the work?
- Track internal staff time spent on the project even if it is an in-kind contribution from the parent organization to the new social enterprise.

The social enterprise business plan

Social enterprises are, by their very nature, complex undertakings. It is hard enough to create a new company that can identify a new market need and serve that market while building infrastructure, raising capital, and meeting customer demands. Social ventures aim to do all of this as well as another daunting task - creating value for society beyond the financial bottom line.

The business plan was once the exclusive tool of the private sector. But as the lines dividing the private, public, and non-profit sectors began to blur, many non-corporate entities started using the business plan to expand their scope and achieve their goals. If you were to compare the business plans of a high tech start-up, a municipal government department, and a non-profit training facility, you would likely find a significant degree of similarity among them. You could expect to find sections on proposed goods/services, market opportunity, competitors, operations, human resources, and financial projections in each of them.

Like private sector enterprises, a successful social enterprise should generate financial resources beyond its costs. However, whereas a private enterprise is almost exclusively preoccupied with creating a financial return on investment, social enterprises must also create a social impact or benefit. So balancing social and financial goals is the principal challenge for non-profit social entrepreneurs. Readers of your business plan will want to know how well you can articulate the expected social impact of your venture, what targets you are setting, and how you propose to evaluate your success in that respect, not just in financial terms.

In setting these sorts of targets, you may wish to take the SMART approach. SMART stands for:

Specific	Clear to the people who are required to achieve the target.
Measurable	Success can be gauged by agreed-upon standards.
Achievable	Those involved understand that it is clearly possible to reach the target.
Relevant	Those involved recognize that the targets are directly related to what they are doing.
Timed	There is an agreed-upon timetable for achievements and decision points.

This is just a general introduction to the social impact issue. The next chapter will provide details on several approaches that are used to measure social impact. It will guide you through a process that will enable you to decide which approach works best for you.

Piecing together the plan

While there is no definitive prototype for a business plan (and even less for a social purpose business plan) there is general agreement on the basic elements that need to be included. And while advice from consultants and coaches will vary on matters of format, degree of detail, and style, the staples of business planning, a compelling executive summary and error-free and clear financials, for example, are never up for negotiation.



Operating as the Edmonton City Centre Church Corporation, E4C is a registered charity founded in 1970. E4C provides a multiple and diverse range of services including shelter for the homeless, meals, affordable housing, education services and training.

E4C's Kids in the Hall Bistro, located in Edmonton's City Hall, provides the public with good food and excellent service, while meeting the needs of at-risk youth for training in life and employment skills

"We do a business plan every year for **Kids in the Hall Bistro**. It's critical because there's an annual business cycle for the food service industry. It's important on a regular basis to see if you have achieved your annual objectives. A business plan is a tactical document."

Kourch Chan, COO E4C

You have probably already looked through more than one reference book on business planning. Note the similarities and differences among the approaches recommended by various authors and reflect upon which approach, or combination of approaches, will work best for presenting your venture.

Once you and your advisory team have agreed upon the elements of your plan and its overall structure, you will start to see how each section picks up from the previous one and builds anticipation for the following one.

According to the London Business School, there are 10 questions every social venture business plan should answer:

1. Where is your venture now?
2. What is your product or service?
3. What is your market?
4. How will you reach your market?
5. Against whom will you be competing?
6. How will the product be produced or the service offered?
7. Who are the people involved?
8. What are your financial projections and how much money do you need?
9. What are the risks?
10. What is the social return on investment and how will it be measured?

No matter what framework you may choose for answering these questions, it will be bound to cover these key components or sections:

- I. Executive summary
- II. Market opportunity
- III. Business model
- IV. Operations
- V. Management
- VI. Social outcomes
- VII. Financial statements and financial projections
- VIII. Appendices.

Taken together, these components will allow you to develop a practical roadmap for executing your enterprise idea.

Here, we present each of the sections listed above by describing the function and offering targeted questions to stimulate your thinking

about what information needs to be provided. You will see that, in some instances, certain information may have to be presented in more than one section. Repetition is okay if your line of thought development requires it.

I. Executive summary

The executive summary appears at the front of the business plan and is usually the last section to be written. (The reason for this is that it will draw from and synthesize all the succeeding sections, so it will be different from the summary you wrote in the feasibility study phase and it will even be different from anything you would write before you complete the whole plan.) It should provide a general overview of the core venture and leave the reader eager to learn more. Write the executive summary with the assumption that it may be separated from the rest of the business plan and circulated as a stand-alone piece. So it is extremely important that it includes contact information (name, title, address, phone number, fax number, and e-mail) for the person in your organization who will be best able to answer questions and pursue opportunities. The main body of your business plan should probably be 25 to 30 pages. No matter, the executive summary should be no more than two pages. As with all aspects of the business plan, the executive summary should be as concise as possible, without repeated or insignificant information.

Listed below are the key parts of the overall business plan that should be summarized in the executive summary:

- The business idea and the customer need you are addressing
- The market opportunity
- Your competitive advantage and market positioning
- Management team highlights
- Expected social impact
- Goals, timelines, and benchmarks
- Summary of financials including start-up requirements, revenue growth projections, and anticipated break-even point.

Remember that the executive summary is the first, and may be the only, part of your plan that a potential investor or partner will read. Do not lose the opportunity to make a compelling and concise case for your venture.

II. Market opportunity

In this section, you will convince the reader that there is both a need and a demand for your product or service. You will explain in detail the rationale for the venture by describing the opportunity that exists, why it is needed and by whom. Any market research that your organization has conducted to determine your venture's feasibility will be helpful here, as will surveys and comprehensive information from your organization's

database and from technical reference works.

Specifically, the key items you want to convey are the industry context, market description, customer segments, and competition. Think about the following issues to help you get started with this section:

Industry context

Starting any enterprises requires a basic understand of how the industry works. This understanding will help you strategize your launch more effectively and manage risks as your enterprise is implemented. Some considerations for your market positioning include:

- Technological changes (e.g., increasing online sales), regulatory environment, labour market (e.g., labour supply and demand), economic influences (e.g., seasonality, unions), geographic and environmental events and trends that could affect your industry. Is the industry growing or declining?
- Supplier dependence and power. (Who are the suppliers? How many are there? Could you switch suppliers easily?).
- Buyer power (e.g., only a few and big customers, customer awareness of competitive alternatives, their costs for switching to another producer/servicer, customers can provide the service themselves, competition is primarily on a cost basis, some competitors are selling below costs or do not seek a profit).
- Barriers to entry (e.g., high investment for start-up costs, substantial expertise required, restrictive regulations, changing technology, market saturation, customer resistance to trying new suppliers)
- Substitutes (many similar products exist, lower priced alternatives exist).
- Competitive rivalry (e.g., rivalry is increased when industry growth is slow, products are poorly differentiated, and many diverse competitors exist).

Market description and customers

Once you understand the external environment and industry dynamics that will influence your enterprise, you can turn your attention to the specific group of customers (the market) your enterprise will target.

Although “everyone” may be able to benefit from your product, very few social enterprises have the brand awareness or resources to effectively mass market their enterprise. Instead, target marketing to a sub-set of customers is what will help your enterprise achieve maximum results as you build your business.

By targeting your market you can easily drill down to the features and benefits of your products that are most important to your target market. Once you know your target, it is easier to communicate with it, determine where and how you can most effectively market your services, and form partnerships with other businesses that offer complimentary

services. In addition, adding further target markets becomes easier once you have your marketing strategy in place for the first one. Some considerations for your market segment positioning include:

- What is the size of the market?
- Is it a mature or immature market? Is there growth potential?
- What is your expected share of your part of the market?
- What are the trends in your market (e.g., growing or declining, new customers, new products, more frequent purchases, price changes)?
- Will the target market require support to access or use your product? How much time and energy will you devote to this, and what is the likelihood of generating customer loyalty as a result?
- Where are the opportunities within your market, and what parts would you focus on? What regions?
- How would your location affect your ability to take advantage of the market?
- What are the relevant customer demographics (e.g; age, gender, socio-economic level, employment status)?
- What are the relevant personality traits of your typical customer (e.g., values, risk profile, importance of status, interests, and level of buying sophistication)?
- What are the relevant behaviours of your customers (e.g., who makes the purchasing decision, how often do they purchase, when and why do customers use the product, do customers care about brand)?
- What most motivates customers to purchase the product (e.g., price, convenience, quality, brand, product features, customer experience, credit terms, return policy, recommendations)?
- How do customers typically hear about products similar to your offerings?

Competition

Every enterprise faces competition. This can be direct competition from a company offering a product very similar to yours (e.g., other caterers) or indirect competition from a company that provides a different service that meets the same need (e.g., restaurants). An ongoing understanding of the competition in a market can be useful for identifying market niches, developing pricing strategies, and marketing products.

The purpose of conducting a competitive analysis is to figure out how the products and services of your enterprise will be differentiated from the competition, to identify gaps in the market that your enterprise may fill, and to provide a reasonable explanation for how your enterprise will have a competitive advantage in the market place.

Some considerations for how you intend to manage competition (that is, your market positioning) include:

- Who are your main competitors (direct and indirect)? What are their

strengths and weaknesses (e.g., product quality, service, customer satisfaction, brand awareness, market share, location, strong management)?

- Who are the target customers for your competition?
- How would your price, quality, and service issues compare to others'?
- Who might become your competitors in the near future?
- What are the barriers to entry for new competitors? Will these change over time?

Market Position Summary

A summary of the market analysis will demonstrate your understanding of the industry and describe your enterprise's relationship to the market. The summary highlights the demand for the product and critical success factors for operating in the industry. Given the realistic market conditions, a market positioning statement articulates the niche in which your enterprise will most likely be successful.

Market Research

An organization intending to introduce a new product needs to establish both that there is a demand for the product and that conditions exist for it to be successfully provided. Market research provides the necessary information.

As you proceed with the research for the market analysis, you may discover that the market is in decline or other adverse conditions are present. This does not mean that you need to cancel your enterprise plans, but it does provide a valuable reality check. In your business planning remain flexible and responsive to market conditions. Marketing is about serving the customer, placing them first, and recognizing that customers have many products and providers from which to choose. So the more closely aligned you are with realities of market conditions, the greater your chances for success.

The purpose of the market research is to provide you with the basic information about your potential market to enable you to make informed decisions. Market research is not a one-off exercise undertaken before entering a market. You should undertake further market research not only when expanding into new marketing but also periodically while operating the enterprise.

You can use a variety of sources to gather data. Good market analysis involves a combination of desk and field research:

Desk research: the analysis of published materials. This is usually the starting point of any research because it is quick and inexpensive. The limitation of desk research is that it is often dated and not comprehensive. Sources include:

- **Statistics Canada:** The standard classification system is the North American Industry Classification System (NAICS). Statistics Canada features the NAICS web page, and you can access surveys and research related to many of the sub-categories at: www.statcan.ca/english/Subjects/Standard/naics/2002/naics02-menu.htm
- **Industry Canada:** Industry Canada's website is a comprehensive source of Canadian market and business information including trade data, SME benchmarking and small business profiles, business information by sector, economic analysis, and statistics. www.ic.gc.ca
- **BC Stats:** The province publishes demographic information such as census data, population estimates, population forecasts, immigration and migration reports, neighbourhood income and demographics. www.bcstats.gov.bc.ca (Of course, if you are in another province seek out its equivalent information source instead and so too with the other BC sources we have noted here.)
- **Vancouver Public Library:** Vancouver Public Library has a number of on-line and print resources including periodical databases (e.g. CBCA, Canadian Newsstand), association listings (e.g., Community Organizational Database), and company information databases (e.g., EDGAR, SEDAR, and Reference Canada) www.vpl.vancouver.bc.ca/
- **Business directories** such as esourcecanada.com, Fraser's Canadian Trade Directory, Canadian Trade Index, Bellzinc Trade Directory, Canadian Company Capabilities, superpages.ca, scottsinfo.com, BC Manufacturers' Directory, BC Government Directory.
- **Trade Associations:** a good source of market research from experts in their field, including information on industry trends and lists of organizations that operate in the industry.

Field research: the collection of new or additional data. This type of research will be more current and tailored to the unique needs of your enterprise. Sources include:

- **Surveys:** the most common method, but not always the most effective. People often see surveys as a waste of time and potentially intrusive. Postal questionnaires have a response rate of 1-5%. Surveys work best when they are conducted in person or over the phone with people who have been briefed on, and are receptive to, the initiative.
- **Interviews:** if you have reached this point and not talked to your customers (or potential customers), now is the time. These conversations will be essential to helping you figure out where your product offerings are on target and where they need adjustment. Interviews can take place in a focus group, by telephone, or in a personal interview setting. In addition to current and/or potential customers, you may also want to talk to people who run social enterprises, people who run similar businesses, and potential investors.
- **Observation:** often just looking can tell you what people are doing, how they are buying, who they buy from, where they buy and how often. This can involve street surveys, observing competitors, or

observing potential customers.

III. Business model

In this section, you will tell the reader the details about what you are selling and why it will be successful. After reading this section of your report, the reader should be confident that your business idea is not only compelling, but viable.

Considerations for this section:

1. Description of product or service

- » What are you offering and to whom?
- » What is the link between the market opportunity and your product or service?
- » What is the customer need that is being addressed?
- » How, when, and where will the customer buy it?

2. Social dimension

- » What are the social goals you are trying to achieve through your venture?
- » How do these goals align with the mission of the parent organization?
- » Are there synergies (the combined effort being greater than the parts) between the business and the mission (between marketing your product and promoting the organization's mission)?

3. Risks and assumptions

Declare any assumptions you are making about your venture, including any risks and your strategy for managing them. There is a difference between prudent risk and uncontrolled risk, and any seasoned investor understands the distinction. As no venture is without risks, not declaring them will raise questions. Also reveal any significant liability, legal, insurance, and tax issues that will affect the enterprise and discuss how you will address them.

4. Competitive advantage

- » What distinguishes your product or service (e.g., superior product, service, personnel, location, brand awareness, intellectual property)?
- » How durable is your competitive advantage, and how easily could others duplicate it?

5. Pricing analysis and revenue model

- » How much does it cost you to produce your product or service (e.g., cost of supplies or components, labour, market averages, etc.)?
- » What is the market range for similar products?

- » What will you charge for your product or service? (Be aware of the risks of under-pricing.)
- » How many will you sell?
- » How much profit will be generated from each sale/unit?
- » How does this compare to what your competitors make?

IV. Operations

By now you have demonstrated that you understand your venture from an external market and business context. In this section, you must now show operational literacy. You must show how your enterprise will run internally. (If your enterprise is already in the start-up phase, you will document what you already have in place, and what further is required to get going).

Provide detail of the various aspects of operations: staffing, marketing, distribution, inventory management, timeline, decision points, and growth management, as they relate to your product or service.

These questions should help you with this section:

Legal structure

- What will be the relationship between the enterprise and the parent organization? Will the enterprise be a separate entity?
- What is the governance structure of the enterprise (separately and in relation to the parent organization)?
- How will this structure affect your charitable or non-profit status?
- What skills will be needed on the board of directors? Will board members have increased liability as a result of the business start-up and operation process and how this will be handled?
- Will the parent organization provide any in-kind support or will it charge overhead?

Note that legal issues are discussed in Chapter 7, which will help you answer these questions.

Operations and/or production process

- How does the product get made, and/or how is the service provided?
- What are the sources of raw material, technology, and packaging? Are you going to save any money in these areas?
- What are the required characteristics of the facility or workspace?
- What equipment, furniture, inventory, or technology will be required?
- Are there any safety or environmental factors that will be addressed?
- How much additional work will be required to deliver your service? How will that time be paid for?
- What types of management systems are required (e.g., financials,

operations, purchasing, contracts, inventory, billing, human resources)?

Staffing

- Who will manage the business?
- How do you plan to staff the venture?
- Will staff require special training or accreditation?
- Will the non-profit's clients be hired? If so, are there any special accommodations that will require additional staff or other resources?
- Will staff work on contract, for honoraria, or on a permanent basis?
- Do you have a person with business experience and/or training on staff and how will that person be utilized?
- Does the staffing plan match your operational needs and revenue growth projections?
- How will the staffing needs change as the enterprise grows?
- Are any of the positions transitional by design? If so, how will the high turnover rates be accounted for in the enterprise?
- How easy will it be to attract qualified staff with anticipated working conditions and salaries?
- What is the organizational chart? What is the accountability of each staff member?

Sales and marketing plan

- Have you developed a plan that addresses the four P's of marketing:
 - » Product: What you will be selling?
 - » Place: How the product will be distributed to your customers.
 - » Price: How much you will charge for your product?
 - » Promotion: How customers will find out about your product?
- What is your marketing strategy to create awareness, generate trial customers, build preference among customers, and generate repeat business?
- What marketing tactics will you use (e.g., advertising, personal sales, publicity, public relations, sales promotion)?
- Is there an online component to your sales, marketing, or distributions strategy?
- How do you intend to launch your venture?
- What resources are you dedicating to marketing your product/service?
- Who in your organization has the capacity to maintain the marketing campaign?
- What are the benchmarks or goals for marketing? How will you track and improve your marketing success?
- What customer service program will be required?

- How will marketing your product or service enhance or detract from your community profile?

Implementation plan

- Who will move your venture from idea to reality?
- What are your timelines and critical decision points, including go/no-go criteria?
- What is your budget for start-up costs?
- Who are your existing and preferred partners and why?
- What are the risks of the enterprise (e.g., financial, reputation, safety, legal, social impact, mission drift)?
- How will these risks be mitigated?

A reflection on staffing...

Potluck Café Society. Implementing a professionalized infrastructure has been another critical element in Potluck's success. We use a professional bookkeeper/accountant, business consultants, and a high-level catering manager with an MBA. At one point, we had a chef who was the president of the BC Chef's Association.

A reflection on branding...

Employing Unique Solutions. One challenge was to sell the branding of our business. We went to all the job fairs and sold the concept to employers, we met up with lots of diversity representatives to try to get our foot in the door. *Then* at that time we also had to put together a plan to recruit a skilled pool of employees that could satisfy the needs of today's employers that I went to speak to. It was a juggling act that has to work together, or your success rate will dilute very fast. We have a good base of employers that we are working with and will always look to expand, but our success is the service we provide: prompt, professional, respectful and cost effective.

V. Management

In this section, you will explain who will lead the venture and ensure its success. You should highlight the strengths of the management team, acknowledge any gaps in the skills needed, and explain how you will compensate for them. Generally speaking, you need to address the three key skills: operational management, sales management, and financial management.

Describe how the enterprise staff will relate to the parent organization staff. If there is shared staff, you will need to clearly explain the delineation of roles and responsibilities.

Remember that you are trying to convince an investor or partner to become involved in the venture. Will your management team inspire the



Photo: Brian Harris

Potluck is a leader in social enterprise and an inspiring entrepreneurial model for community economic development and revitalization. Through its business activities, Potluck has directly improved the quality of life for residents of our downtown eastside (Vancouver) community.

Potluck operates a fully professional café and catering enterprise in the heart of the city serving hundreds of corporate and non-profit clients. Potluck is a registered charity whose café and catering revenue is directly invested back into its many community social programs that are integrated into its daily operations.

reader's confidence?

You may find it helpful to structure this section as follows:

Introduce the team

- Who is on the management team?
- What relevant experience can each person offer?
- Does the team have a history of working together?
- What is the team's experience in the business field? What is their experience in the field of non-profits or charities?
- How will the board support the management team, and how much authority will they have over issues like staffing, budgets, planning, etc.?

Explain the key management roles

- What are the main responsibilities for each position? (Include brief biographies for those positions that are already filled).
- Where are there skills gaps and how will they be filled?
- How will staffing needs change as the enterprise grows?

VI. Social outcomes

The main feature that differentiates your plan from a traditional business plan is the explicit expectation of certain social outcomes. And in this section you describe how you will document the achievement of those outcomes. To do so, the key social outcomes should be quantifiable, measured against a target, and evaluated over time. The whole matter of documenting social outcomes (assessing your progress towards them) is dealt with in detail in Chapter 6. You will find much assistance there for this section of the plan.

This section presents the framework you have chosen in order to assess your social performance and results in terms of those key outcomes, but you will also present how you will document other social values inherent in your venture, such as environmental practices, sourcing and supply chain, hiring and workplace practices, community economic development, community involvement, and affirmative governance models.

Describe the benefits

- What benefits will society gain because of your venture?
- How will the organization be stronger as a result of the enterprise?
- How will you make sure that your employees, clients, and customers can access your services (i.e., how will you address barriers specific to clients)?
- Why does this enterprise make the world (or the neighbourhood) a better place?

Outline the evaluation method

- What indicators will you use to evaluate your social progress, and how will you know whether your venture is socially relevant?
- Who in the organization will be empowered to use this information to make the business more effective or move the mission forward?

The Vocational and Rehabilitation Research Institute

Social returns should be evident in your choice of business activity. Guided by your organization's code of ethical standards, the social return on investment should be closely linked to your mission and vision of your organization.

Does it provide financial return on investment? At the VRRRI, we believe that, as stewards of public funds, we have a responsibility to adhere to higher ethical standards than the privately owned corporate community. We recognize that it may take a few financial cycles for a new business to be profitable, but this should never occur as a result of capricious policy, or at the expense of the parent charity's ability to fulfill its mission. Having a business plan is essential to being prepared, preventing undue financial risk and a resource burden on your organization, and creating a business that's financially viable. - Leslie Tamagi

VII. Financial statements

As you prepare this key section, ideally with the assistance of accounting professionals, keep in mind that it may be the only piece that an investor will be sure to look at (along with the executive summary). Think about the information that someone would need in order to decide whether to invest in this venture. For example, building your management's capacity to manage cash flow is critical to sustaining your enterprise, so you will need a specific statement on that to assure an investor that you have this critical issue in hand.

For the purposes of any business planning, financial statements are called *pro forma*, which means that to show what is expected, these are made up in advance - they are prepared before the actual timeframe that they represent. We present here some orientation to the three basic *pro forma* statements necessary, but remember that you will probably need professional accounting help to produce them for your business.

In fact, the final financial statements and financial projections really should be prepared by someone with recognized accounting credentials (CA, CGA, CMA) and, if possible, with experience in calculating the double bottom line. You will probably not have someone in-house for this. If you do need to hire an external professional to help you, then it is essential that the champion(s) for the venture will work with that person to gain a

basic understanding of the role of each statement and what is required to maintain and update the financial information on an ongoing basis.

The three essential statements include the cash flow statement, income statement, and balance sheet. These statements tell the numerical story of the potential sustainability and viability of your enterprise. They will represent your best estimation of the finances of the business over a period of perhaps three to five years, and thus they are financial projections. (When a business is operational, the same sort of statements are produced to describe the current state of the finances; but they may also be used then to predict future finances).

Cash flow statement

The pro forma cash flow statement attempts to budget your business's cash needs by summarizing "cash in" and "cash out" on a monthly basis. This statement shows how much cash will be needed, when it will be needed, and where it will come from. This projection is probably the most central item in the business plan because it will show whether or not you will have sufficient cash on hand to run the business. Obviously, a negative cumulative cash flow figure is a warning sign. Potential investors will need to be assured that you have contingency plans in place, such as being able to inject more capital through a loan, line of credit, grant, or your organization's own reserves. Sound financial management will develop an operating reserve for the business itself of three to six months operating expenses to mitigate risk. Although it may take a number of years to reach this level of operating reserve, it should be an organizational goal and visible in your plan.

Income statement

The pro forma income statement measures how successfully management will use the enterprise's resources to predict how profitable the venture will be. Also known as the profit and loss statement, it projects the difference between net income and operating expenses for a given period of time. Projections of the second and third year are usually logical extensions of first-year pro forma figures, although revenues and expenses will not necessarily increase by the same proportion each month or year.

Balance sheet

The pro forma balance sheet summarizes all the resources invested in the business by showing the venture's assets, liabilities, and the fund balance at a given point in time. The balance sheet is divided into two sections: the first lists the assets (cash, accounts receivable, machinery, equipment, inventory, supplies) and the second lists liabilities (accounts payable, debts, pre-paid sales) and the fund balance.

Financial projections – how you get to those financial statements

A critical component of any business plan is producing the set of financial projections that will be represented in the statements just described. Financial projections (estimations or predictions over a period of time) are the figures used to assess the financial feasibility of the business, determine capital needs, and assess risk. However, unlike budgeting in a non-profit environment, rarely is it possible to have accurate data (particularly on the revenue side). Estimating is a skill and an art, and the quality of financial projections has an enormous impact on the quality of decision making.

Both managers and potential funders are interested in seeing how revenue grows and profits develop over time. So your pro forma statements need to be provided for a period of three to five years.

The following steps are a reasonable process to follow for developing a set of financial estimates:

1. List the potential capital investment required. Include equipment, furniture, inventory, legal fees, consultant fees, initial training, and initial marketing budget.
2. List the potential fixed and variable operating costs associated with the business. Include rent, salaries and benefits, utilities, insurance, office or production supplies, overhead charged by the parent organization, ongoing legal and professional fees, ongoing training, transportation, equipment repair, telephone, licenses, ongoing advertising, taxes, contingency for bad debt, and interest.
3. Building on what you have said in the section on the Business Model, specify a pricing policy, preferably based on a combination of competitive review and a break-even analysis.
4. Building on what you have said in the sections on Market Opportunity, Market Position, and Market Research, estimate the potential size of your market, and your expected sales to that market over time.
5. State your initial assumptions required to develop the set of financial statements (income statement, cash flow statement, balance sheet).
6. Develop a model, using Microsoft Excel, that converts these assumptions into dollar statements.
7. Validate or test key assumptions against market data, customer opinion, or past experience.
8. Develop a sensitivity analysis, that is, an examination of what might happen if any of your assumptions turn out to be inaccurate. See detailed sections below on tips for making assumptions and on creating a sensitivity analysis.

Depending on the industry that your venture is in, your plan may need to include additional special statements such as a schedule of debt and

equity, start-up costs, and financial structure. However, do not get carried away with providing masses of indigestible financial data. Instead, focus on providing the essential pieces of information in logical progression, revealing key assumptions, and validating feasibility.

The main questions that any potential investor is likely to ask when reading your plan are: how much money is needed, what is the money needed for, when is it needed, what form is it needed in (cash, line of credit, etc.), and when will the enterprise break even? Throughout the plan, but particularly in this section on financial statements, the reader will be assessing the fundability of the enterprise and whether it will attract financial support from additional supporters.

Ensure that you demonstrate the alignment between the financial projections and the anticipated social impacts described in your social return section. Help the reader make the connection between the social and business goals of the venture. For example, you could use the timeline feature of the cash flow statement to indicate the points at which you will measure your social return. And while it may be premature to prepare your pro forma statements according to the principles of the double bottom line (both financial and social returns) or the triple bottom line (financial, social, and environmental returns), potential investors, board members, partnering organizations, and other stakeholders will likely expect to see a reference to that model in your plan.

Make sure you reveal the core assumptions behind your financial model up front. Don't leave your reader guessing as to how you arrived at your financial projections.

Provide proper footnoting to help the reader link the numbers with information previously presented in the plan (especially since you cannot be guaranteed that the reader will read the entire plan).

Tips on making assumptions

Regardless of how sophisticated your financial statements are, the quality of your projections is largely driven by having realistic assumptions. The following practices will help improve the quality of your assumptions.

Focus research on the most important numbers

In most business plans, one or two assumptions have the largest impact on results. Use your time and investment to improve the accuracy of the most important assumptions (usually sales and staff time). It isn't worthwhile to spend time improving the accuracy of an unimportant assumption (such as cost of office supplies).

Look for comparable situations

Try to get information about a comparable business or situation. How did

a competitor perform? How many clients or members do they have now?

If in doubt, base expenses on needed human resources

In most organizations, expenses in almost all categories are based on the number of allocated staff in the periods being described.

Learn how to use Microsoft Excel functions

You will usually need to change your financial projections many times as you build them, so knowing the computer program to handle them is fundamental. This Guide cannot deal with this in the necessary detail. But whoever is the champion should consider taking the time to learn the following Excel functions: IF, VLOOKUP, SUM, SUMIF, TABLE. With these five functions, the champion's ability to project scenarios will be greatly enhanced. You will likely have to arrange for outside help to learn and use these financial analysis tools.

Sensitivity analysis

This is the crucial exercise that tries to see to what extent your projection results may vary with certain specified changes in the assumptions you are using. No matter how much time and energy you put into developing a financial projection, there will be room for error, and you also want to be prepared for changed circumstances. For example, your assumptions may be inaccurate or outdated by later events. Understanding the range and potential impacts of other potential and reasonable scenarios is just as important as the particular projection you have selected to make.

Ask yourself two key questions:

- How far off can I be on my original projections and still make an adequate return?
- What would be the impact of being off, and by what amount, on this or that key assumption?

There are two basic methods for undertaking a sensitivity analysis:

1. Prepare three sets of financial statements. One is your "real" estimate. One is a pessimistic scenario, where you assume a combination of negative events. The third is an optimistic scenario, where you assume a combination of positive events.
2. Check the impacts on your projections of varying one or two key assumptions.

The first option here is quite simple to execute. Save a new Excel file each time, and simply change your assumptions, run the new projection, and save each new Excel file for comparison purposes. The second option can be accomplished using the "Table" function in Excel. Unfortunately, this function takes a bit of practice to master; however, the results can be powerfully instructive. Again, you or whoever else is the champion for the venture idea and heading up the planning task will need to be



The **Ellice Café & Theatre** opened in February of 2005 as a non-profit community development initiative of New Life Ministries.

Menu sales from the Ellice Café help to subsidize a low-income food service for some residents of the New Life Ministries transitional housing and emergency shelter. The Café is also a natural venue for volunteering and job training.

fully cognizant of the Excel system for financial analyses. And again, outside assistance for learning and using these tools will likely need to be arranged.

Ellice Café

Managing a social enterprise is very different from any other job I've had. The expectation is multi-leveled. I have a community wanting to see the Café offer affordable food, community groups wanting me to train and hire those finding it difficult to obtain work elsewhere, a Board needing to see the Café making a profit and a higher end customer base expecting great food every single time they come in. Some days it all works well. Some days it feels as though I am pulled in every direction possible.

It is vital to understand the bottom line of any business. This is even more important with a social enterprise. There is more riding on the success. Making money is not bad. Making money allows us, at the Ellice Café, to offer a discount program for our customers on a fixed income. Many of my customers can afford to pay more for food. So they do. Those who cannot, receive the discount and enjoy exactly the same food, service and environment that my full price customers do. The financial side of the business is the foundation for any other program to be built on. When the café is fully self supporting I will also be able to hire and train more staff, with the ultimate goal of helping lift them out of the cycle poverty has put them in.

It is important for people working in a social enterprise to value the business side of things. We don't need to apologize for paying attention to numbers. If we don't know what numbers to look at or how to assess, we need to ask for help. I have done that a lot! - Belinda Squance

Keeping the plan current

This, then, is the general form and content for your plan. As mentioned earlier, for business planning to be a truly effective tool in guiding a social enterprise, it must be treated as a continuous process and reviewed on an ongoing basis. As your enterprise changes, so too must the business plan. Ideally, they will evolve together, providing appropriate checks and balances.

For the first year, you should review the entire business plan on a quarterly basis, particularly the sections on marketing, staffing, and financial projections. You will be assessing the degree to which the business plan is aligned with the reality of the enterprise. Ask two or three people to get involved in the review and encourage them to challenge the assumptions that were made, the expectations that were presented, and the risks and success factors that were identified. You may also want to bring back your business plan coach/consultant

and whoever was involved in preparing the financial statements. At the end of the first year, you may want to consider retaining the services of an external auditor to evaluate the social enterprise and the related business planning documents. An external audit can be a very constructive tool. It will evaluate the capacity of enterprise management and staff from a non-emotional point of view.

As you evaluate the relevance of your original business plan to your evolving enterprise, consider whether the research upon which your plan was based is still accurate. Are your market projections outdated? Have new competitors entered the market and taken some of your market share? Is your value proposition still attractive? The review will suggest whether there is any new research that you should launch.

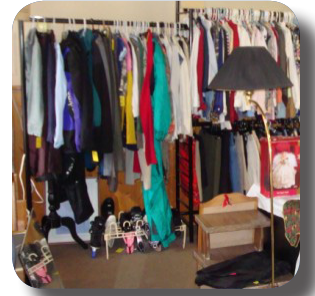
Here is a special tip: Use your ongoing review of the business plan and related documents as a reminder to keep in touch with your investors and key stakeholders. Offer to send them an updated executive summary and the financial sections of your revised business plan (and the entire plan if they are interested). They will be pleased to learn of your progress, relieved to see evidence of ongoing carefulness, and more open to receiving additional requests for support, if you find that necessary.

Le Bucafin

I believe you have to start with a good business plan. It's no use to make a plan that you put in the drawer and that's it. The business plan is a tool in the enterprise. All the marketing plans we put in the business plan have proven very important. The business plan isn't just something that happens in the development of the enterprise; you use it in the business. You have to be able to change the business plan if what is going on in the business doesn't fit with what you planned. We've changed our business plan about three times. Our customers changed, so we had to change. When we did the original plan, we didn't take into account the influx of tourists in the summer, and the difference in business between summer and winter. We've since created a good partnership with the local tourist bureau and that wasn't in the first version of the business plan. We did write a good business plan, with a financial statement and a market study, and we've been able to adjust it as we go along. At first we thought the laundry would be the bigger part of the business, but for the moment, the Internet café side is bigger. -Carole Lachance

Conclusion

As you proceed through this whole business planning process, you will undoubtedly reach points where you are tempted to throw up your hands and accept defeat. *Don't*. Yes, the planning task is daunting, but it will be worth it. The simple fact is that organizations that plan for the future - and follow through with the plans - are much better positioned to meet other challenges and embrace important opportunities



“Revenue decreases and unhappy volunteers/employees usually mean its time to revamp policies and procedures and/or to look at the strategic plan for opportunities to improve.”

- Wendy Faris,
Pearls 2nds

than those organizations that have not engaged in a substantive and challenging planning process.

This chapter has built a case for business planning, and proposed some practical means and frameworks for creating a working plan and keeping it current. But you will always benefit by supplementing the information in this Guide with other resources and by talking to people who have made it through the journey that you are about to embark upon.

Chapter 6. Performance Measurement

This guide has presented you with key ways and means of getting a social enterprise up and running. Now we want to deal with a critical task that arises after your business is operational. As well as the constant monitoring that the chief officer of the business will have to conduct on a daily basis and the general supervision of an overseeing board, there is the broader but crucial task of assessing the overall performance of the business to see how it does and does not measure up to what your organization had in mind when you began the whole process.

While we say here that the task arises after you are operational, it must be confronted long before that time. In fact, as you will have seen both in Chapter 2 on the development path and in Chapter 5 on planning the business, your business plan itself must contain basic directions for assessing the performance of the enterprise, with respect to both business and social outcomes, expected and otherwise. Actually, assessing performance on the financial goals may be built into the accounting/bookkeeping system that you will have adopted. That is a fairly conventional task, facing all kinds of businesses, non-profit or for-profit. But the assessment of the social performance is the special and very difficult job for the social enterprise as it bears on the whole point of starting a social enterprise.

Over the years many people have been deliberately trying to shape the conventional business model into something that will be more than a profit machine, to be in fact a broadly positive influence upon a community and upon society in general. But they have discovered that it is a challenging job to figure out a way to confirm that the intended social impacts do in fact occur. Both the operators and the funders of social enterprises have been frustrated by the difficulty of documenting good performance on that second bottom line. The reason for that is primarily because the social effects are generally to be sought outside the business itself in positive changes in people and communities affected by the business. And a business has little capacity to seek confirmation of its social performance in that broader arena.

Yes, it is understandable to contend that you must be doing good because you are not just interested in profits, but how do you persuade others of something more than your good intentions? Indeed, you yourself want to be sure that you are achieving the results you have been seeking. We hope that this chapter will help you solve that problem, which has vexed the social enterprise field from the beginning. What we will be discussing has a variety of different names: measuring results, performance assessment, evaluation, social audit. They all point to how to document the social pay-off of a social enterprise. What we want now to concentrate on is how you can gather, present, and use so-called hard data, to supplement intriguing case studies and insightful but scattered



Starworks Packaging and Assembly

was created by the Developmental Disabilities Association to hire people with a developmental disability from the Vancouver area to perform light labour and assembly work. They employ over 50 on-call workers in our 5000 square foot warehouse with the capacity to handle all types of work that requires high volume manual labour.

observations and judgments. We recognize that so-called qualitative information is basic and important, must be attended to, and can lead to significant action. But we want to show you how you can seek and obtain a comprehensive picture of the success of the enterprise, including powerful information about your social impact that will support your enterprise.

Reasons for measuring performance

To be clear, let us enumerate the whole list of reasons why careful and detailed assessment of performance needs to be included in the very body of your social enterprise:

- **Confirmation that the enterprise is on the right track:** This is the most important pay-off for a deliberate assessment program. You and your associates certainly want to know whether in fact you are all really doing what you intended, and to what extent. Everyone on the staff of the enterprise and your non-profit organization needs to know that their work is really paying off. That is one of the most fulfilling experiences in social action.
- **Adjust and improve planning:** With the facts of the matter before you, you can address the job of making relevant changes in your plan, if that is what the information indicates is needed. And you can make a better judgment as to whether any other changes you are contemplating are going to affect the social outcomes that you seek.
- **Improving day-to-day operations:** Even what happens by day-to-day decisions can benefit from being sensitive to the social impact of those decisions because you now know what is actually happening.
- **Building and maintaining support of outsiders:** The facts can be laid before funders, investors, partners, political leaders, and the community in general. And when they can see for themselves that you are really accomplishing what you intended they will be readier to respond with the support you need and want.
- **Contributing to the field of social enterprise:** Your peers can learn from what you report and how you got the critical information, so that they can adjust their own social enterprise activities for better and more satisfying performance. Moreover, with your work, those who are studying the field will have more definitive knowledge to develop new ideas and techniques.
- **Being prepared for demands for the facts:** You will avoid being in a situation either where you do not have the information at hand to warn you about operating risks, or where it will be excessively time-consuming to pull together information for fundraising, reporting, and communications.

When you consider the many different types of social enterprises with their many different goals and aims for contributing to community development, you can well understand that the field of social performance assessment is complex. There have, over the years, been many strenuous and careful attempts to lay out the means to efficiently

and effectively document social performance. In fact, such efforts continue to this day because the need remains to amass the right information to persuade decision-makers to recognize and support the social enterprise field as a crucial part of our economy and society.

At the end of this chapter we provide a brief list and access to a variety of approaches and techniques for social performance assessment. There are significant advantages and insights to be gained from each of them, but we have selected only one for focused attention in this chapter, the approach that is called “Demonstrating Value.” And in doing so we will be able to lay forth in its context the general approach to social performance assessment.

Why choose the Demonstrating Value approach?

We use the Demonstrating Value (DV) system for assessing social performance for a number of reasons:

- This system was designed by social enterprise practitioners themselves with the close collaboration of funders and other stakeholders. So it embodies the insights of those who work in the real world of social enterprise. Enp itself took an active role in the design.
- It was developed out of an in-depth pilot study with eight enterprises, representing a diversity of businesses, missions, stages of development, and operating environments. So the framework has been tested for flexibility for working in a variety of different settings.
- It provides detailed specific tools to be used: the DV toolkit.
- It was designed on the principle that it must make sense to those who will be using the toolkit - and not only make sense, but inspire them to improved performance.
- It integrates an assessment of social performance with business performance, so that you can gain more insights into the tradeoffs and synergies between financial and social goals.

A summary of where DV can be used

The following table offers a quick overview of the application of the DV approach. For more detail, check www.demonstratingvalue.org.

What do you need to do?	How Demonstrating Value can help
Understand your financial performance.	Tools to help you optimize financial accounting to meet unique social enterprise needs.
Get good financial data.	Guidance on using key financial data (key performance metrics). Ways to portray financial data to engage staff, board, others.

“Demonstrating Value turns the performance measurement power dynamics on its head, which is commonly dominated by funders. It enables the operators to educate their funders.”

- Joanne Norris,
Social Capital Partners

“Using the **Demonstrating Value** tool really helps you define the added value you provide, plus helps you narrow your focus. For example, when the tool came out, I became interested in the environmental impact of our activities, but when going through the process of defining what we really needed to know and measure, we decided to focus on the people. This is one of our core business purposes, so we need to focus on measuring activities in that area.”

-Deanne Ziebart,
Developmental Disabilities
Association (DDA)

Balance and manage multiple objectives.	A mapping process and a reporting tool to see connections between goals to ensure you are adequately monitoring different objectives.
See the risks on the horizon.	Tools to map your goals and tasks, to identify gaps and to find solutions.
Find out what to ‘measure.’	Methods to help you pinpoint what information is most important and possible to collect. Tools that provide guidance on what to measure.
Show your value to investors and others in the community.	Tools to help you track and assess your value. Advice on how to effectively communicate your story using numbers, charts, text and pictures.
Be in control of reporting so that it meets your needs, is efficient and integrated.	Processes to map your information and reporting needs. Guides and tools for developing effective reporting.
Share what you’ve learned with others.	Instruction on how to develop compelling presentation tools to show what you do. Advice on how to effectively share what you’ve learned using numbers, charts, text and pictures.

Be upfront about capacity and costs

Developing useful performance measurement systems takes a lot of time and resources. You need to recognize this, even if your funders or others do not. But this is a good investment. Once your social enterprise is up and running, you will need to make many day-to-day decisions that will affect the performance of the enterprise; and you will be called on to demonstrate its value, whether it be within your non-profit organization, to prospective or current investors, to your staff, customers or the public at large. From this perspective, it makes sense to develop good systems from the start that can measure the enterprise’s performance. In the planning stage of the enterprise, you can work out what you should measure, and also identify some of the ways you will collect and use that information. You then need to commit the additional necessary time and resources to develop these systems in the context of your business operations.

We would stress again that an evaluation system is difficult to design, as well as expensive and requiring an awful lot of time. For this reason it is probably impractical to think you can touch all the bases when you construct that section of your business plan. You are also very

unlikely to be able to put your full evaluation plan into action from the beginning of operations. Keep in mind that you can start very modestly, and refine and improve your systems and techniques as you grow. For instance, data tracking can begin on paper, and later be developed more comprehensively in spreadsheets and databases. Moreover, the reality of operations educates us all in the fact that our predictions of what is needed and what is possible have to be periodically corrected. But the key is to know what you need to track, and start to develop these systems right away.

It is an essential point for funders, boards, and staff of the social enterprise to realize that it costs money to do this stuff and cannot be shunted off as an extra task for a harried program director or manager who is not well versed in the general field of business evaluation, let alone in the special analyses that social enterprises require. You will be making a special effort to recruit and keep the staff who can carry out this important part of operating a social enterprise.

Evaluation must have management value

Whatever you are considering, it must always come back to management value. Do not get hung up on the theory or techniques per se; think in terms of how your approach will be helpful to the enterprise management. This means working out just what you want to know and show about your enterprise. Have serious conversations about your vision and how you will get there. The only way for this to happen is to be explicit about why performance management tools customized for social enterprises are necessary and how these tools help develop, manage, and grow these ventures effectively and efficiently.

What to measure?

How can you develop the systems you need for your enterprise? Fundamentally, this means (1) working out what you need to measure, (2) developing effective tracking systems for gathering that information, and then (3) using what you gather for your own decision-making and for demonstrating the value and performance of the enterprise to others. The Demonstrating Value toolkit can help you with each of these steps. (So, in various ways, can other tools listed at the end of this chapter.) A key consideration in the early stages of this path is to prioritize potential measurement areas and start by identifying the most critical areas of performance. Trying to measure too much right away can often become too confusing and/or costly. Again, measurement areas and techniques can (and should) be added and changed incrementally. This is part of the process of learning as the enterprise proceeds.

When you are at the beginning of developing the performance measurement approach, you need to be clear on key principles that all effective approaches embody and that apply to any venture that



Raven Recycling Society

“The government and our board are interested in knowing where our efforts go, where our money goes, where our profits go, how much material we move and how much money we save them. They need to trust what we’re telling them, so we need to show them a process how we measure that.”

-Joy Snyder,
Executive Director

is establishing its venture performance framework. The Canadian Comprehensive Auditing Foundation* sets out these key principles:

1. Focus on the few critical aspects of performance.
2. Explain how these particular aspects have been chosen.
3. State the goals and expectations you are seeking.
4. Relate the results achieved to these stated goals and performance expectations.
5. Put the results in their proper context by:
 - » relating results achieved to the ongoing capacity to meet or improve on current performance expectations;
 - » explaining what the key risks are and how risk has influenced choices made in relation to policy, goals, and performance expectations; relating results achieved to the risks and levels of risk accepted; and
 - » describing other key performance factors that users need to understand why the entity is doing what it's doing; and to interpret the meaning and significance of the performance information being reported.
6. Recognize and explain the important link between resources and results by integrating financial and non-financial information.
7. Compare current to earlier performance if such information will significantly enhance users' ability to understand or use the performance information being reported.
8. Compare performance to that of similar entities if such information will significantly enhance users' ability to understand or to use the performance information being reported.
9. State why you are confident that the performance information being reported is reliable.

Taking these principles as your guide, you can then plan out a performance measurement system that will fit your particular needs, and which can be implemented in different stages. The DV approach has some useful tools to help you do this, and the remaining sections of this chapter will outline these to you generally.

The Demonstrating Value lenses

The easiest way to begin is to think about all the possible areas or levels of activity that could be analyzed, and then pare down to what your organization determines to be the key questions that need to be

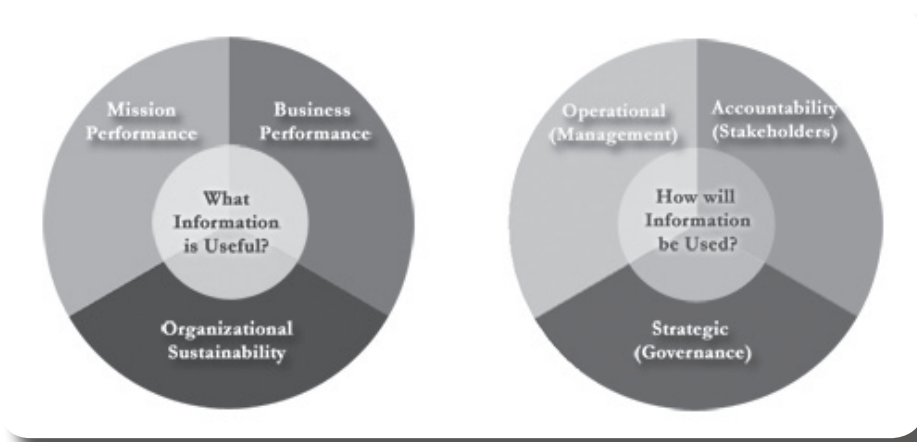
*Canadian Comprehensive Auditing Foundation. "Nine Principles for Performance Reporting," Reporting Principles: Taking Public Performance Reporting to a New Level, 2002.

answered. You will also need to consider who needs this performance information and how they will get it and use it. The DV lenses can help you do this.

The information you gather in your organization has to be directly relevant to the business decisions you make and be compelling for others who need to learn about your value. To work out what information is most useful, always keep the following simple question in mind: 'What do we want to know and show?' In essence, you need to think about the story you want to tell, and the information that will enable you to make better decisions. What are your biggest risks, and do you have enough information about them to help you manage them? What are you here for and why should anyone care? What are you doing that is unique? Why should your board, your funders, or the general public support you? What evidence (e.g., numbers, pictures, quotes, stories, video) do you already have to back up your story? What more do you need?

The two DV lenses shown below can help you focus your answer. The first asks: 'What information is Useful?' and the second asks 'How will the information be used?'. The first helps you pinpoint what data, indicators, and other information are most valuable to gather, while the second helps you respond as efficiently as possible to different reporting needs.

What do you want to know and show?



What do you want to know?

Because you have both business and social objectives (human, community, environmental, cultural), information that relates to both of these categories of goals is equally important to gather. But you will also want to know if you are developing the assets, resources, and practices needed to sustain the organization in the long-term. Consider your information needs from those three perspectives:

From the business performance perspective

What information can tell you about the success of the organization from a financial and business-performance perspective? For example, to understand whether you are financially viable, you will want to measure your costs, revenues, assets, liabilities and cash flow. That is why you established a process for producing these statements like the pro formas of your plan. You will also want to know about trends in sales and customers (or program uptake by clients), and key elements of your operations (like safety, product/service quality, efficiency). Examples of questions you may want to know and show in this area:

- Are you exceeding customer expectations about products and/or service quality?
- Do you have a diversified customer base so you are not reliant on a few key customers?
- Are you paying expenses in a timely manner?
- Do you have products and/or services which provide an adequate profit margin?
- Are you expanding the number of customers, while maintaining your current customer base?
- Do you deliver products and services on time and on budget?
- How is your operational efficiency? Can it be improved through better scheduling, use of equipment, or team work?

From the mission performance perspective

What information can tell you about the ability of the social enterprise to successfully contribute to the social, cultural and environmental objectives set out in the mission statement of the enterprise? This means starting by identifying the broad area in which you are attempting to have impact. Is it employment? Education? Health? The environment? Some combination? So, for example, an environmentally focused enterprise may want to learn whether the community is adopting more environmentally sustainable practices as a result of its work, while an enterprise focused on employing at-risk youth may want to show progress in reaching hiring targets for that population segment.

This initial framing offers a great opportunity to engage different members of your staff, as well as representatives from other key stakeholder groups. Get your funders involved. Talk about cost and capacity issues. It is particularly important to directly involve the people who will have a role in any performance measurement activities down the road, so they can get inspired and develop a clear understanding of the value (and power) of establishing such a process.

After you define the broad impact areas, you need to identify specific units of analysis that can be tracked or monitored over time. For example, in a social enterprise that exists to create jobs for people with

employment barriers, the possible units or outcomes to track would be the number of jobs created, the quality of those jobs (e.g., wage, work environment) and the number of target employees able to get off income assistance. A conceptual framework relevant to this particular kind of enterprise is the Sustainable Livelihoods Framework, an asset-based approach that provides a useful context to address where individuals are, where they want to go, and how they get there.

From the organizational sustainability perspective

What information can help you understand whether you are developing and maintaining the resources that will meet your purposes in the long run? This applies both to the sustainability of the enterprise itself and the sustainability of the organization that runs it. For example, to get a good handle on whether you are building adequate human resources in the enterprise, you may want to track how long your employees stay with you, whether your staff has professional development activities available, and whether you have regular board meetings that engage the board members.

From this standpoint you will need to measure the relationship between the enterprise and the non-profit parent organization that operates it. Some of the data areas are fairly straightforward, such as:

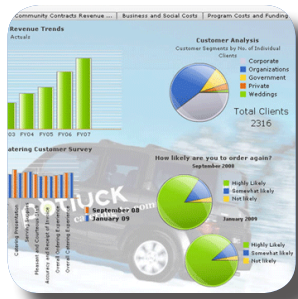
- In which direction does cash flow? To your enterprise or to your organization?
- What skills have been added to your parent organization as a result of your enterprise?
- Has the enterprise directly or indirectly resulted in more referrals (or more effective referrals) of clients in need of services?

Other questions related to the organizational level of performance measurement are more difficult to answer:

- How does the community you serve view your enterprise and the motivations of the organization operating it?
- Have there been controversies or problems that affect your organization's ability to attract clients or funding?
- Has your board's level of skill increased?

What do you want to show?

The second Demonstrating Value lens helps you think about how you will use the information you gather. In other words, what type of reporting systems will you need to have in the enterprise, so that people have the information they need, when they need it. It is likely that the same information is wanted by different people, and can be used for different purposes. What are these needs, and how can you respond as efficiently as possible? Take the time to think about what kind of reporting you can set up to meet the demands of different audiences. You will recognize that there are three perspectives from which the performance



“The board said, ‘Wow! We do all that?’ The dashboard was a great way to communicate to the board both our breadth of programs and depth of impact.”

-Heather O’Hara, Executive Director, Potluck Café Society

information will be viewed and used.

An Operational Perspective

What type of reporting do you need to support management and staff in the decisions they make day-to-day? For instance, what information does management need to see to stay on top of costs, quality, and delivery of your mission? How can this information be pulled up easily? What processes will there be to review information and make informed decisions?

A Strategic Perspective

What type of reporting do you need to support strategic decisions that are often made by a governance body such as a board? These decisions will typically involve a longer time horizon, and set out key objectives and directions of the organization. Many of the people making the decisions, such as members of a board of directors, will not be part of the daily activities of the organization, so this reporting will also need to clearly inform and educate your audience about key trends and events that have occurred.

An Accountability Perspective

What reporting do you need to show that you take accountability as a serious matter? That attention to accountability fosters and maintains support of the enterprise. This includes support by investors, community members, employees and beneficiaries of your mission. This information will educate others about what you do and show the value of your activities. So it is important to think about how you can present what you do in a compelling way - clearly, honestly, and concisely. The public or an investor may have very limited knowledge of who you are and what you are trying to accomplish so your story needs to be very crisp.

Process and tools

The Demonstrating Value toolkit contains templates, examples, and other details ([see www.demonstratingvalue.org](http://www.demonstratingvalue.org)) that can help you to set up your own performance measurement system. The toolkit consists today of eight separate manuals, but others are in the planning stages.

Information Blueprint Template

This helps you develop a clear picture of your information needs and how you will meet them with this workbook. Download the Information Blueprint Template and Stable Roots Example. This mapping exercise is the key departure point for defining what is important for you to monitor and know in the enterprise.

Developing a DV Snapshot Guide

A guide and worksheet to help you to develop a Demonstrating Value Snapshot, that is, a simple, visual way to present the performance and value of your organization to boards, funders, and staff.

Financial Intelligence for Social Enterprises

A guide and worksheet to help you to gather information about financial performance for a social enterprise, including best practices for the sector. The worksheet can help you identify all of the contributions to a social enterprise's financial picture (e.g., the value of discounts, donations, volunteer time) and to estimate social costs.

Monitoring Ideas Library

This library has lots of ideas about what you can monitor to understand an organization's business performance, mission-related performance, and organizational sustainability. This resource includes monitoring frameworks, survey tools, and collections of indicators that may be relevant to understanding how your work is unfolding.

Organizational Sustainability Assessment Tool

This self-assessment tool can help you review how the enterprise is building different capital assets (human capital, organizational capital, financial capital, social capital, intellectual capital) that are important to the long term sustainability of the organization.

Assessment of the relationship between social enterprise and its non-profit parent

Non-profit organizations start up social enterprises for many reasons. Use this assessment to revisit your organization's expectations for starting the enterprise and to talk about what the social enterprise brings to the organization.

Privacy and Confidentiality in Monitoring

If you are collecting or want to collect and use personal information from individuals, there are many things you must consider. This guide describes what you need to know.

Why You Matter - Map your impact in more detail

This worksheet will help you describe your environmental and/or social mission more clearly, and to make links between your activities and your goals. It is very helpful for showing how your organization creates value and how your work relates to larger social and environmental change (in ways you may not have thought of previously!).

Conclusion

As you will have gathered in the chapter and as we have emphasized perhaps tiresomely (!), the core matter of showing that a social enterprise is indeed a fine way to achieve social goals is a very complicated matter. Part of the difficulty is the fact that social enterprises have become so significant a feature in our economy that there has been an increased demand for high-class documentation on the real results of this approach to a better society. Part of the difficulty is also due to the fact that the variation in activities and techniques of social enterprises makes their assessment have to take an equally varied approach. We hope that our discussion here of ways to ascertain the true performance of a social enterprise has managed to surmount the challenges this task involves.

Additional resources

For additional resources, you may want to sample some of the approaches and network resources listed here. Each approach has its own vocabulary, but as you look through the examples, you will see they have much in common:

Approach	What it measures	Key aspects	Who promotes	Further information
Social return on investment (SROI); The Canadian SROI Network	Calculates the net social and/or environmental benefit of a financial investment in monetary terms	Methodology can be used for evaluation, forecasting or planning purposes and as a tool to guide organizational efforts to maximize value created SROI results enhance internal and external communications of project value and results achieved	Canada and UK SROI Network Robert’s Enterprise Development Fund SiMPACT Strategy Group Social Venture Technology Group (USA) Social -valuator TM Netherlands	stephanie@simpactstrategies.com www.blendedvalue.org www.redf.org simpactstrategies.com www.svtgroup.net www.socialevaluator.eu A web-based tool to assist with SROI.
Social Metrics	Provides a solid starting point for understanding social impact measurement	Part of the Social Entrepreneurship Series RealWorldSystems built a database from this research	SIG@Mars: Social Innovation Generation Unit at Mars	www.marsdd.com/buzz/reports/socialmetrics This is the first in the series on social impact measurement
Impact Reporting and Investment Standards (IRIS)	Effort to create a common framework for defining, tracking and reporting performance of ‘impact capital’	Provides a model and indicators for reporting on social and environmental performance	Rockefeller Foundation Acumen Fund B Lab	http://iris-standards.org/ http://www.bcorporation.net/
Program Evaluation / Outcome Measurement	Short-medium and long-term benefits of programs and services	Program evaluation is a formalized approach to studying the goals, processes, and impacts of a program. It maps out how the activities of the program relate to long term change in the community Logic model that can be modified to the enterprise situation	Seedco United Way of America Canadian Outcomes Research Institute Canadian Evaluation Society New Economics Foundation, UK. Tool Factory	www.seedco.org www.national.unitedway.org/outcomes/ www.evaluationcanada.ca www.proveandimprove.org (on-line impact map) www.thetoolfactory.com (Social Impact Tracker reporting software)
Benchmarking	Compares processes used by one enterprise with one or more others	Involves building partnerships with other businesses to look at efficiencies	Used in industries, usually with large-scale production processes	www.benchmarkingnetwork.com

Balanced Scorecard	Creates an information-based feedback loop to ensure that internal processes align with the mission as seen by external stakeholders	Sets goals according to the enterprise mission, then tracks progress on internal and external indicators	The Balanced Scorecard Institute Social Enterprise London (UK) developed a version of the dashboard for social enterprise Social Firms UK. Developed software for employment-related social enterprises that is based on simplified version of a Balanced Scorecard	www.sel.org.uk www.socialfirms.uk www.balancedscorecard.org
Sustainable Livelihoods Framework	Peoples' assets and constraints and progress related to their ability to realize a sustainable livelihood	Interviews individuals and tracks over time to improve program design and outcomes	Department for International Development (UK)	www.livelihoods.org www.ekonomos.com
Triple Bottom-Line	Identifies overall impact in three areas: social, environmental, financial	Separates and identifies intentional and unintentional effects of enterprise	Frequently used in private sector	www.bsdglobal.com
Social Accounting and Audit (Sustainability Reporting)	Social and environmental effects of an organization	Systematic reporting and analysis of the effect of an organization. Reports are audited by a third party.	Global Reporting Initiative AccountAbility	www.globalreporting.org www.accountability21.net
NESsT	Assesses impact in four areas: financial impact; financial sustainability; social impact; and organizational sustainability	Looks at organizational impact of enterprise in addition to business and social impact	Non-Profit Enterprise and Self-sustainability Team	www.nesst.org/
Social Capital Partners	Combines sustainable livelihoods, and SROI approach	Uses sustainable livelihoods framework to set baseline indicators, then uses SROI analysis to translate the social impact of various social enterprises into monetary terms	Social Capital Partners (Toronto)	www.socialcapitalpartners.ca For an example, go the "Ideas" section of the site and check out the ICR report cards.

Chapter 7. The Legal Context

Non-profits undertaking business ventures have different legal options for structuring their enterprises. In this chapter we will review the different options and the various legal considerations involved. The intent here is to orient you, not to provide legal guidance. It is very important to get legal advice about how to structure your enterprise if you're a non-profit. It is particularly important if your organization is a registered charity, as you do not want to put your charitable status at risk. Find a lawyer who has experience in charity law. Canada Revenue Agency (hereafter CRA) makes decisions about eligibility for charitable status on a case-by-case basis, and each situation is unique. Remember, this chapter is not a substitute for legal advice. You need legal advice from a lawyer familiar with this field before you begin organizing or operating your enterprise. We intend this chapter to help you to communicate effectively with your lawyer.

This chapter:

- Summarizes the limitations on business activities by non-profit organizations.
- Outlines the CRA policies and guidelines that you should consider if you are a non-profit with charitable status. CRA distinguishes among business, fundraising, and fee-for-service activities. It also determines whether your business is related to your charitable mission and therefore permitted within your non-profit structure, or if it is unrelated and therefore should be set up as a separate entity.
- Explains a unique situation where a training business, social business, or a business providing low-cost necessities might be considered a charitable program in its own right (as opposed to a related business). CRA has developed specific guidelines that may apply to you if you are a community economic development organization operating a business or if you provide your services in an “economically challenged community.”
- Discusses different ways to structure your business if you want to operate the enterprise outside your non-profit structure.

Quick summary

Non-profit without charitable status

If you are a non-profit that doesn't have charitable status or you are not applying for charitable status, you can (so long as the organization is not incorporated for the purpose of profit and no profits are distributed to members or management):

- operate your business within the non-profit structure, subject to the



The Strathcona Health Society is a charitable non-profit society that operates Strathcona Community Dental Clinic. The clinic provides quality dental services to low income families. The clinic is focused on providing dental services to children in the inner city of Vancouver.

“Figuring out the legal structure of the organization was fairly simple the first time round. The corporate structure of the second clinic with respect to the first, however, is much more complex. We don’t want to be two societies. We want just one, but we need to protect the first. The second clinic is much more complex and still ongoing.”

- Stephen Learey, Executive Director, Strathcona Health Society

limitations described below;

- set up a separate non-profit or co-operative organization to run the business; or
- set up a separate for-profit business.

Non-profit with charitable status

If you are a non-profit that has charitable status (under section 149.1 of the federal Income Tax Act) or you are applying for charitable status, you can:

- operate your enterprise within your non-profit structure if your business complies with the guidelines and policies established by the CRA;
- set up a separate non-profit or co-operative organization to run the business; or
- set up a separate for-profit business.

In all cases, you should consult a lawyer for detailed information and advice about the best way to structure your business, either within your non-profit structure or as a separate structure.

Non-profit organizations and business ventures

The law (and even some CRA findings) concerning business ventures by non-profit organizations is not completely clear. Your legal counsel will attest to that.

Non-profit organization status applies to entities that meet the requirements of section 149(1)(l) of the federal *Income Tax Act*. They must: 1) not be charities; 2) be both organized and operated “exclusively” for “any purpose except profit”; and 3) not distribute or otherwise make available for the personal benefit of a member any of its income.

If the entities meet these requirements, they enjoy exemption from income tax. Unlike registered charities, non-profit organizations cannot issue tax receipts for donations, nor can they receive grants from charities. But they are subject to fewer legal and administrative requirements than charities.

Non-profit organizations usually incorporate under provincial society legislation, or the soon-to-be-replaced Canada Corporations Act, Part II. These provincial acts are not identical when it comes to business ventures. For example, the BC Society Act states that a society must not be created for “the purpose of carrying on a business, trade, industry or profession for profit or gain” (section 2(1)(f)). It then goes on to state that “carrying on a business, trade, industry or profession as an incident to the purposes of a society is not prohibited, but a society must not distribute any gain, profit or dividend or otherwise dispose of its assets to a member of the society without receiving full and valuable

consideration...” . This allows societies incorporated under the BC Act to engage in “incidental” business activities. In contrast, the Nova Scotia Societies Act is interpreted by the provincial corporate registry as allowing no business activity, unless it involves the sale of at least 90% donated goods or 90% volunteer workforce.

It is important to check to see what your provincial incorporation legislation allows before starting a business venture as a society.

It is also important to be aware of the federal government’s interpretation of the Income Tax Act provisions noted above. If the CRA concludes that your society is engaging in too much business, it may treat it as a for-profit business, subject to income tax. In short, the federal view of the business activity may differ from any provincial position.

The primary guidance on the point is IT 496R (<http://www.cra-arc.gc.ca/E/pub/tp/it496r/it496r-e.html>). This document outlines the factors the CRA will consider in evaluating business activities by non-profit organizations.

Registered charities and business ventures

If you are a non-profit with charitable status or a non-profit that wants to apply for charitable status, it is important to understand charity law and the rules that govern when charities are allowed to carry on related business activities. The Income Tax Act and CRA’s policy statements, which govern the activities of charitable organizations in Canada, permit charities to carry on (and generate profit from) business or commercial activities that directly accomplish or advance the organization’s charitable mission. CRA draws a distinction between “related” and “unrelated” business. A related business is permitted within your charitable structure; an unrelated business is not.

If you operate an enterprise within your charitable organization, and it is determined not to be related, your organization could be required to pay penalties on the revenue generated by the business, or ultimately lose its charitable status and be deregistered. Therefore, take the time before you embark on enterprise development to consider whether or not the enterprise could be operated within your existing structure, or if you would have to set up a separate entity.

How does CRA define charitable purpose?

There is no legal definition of “charity” in Canada. Instead, the law recognizes four categories or “heads” of charitable purpose that date back to a British House of Lords 1891 decision, and ultimately to the 1601 Statute of Elizabeth. These forms of charitable purpose are:

- relief of poverty,
- advancement of education,

- advancement of religion, and
- other purposes beneficial to the community.

CRA continues to use these four heads of charity as the starting point for decisions about which non-profit activities can be defined as charitable (and therefore eligible for tax benefits). They are also relevant to how CRA makes decisions about the business activities of registered charities.

How does CRA decide that a charity is carrying on a business?

To understand how CRA is likely to apply its guidelines to your charitable organization, you need to know how they define the terms for business activities in conjunction with charitable endeavours. The place to start is to determine whether or not CRA would consider that what you are undertaking is in fact a business.

According to the CRA policy statement, “business” in the context of a charity involves “commercial activity - deriving revenues from providing goods and services - undertaken with the intention to earn a profit.” CRA states that whether a particular activity of a charity is considered a business depends on certain criteria that have been established by the courts. These criteria include:

- **The intended course of action.** Is the rationale for operating the activity to generate a profit? If so, then it is likely a business.
- **The potential to show a profit.** Does the activity have the potential to yield a profit at some point? If so, it is likely a business. If the activity is structured so that it is incapable of returning a profit, then it is not a business.
- **The existence of a profit.** If the activity has generated a profit, that would generally imply that it is a business.
- **The expertise and experience of the person or organization that undertakes the activity.** If the person/organization has been selected for his/her/its commercial knowledge, skill, or experience, it may indicate that the activity is commercial in nature and therefore a business.

In addition to defining a business, CRA also describes activities undertaken by charitable organizations that would not be considered businesses even though they might generate a profit. These activities would fall within the broader categories of fundraising activities or fee-for-service programs.

For example, in the area of fundraising, CRA states that activities such as soliciting donations are not considered commercial activities because donors do not expect any good or service in return for their contribution. Therefore, since the activity is not commercial, it is not a business. Likewise, if a charity sells donated goods, it is generally not considered to be a commercial activity, because businesses do not depend on donations to create their inventories. Further, in selling donated goods, the charity is not assuming the risk that is usually associated with

Factors that distinguish a business from fundraising and fee-for-service activities

Business	Fundraising	Fees for service
<p>A business involves commercial activity, deriving revenues from goods and services undertaken with the intention to earn a profit.</p>	<p>Some fundraising activities are intended to generate a profit, but are not intended to be businesses.</p>	<p>Fees are charged for many charitable programs. Programs remain charitable if they demonstrate two essential characteristics of a charity: altruism and public benefit.</p>
<p>A business has the intent to earn a profit or the potential to show a profit, even if it has not yet yielded a profit.</p> <p>Profits occurred in the past.</p> <p>The person or organization that undertakes the activity has commercial knowledge/skills or experience and expertise.</p>	<p>Fundraising intends to generate a profit, but the following activities are not businesses:</p> <p>Soliciting donations: not a commercial activity because donors do not expect any good or service in exchange.</p> <p>Selling donated goods: not a commercial activity because businesses do not depend on donations for inventory and the charity does not assume the level of risk usually associated with a business.</p>	<p>The intent of the fee structure is to pay the costs of the program, rather than to generate a profit.</p> <p>The program does not offer services comparable to those in the marketplace.</p> <p>Fees are set according to the charitable objective; for example, to ensure that they are accessible to users, with sliding scales or fee waivers.</p>
<p>“Carrying on a business” implies that the commercial activity is a continuous activity or a regular operation.</p>	<p>Most fundraising events are considered business activities, as they involve the sale of goods and services for the purposes of obtaining income. But they are not affected by the related business provisions because they are not “carrying on a business.” Fundraising events have clear start and end points.</p>	

running a business. In these two cases - soliciting donations or selling donated goods - the activities would not be businesses.

Similarly, CRA recognizes that charities often charge fees for delivering their programs. Thus, charging fees does not necessarily mean that the program is non-charitable or that the charity is engaging in a business. The main question is whether the program continues to exhibit two characteristics of a charity: altruism and public benefit. If these qualities are no longer evident, then the activity could be considered a business. Here are some indicators that a charitable program involving fees is not a business:

- The fee structure is designed to defray the costs of the program rather than generate profit.
- The program does not offer services comparable to those otherwise available in the marketplace.
- The fees are set according to a charitable objective as opposed to market objectives.

When CRA is deciding whether or not a charity is carrying on a business, two basic factors it considers are whether the activity is commercial and whether it is being undertaken to generate a profit. Another important factor CRA considers is whether the activity is continuous and regular. Therefore, although fundraising events are business activities (typically involving the sale of goods and services for the purpose of obtaining income), CRA would not view them as businesses if the primary purpose of the events is to raise funds, and holding the events is not an end in itself. The following factors are considered:

- A fundraising event has a clear start and end point, whereas a business is continuous.
- A fundraising event does not recur with such regularity and frequency that it amounts to carrying on a business.

See the table on page 109 for a summary of this discussion.

Can you operate your business within your charity?

If you have decided that the activity you are considering is a business (as defined by CRA), then the next step is to determine if you can operate the business within your charitable organization.

CRA does not accept what is called the “destination of funds test” to define whether or not a business activity is charitable. This means that CRA does not care that the revenues you are generating in your business are being used to support your charitable programs.

The Income Tax Act (ITA 149.1[2]) states that a charitable organization can have its registration revoked if it carries on a business that is not a related business of that charity. By implication, the law allows charities to carry on related businesses. CRA has developed policies to help

determine whether an organization is carrying on an acceptable business (“related”) or an unacceptable business (“unrelated”), “What is a Related Business?” - CPS-019.

In addition to CRA guidelines on related businesses, the Income Tax Act (ITA 149.1[1]) specifically states that a charity can also run a business that is unrelated to the objects of the charity if substantially all the people the charity employs to carry on the business are not paid; i.e., they are volunteers. Therefore, as a charitable organization, if you want to operate a business within your existing structure, you either need to have met the requirements of “related businesses,” according to CRA guidelines, or have met the ITA legislation governing a business operated by volunteers.

What is a “related business”?

CRA has published a policy document (listed in Resources at the end of this chapter) that defines the characteristics of businesses considered “related.”

CRA recognizes two kinds of related businesses:

- businesses that are linked to a charity’s purpose and subordinate to that purpose; and
- businesses that are run substantially by volunteers.

When is the related business linked and subordinate?

Linked?

To determine whether your business is linked to your organization’s charitable purpose, CRA looks at the nature of the business and the extent to which it has some direct connection to your charitable purpose. CRA policy statement recognizes four forms of links:

- 1. A usual and necessary concomitant of charitable programs.** These include business activities that are necessary to effectively operate the programs or that improve the quality of services delivered in these programs. Examples of these types of businesses include a hospital’s parking lot and cafeteria, a gift shop in a museum, or bookstores at a university.
- 2. An off-shoot of a core charitable program.** These are businesses that use an asset that is a by-product of the organization’s charitable activity. An example of this is a church that earns revenue from selling recordings of services that it regularly holds at Christmas. This activity is defined as a related business, since the recordings are a by-product or asset created by the church through its charitable programs such as holding Christmas services.
- 3. A use of excess capacity.** CRA recognizes that organizations may have certain assets and staff that are needed to conduct a charitable

program, but may be used in a related business to gain income during periods when they are not being used to their full capacity within the program. One example provided by CRA is of the church that has a large parking lot to accommodate the size of its Sunday congregation. It is permitted, as a charity, to rent out parking spaces during the week and earn revenue as a related business.

- 4. The sale of items that promote the charity or its objects.** A final category of linked business activity involves selling products intended to promote, advertise, or symbolize the organization's work. Selling products such as pens, t-shirts, posters, cookies, and credit cards that clearly display the organization's name, logo, or other images that depict its charitable work, is an activity that is considered related to the charitable purpose of the organization.

Subordinate?

The second defining characteristic in CRA's approach to deciding whether a business is related because it is linked and subordinate is the extent to which an enterprise is subordinate to the charitable purpose of the organization. This requires you to examine your business activities in the context of your charitable operations as whole.

CRA considers a business subordinate if it remains subservient to the dominant charitable purpose, as opposed to becoming a non-charitable purpose in its own right. It identifies four key factors to consider. The more strongly these statements describe your business activities, the more likely the activity will be considered subordinate and therefore related (as long as it is also "linked").

- 1. Relative to the charity's operations as a whole, the business activity receives a minor portion of the charity's attention and resources.** This takes into account factors such as what subjects dominate at board meetings; the proportion of assets, expenditures, and staff time that are dedicated to the business; and how many resources are shared between the business and the charity.
- 2. The business is integrated into the charity's operations, rather than acting as a self-contained unit.** Consider factors such as the extent to which the operation could stand alone outside the organizational structure, and its level of similarity with other businesses already in the marketplace.
- 3. The organization's charitable goals continue to dominate its decision-making.** CRA considers questions such as whether decisions are being made on a bottom-line basis without regard to the organization's charitable purpose or whether the charity's programs have changed direction because of decisions made for the benefit of the business activity.
- 4. The organization continues to operate for an exclusively charitable purpose by, among other things, permitting no element of private benefit to enter in its operations.** This

statement would have you consider any difference in salary level between the enterprise staff and the organization staff, any relationship with for-profit firms that are not benefiting the charitable purpose of the organization, and whether the initiative to set up the business came from inside or outside the organization.

For an overall view of the CRA process, look at the end of this chapter for the figure that shows the CRA decision tree.

To establish a case for relatedness, linked and subordinate, examine your business activities in the context of your specific organization: its stated charitable purpose, its programs and activities, and its assets or expertise. The guidelines are general and open to interpretation (which can be a good thing), so there is not always a clear-cut answer and many activities can fall into grey areas. Again, consult a lawyer or discuss your case with CRA before you proceed with launching a new enterprise.

When the business is run by volunteers

Even if your business doesn't meet the related business criteria outlined above, it may still be allowed by CRA if the business is operated by volunteers. As mentioned earlier, the Income Tax Act allows for a volunteer-run business to be considered related, even if there is no link between the business and the objects of the charity. In this case, the key characteristic is that the business is run substantially by volunteers. As a general rule, substantially means that around 90 percent of employees are volunteers.

For example, a thrift shop with 10 full-time staff, but only one paid position (usually the operational manager), would likely qualify as a related business because 90 percent of the employees are volunteers. This type of related business does not have to be linked to the charity's charitable purpose.

What if your business is "unrelated"?

If your business does not meet any of the criteria for related businesses discussed above and/or your principal motivation for operating the enterprise is to generate a profit, it would be considered unrelated and therefore not allowable within the charitable structure, even if the ultimate destination of the business profits is your organization's charitable activities.

In many other countries, including the United States, a charitable organization can conduct unrelated business activities (and earn unrelated business income) within its charitable structure (without jeopardizing its charitable tax-exempt status), but is required to pay income tax on any unrelated business income. This arrangement is not so in Canada.

CRA guidelines require that you conduct any unrelated business

activities outside the charitable organization. This means you are required to set up a separate business entity. As we mentioned at the start of this chapter, it is legal for your charitable organization to own and operate a separately incorporated unrelated business venture.

Business as a charitable program - community economic development

If your organization is involved in the field of community economic development (combining economic and social goals) you may be able to operate an enterprise in your community, and it would be considered a charitable program of your organization.

- The CRA guide outlines that, in some cases, programs operated by community economic development organizations that address economic and social issues could be considered charitable. CRA also states that, within these broad charitable purposes, various types of enterprises would be considered charitable.

This section will discuss each of these types of enterprises, because CRA considers various factors, set out as follows, in determining whether or not these businesses would be considered charitable programs:

- Relief of unemployment: CRA would allow a **training business**.
- Relief of poverty through operating stores: CRA would allow a business that **provides low-cost necessities**.
- Relief of people with disabilities: CRA would allow what it refers to as a **“social business.”**
- Relieving suffering in economically challenged communities: CRA would allow **some community businesses or community professional/commercial services in “economically challenged communities.”**

For more information, see the CRA publication, CRA, Registered Charities: Community Economic Development Programs, RC 4143(e), December 1999. Online: www.cra-arc.gc.ca/E/pub/tg/rc4143/README.html.

What is a “training business”?

Training businesses are set up to provide on-the-job training to clients as a way to enhance their employability. These enterprises are considered charitable if the dominant purpose of the business is to provide training, but they are not considered charitable if they are intended to provide permanent employment or generate profits for the charity.

Key characteristics of charitable training businesses include:

- Participants are employed for a limited period of time (not permanently).
- On-the-job training is complemented by other types of assistance

such as classroom-based training (e.g., work skills, life skills, etc.) before or during on-the-job training, and job placement support services after the training period ends.

- The majority of workers in the business are from the target population (generally no less than 70 percent).
- Revenues do not substantially exceed break-even point. At most, the enterprise may cover its costs and generate some surplus to build reserves.

CRA identifies both the notion of a limited time period of employment and the 70 percent rule as the key determining factors in deciding whether or not a training business can be operated on a charitable basis.

What is “providing low-cost necessities”?

CRA recognizes that a business that provides low-cost necessities could be considered a charitable program. For example, operating thrift stores and similar outlets could be charitable activities if the stores:

- are located in low-income neighbourhoods,
- sell donated goods at low prices, and
- operate at a break-even level.

Note that such stores operating primarily as fundraising vehicles may not be considered charitable programs under this category, but they may meet the qualifications for related businesses.

What is a “social business”?

Social businesses, as defined by CRA, address the needs of people with disabilities by providing permanent and supported employment. In general, the purpose of the business is not only to provide opportunities for clients to earn incomes but also to enhance their self-esteem, competence, and independence.

A social business usually provides services, but it can also be a manufacturing business. To be considered charitable, the business typically has the following characteristics:

- it is structured to take into account the special needs of the workers;
- the income may pay the workers’ wages, but the organization itself is subsidized;
- the workforce is almost entirely comprised of people with physical, mental, or developmental disabilities; and
- the organization provides additional training or services that may enhance the skills of the workers or contribute to their well-being, and involves the workers in decision-making.

Applying for Charitable Status

Potluck Café Society reflects on the experience of acquiring its charitable status between the years of 2001 and 2003.

Canada Revenue Agency initially rejected the Potluck Café Society application for charitable status. However, Potluck was extremely fortunate that a legal firm acting on its behalf became involved. Letters went back and forth between CRA and the legal firm working on behalf of Potluck for over a year and the final outcome was that Potluck received its charitable status.

At first, without further clarification, CRA said it was unlikely Potluck would qualify for charitable status because it looked as if we were running a business. And while they could see we were providing on-the-job training, we hadn't provided sufficient information to describe the specific details. CRA needed to know more about who was benefiting from the on-the-job training program, how the on-the-job training was structured, how long the on-the-job training was for, and what happened after people received on-the-job training. CRA also took issue with the length of the on-the-job training, without further clarification about the Downtown Eastside neighbourhood context. They said it would be "very unusual for on-the-job training to take two years, especially in an area that does not appear to be highly technical."

One of the first things Potluck did was to revise the wording of our purposes. For charitable status, the organization's purpose has to be training, as opposed to providing jobs. According to CRA, on-the-job training typically has to include classroom training, employment for a limited period of time, and job placement at the end of training. So we provided them with extensive substantiating information about the nature of our on-the-job training program, with timelines, detailed modules, outcomes, evaluation, and so on.

We also needed to show CRA that the Downtown Eastside of Vancouver qualifies as an "economically challenged community." We were very explicit about the impact of the training in the Downtown Eastside, where many people are unemployed, come from generations of poverty, and have multiple barriers to employment such as drug addiction, mental illness, and HIV/AIDS.

After we'd done all that, CRA still had concerns about the number of market rate meals we were serving and the nature of the catering business. We provided information about the fact that our market-rate meals amounted to about 8 percent of meals served. We described the importance to our clientele of being able to have subsidized meals in a "normal" setting instead of standing in a food-line, and the value of exposing individuals in the on-the-job training program to a wider segment of the general population. In terms of catering, we pointed out that the catering also exposes individuals to different kinds of experiences and skills.

At the end of the day, CRA determined that Potluck does operate a for-profit venture in order to provide on-the-job training for "hard-to-employ" people. CRA decided that the café and the catering operation were not to be considered as a business, related or non-related, but integrated as part of the charitable programs of the organization. They registered Potluck as an on-the-job training "business" as described in their pamphlet, Registered Charities: Community Economic Development Programs. They also said they had determined that the Downtown Eastside of Vancouver "qualifies as an economically challenged community."

Looking back on Potluck at that time, the best move would have been to put in a much more comprehensive initial application, with assistance from someone with expertise in charity law from the start. The fact that the application was initially rejected created problems for Potluck and the organization had to clarify several issues throughout the period of 2001 to 2003. Along the way Potluck had excellent support from leaders in the community who also sent in testimonials. Marshalling support when first applying from other organizations or individuals, including Federal MPs, is a good strategy. Community support also helps paint the full picture and shows what a valuable contribution your organization brings to the community.

The issue of "related" or "unrelated" business can be complicated and your organization needs to allocate time to ensure that you have all bases covered. If your application is rejected, get help from professionals. Better yet, start with professional guidance. It may be that your organization has a really valid case and may qualify for charitable status; however, the rationale for acquiring status just needs further clarification.

What is “an enterprise in an economically challenged community”?

Non-profit organizations may develop enterprises that are considered charitable programs as a way to promote economic renewal in what CRA labels economically challenged communities (ECCs).

An ECC is a geographically-defined community where the unemployment rate has been 50 percent or more above the national average for two or more consecutive years (although CRA would use labour force participation as an alternative to the unemployment rate for this purpose).

CRA recognizes several symptoms of social stress to identify whether or not a community is economically challenged:

- a declining population, as the working-age population is forced out of the community in search of employment elsewhere;
- high rates (i.e., above the national average) of family breakdown and family violence;
- high rates of crime generally;
- high rates of health problems, including mental health problems and suicides;
- high rates of drug and alcohol addiction;
- high rates of children taken into care; and
- high rates of school drop-outs.

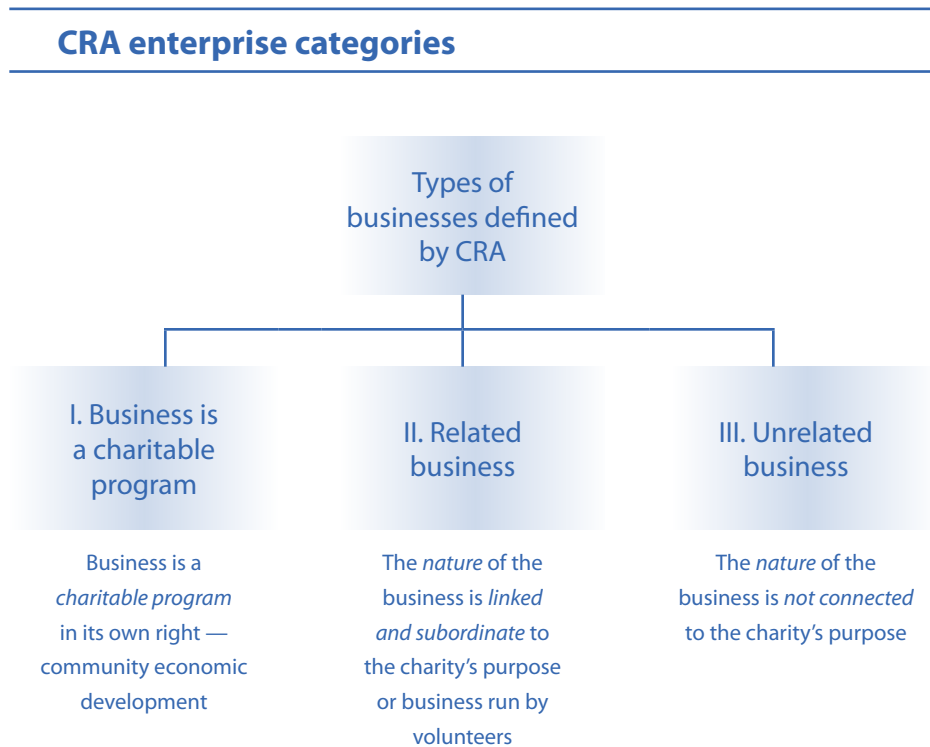
CRA also sets out that such communities can be characterized by negative indicators, including such issues as a lack of affordable housing, unavailability of medical, social, and recreational services and facilities, and pollution.

In a community that is defined as economically challenged, you can work to address issues that are directly related and specific to the community in question through social enterprise. This policy gives more flexibility to organizations using enterprise as a vehicle for community revitalization. CRA gives examples where, in particular situations that are subject to individual interpretation, an enterprise can address a community's need for infrastructure of “professional or commercial services, such as a general store, bank, post office, doctor, or dentist.”

However, CRA is clear that you should not assume that because you are developing an initiative like this in an economically challenged community, that CRA will judge the business activity to be charitable. In all cases, the onus is on the charity to prove that the operation and the community are aligned with the CRA guideline. Again, the best step is to seek advice from a lawyer with experience in charity law.

Summary of permitted social enterprise categories

According to CRA publications on the issue of charities conducting commercial and/or community economic development activities, enterprises can be placed into three categories, as shown in the figure below.



Enterprises that fall into the first two categories in the figure can legally be operated within the tax-exempt structure of the charity (which means that your business income is not taxed).

Business activities in the third category cannot be housed within your charitable organization's structure, but can be housed outside your charity's legal structure and owned by your parent organization. It will be subject to taxation.

Most enterprises operated by non-profits tend to be either charitable programs or related businesses, although, as organizations continue to look for new sources of revenue for their programs, unrelated business activities may become more common.

Legal structures for non-profit enterprises: Choosing your business structure

As has been made clear, there are several different legal structures available for you to set up your enterprise. Your decision about which structure to choose depends on what is best for your specific enterprise and for your organization as a whole.

Obviously, one of the first considerations about the legal structure for your enterprise is the extent to which your business activity meets CRA's criteria for charitable programs or related businesses, as discussed above. However, there are also several other important factors to consider in your decision, including the following:

- the primary purpose of your business (to generate profit versus to serve clients),
- the amount of control your organization wants to maintain over the enterprise,
- the scale of the business and potential for growth,
- your need to access capital and external finances,
- the level of risk and liability your organization/board is willing to take, and
- the potential effect on community image and reputation, including potential perceptions of unfair competition from private enterprises.

The first decision you will have to make is whether or not to separate the enterprise from your organization's legal identity. If the business is unrelated, you have no choice. You must separate.

The following section discusses your different options and their advantages and disadvantages.

In-house — No separation

Most organizations in Canada operate their enterprises as in-house programs, under the direct control of the organization's board of directors and subject to the organization's constitution and bylaws. Essentially, the business activity is housed within the charity's legal structure, in the same way that any other programs or projects would be. No separate entity is created and registered. This option is open only to organizations developing businesses that meet the criteria for charitable or related business activities.

Operating the enterprise in-house is probably the most appropriate choice for small and beginning enterprises that are clearly charitable or related business activities that complement existing programs and are fairly integrated into the work of your organization (at least in the short term). It will not require you to establish a new entity, set up a board, and incur incorporation costs.

A key advantage will be your organization's ability to have more control of managing and operating the enterprise, including the focus on the enterprise's social purpose. You will also have more flexible use of staff, space, and equipment; the revenue of the enterprise will be exempt from income taxes; and you will be able to support the enterprise with your organization's grants and other assets.

Many organizations that choose this method benefit from the fact that

marketing the business and program-related outreach often become synonymous. An example of this is when a community clinic, merely engaging in prevention education outreach thereby advertises its services.

A disadvantage of having the enterprise in-house with no separation is that your organization's assets may be exposed to risks arising from the enterprise. If losses are incurred by the enterprise, creditors may seek access to the organization's other assets as a remedy. Similarly, if the enterprise involves potential risks to the public (food service, for example) mistakes could result in injuries, legal actions, and the possible liquidation of other assets to satisfy claims. If injuries result from the negligence of directors or officers, there is a potential that they could be held personally liable in whole or in part, depending on the facts.

Thus care needs to be taken to consider the nature of the enterprise, its inherent risks, and the potential exposure of existing assets to those risks. Creating a separate legal entity to house the enterprise can help isolate risks.

Liability insurance needs and options should also be reviewed carefully as part of making this decision.

Separate entities

In this section, we discuss four different kinds of separate entities:

- for-profit subsidiaries,
- separate non-profit societies,
- co-operatives, and
- joint ventures or partnerships.

For-profit subsidiaries

Some would argue that the safest way for a charity to carry on a business is through a separate taxable corporation. In this approach, your organization would incorporate a new business entity, a taxable corporation, that will carry on the business activities. Your organization can own and control the corporation and be the ultimate beneficiary, through share ownership and control of the board. The enterprise entity can make pre-tax charitable donations to your parent organization and distribute profits to its parent-owner.

CRA requires that there be a firewall between the two entities, so that none of the charity's assets can be used to benefit or subsidize the non-charitable entity. This involves:



- Separate boards, or at least a situation where the parent charity's board is not controlled by the board members of the non-charitable entity. Members of the parent organization's board can be appointed to the enterprise board.
- Distinctive names to avoid confusion.
- Separate membership or shareholders.
- Separate equipment, personnel, and space. If the enterprise does use the parent organization's space or personnel, there should be a formal contract agreement and payment for services and space from the enterprise to the parent organization.
- Careful record keeping of both financial records and organizational records (minutes, contracts, etc.).
- Again, recall that federal regulations may differ from those in your province. Check provincial legislation to ensure that this is allowed in your jurisdiction.

In sum, there are several reasons why you might consider a for-profit subsidiary, including:

- **Greater focus on business purpose:** Separating the business into its own entity allows for greater focus on the business purpose. The staff and board of the corporate entity can focus their energy and attention solely on the enterprise.
- **Board and staff capacity:** You may find it easier to attract board members and staff who will have the necessary expertise to support enterprise success.
- **Liability:** This arrangement helps isolate and limit the parent charity's potential liability.
- **Access to capital and financing:** If your enterprise requires significant capital for start-up and initial years of operation, the corporate structure may enable you to access alternative forms of financing and new investors, since you are able to share returns with investors. However, the enterprise will lose access to grants since it will not have charitable status.
- **Community image.** The arrangement may reduce perceptions of unfair competition with the private sector.

A perceived disadvantage of this approach is that the new corporation will be required to pay corporate income taxes. As others have said before, we could all wish for this problem! Though tax liability will reduce the amount of funds returning to charity, paying taxes is not the worst thing in the world; it is a sign that your enterprise is making money. And remember, the Income Tax Act allows a corporation to deduct 75 percent of its annual net income through charitable donations.

Other disadvantages include potential increased costs, since you may be unable to share space, administration, or personnel; and possible loss of control over the enterprise and its social purpose objectives, particularly if outsiders (board members and investors) have power in decision making.

Separate non-profit society

If the business is related, according to CRA guidelines, then another option is to incorporate the enterprise as a separate non-profit society. The parent can maintain control of the new non-profit by appointing the board.

This choice offers the parent a degree of separation from the enterprise (the new non-profit can have its own staff and board), but permits the parent to continue to exercise control over its management, operations, and disbursement of any surpluses.

Alternatively, this may be a way for the parent organization and founder of the business to spin-off the enterprise and disengage from its operations and management. For example, the parent organization may have achieved its objectives through developing the enterprise, but does not want to continue to be involved in its management. It can set up a separate non-profit with a separate board.

As previously noted, in order to determine if CRA would consider the enterprise as non-profit, and thus exempt from tax under the Income Tax Act, it is important to refer to the policy document that interprets non-profit organizations (listed in Resources at the end of this chapter). This bulletin sets out the conditions you must meet to qualify as a tax-exempt non-profit organization, including the fact that it must be organized and operated exclusively for non-profit purposes, and that no part of the income can be payable for the personal benefit of a member of the non-profit.

Co-operatives

While most of the information in this chapter and throughout the Guide relates to non-profit businesses, many co-operatives are also considered social enterprises. Thus a co-operative can be an appropriate organizational approach for your enterprise.

The Canadian Co-operative Association states that “co-operatives are enterprises owned by their members, who use and benefit from services offered by co-operatives.” Co-operatives can provide virtually any product or service, and they can be either non-profit or for-profit enterprises.

Co-operatives expand personal and community assets. The co-operative model is a valuable and efficient tool for communities because one co-operative can accomplish many ends. First, co-operatives accomplish key social goals, such as delivering needed services or creating new jobs. Second, they help individuals increase assets. Third, they empower people through the co-operative decision-making mechanism. And finally, co-operatives contribute to overall community well-being.

The BC Co-operative Association has produced a publication, Co-

operatives and Charity Law, which outlines how the co-operative structure can operate within CRA's charitable guidelines. The reference for this publication is in the Resources section at the end of this chapter.

If you choose to start a co-operative, consider that a co-operative can be a charity if it meets certain criteria:

- it is established for charitable purposes and not for the benefit of its members (i.e., it must be non-profit);
- no financial benefit to its members is permitted; and
- upon dissolution, the remaining assets of the co-operative are transferred to a qualified recipient (this is essentially the same dissolution clause that is contained in the bylaws of a non-profit society).

CRA has developed a policy statement that outlines how co-operatives can be eligible for charitable registration. We have included information about that statement in the Resources section as well. Each province has legislation about establishing co-operatives. Check with your provincial Co-operative Association for support and information about how this model can help you achieve your social enterprise goals.

Neechi Foods

There was huge debate between running the food store as a cooperative or as a non-profit organization. They decided to go for the co-op model, but Manitoba legislation didn't allow for two classes of co-op membership within the same organization so they had to decide between forming a worker co-op or consumer co-op. In the end they chose the worker co-op. It was a good model for people to get a sense of business ownership, because workers understand the business where they work more than consumers who shop there. Moreover, because the business is their livelihood, worker-owners are less likely to make rash decisions. Neechi wouldn't have survived the recession of the early to mid-nineties without the worker co-op structure. The staff cut their own pay by 25% to preserve their jobs when the neighbourhood collapsed.

Joint ventures or partnerships

If a charity becomes a limited partner in a business - even if the charity does not play an active role in the business - the charity is considered to be carrying on a business, and needs to consider how CRA will view the enterprise. While uncommon in Canada, partnerships are a growing form of social enterprise in the US. For example, Ben and Jerry's ice cream franchises are becoming seen as a constructive way to employ and train youth in vulnerable situations and generate revenue for an organization. Since this technique of joint ventures as a social enterprise is relatively new in Canada, ensure that you seek legal advice before pursuing this option.



Neechi Foods Co-op Ltd. is an Aboriginal worker co-operative and one of Winnipeg's best known Aboriginal businesses. The store is well-known for its oven-fresh bannock, wild rice, local fruits and vegetables, Manitoba-caught fish, specialty jams, hand-crafted moccasins, Aboriginal artwork and children's books. Neechi Foods (Neechi meaning "friends" in Cree and Ojibwa) started regular store operations in 1990. Neechi Foods also accepts food vouchers as payment for goods and they support an informal economy by exchanging crafts made by local women for in store credits that offers mutual support to both the co-op and the crafter. A new community business complex developed by Neechi Foods will open in 2011 in Winnipeg's inner-city north-end.

Decision tree for CRA decision-making regarding related business

The activity involves **earning revenue** in exchange for providing goods and/or services. **AND** The charity **intends to profit** from the activity (as evident either from history of profits, or the way the activity is structured).

These are the characteristics used by CRA to answer the question:
Is the activity being carried on by the charity a “business?”

If “No”

Activity **isn’t a business** and is permitted under CRA guidelines.

If “Yes” (to both characteristics):

Activity **is a business** and the following question is asked:
Is the income earned through the sale of goods that are simply donations?

If “Yes”

Activity **isn’t a business** because businesses don’t depend on donations to create inventories.

If “No”

Activity is a business that may or may not be related, and the following question is asked:
Is the income-earning activity carried out on a systematic, regular basis?

If “No”

Activity **isn’t the carrying on of a business** (e.g., fundraising event).

If “Yes”

Activity is defined as “carrying on” a business, and the following question is asked:
Are substantially all (90 percent) of the people running the business volunteers?

If “No”

The business may be unrelated and the following question is asked:
Are the business activities linked and subordinate to the purpose of the charity?

If “Yes”

The charity is carrying on a **related business**, allowable by CRA.

If “No” to either linked or subordinate

The charity is carrying on an **unrelated business** which would jeopardize the organization’s charitable status.

If “Yes” to both “linked” and “subordinate”

The charity is carrying on a **related business**, allowable by CRA.

A Final Note

Throughout the Guide, we have emphasized the rewards of preparation. We are confident that if you follow the steps in this guide, your non-profit business will stand a greater chance of success. As you have realized, we have also included a variety of actual case vignettes that show how different types of real-life organizations and social enterprises have addressed fundamental challenges and how they have prepared themselves for success by committing significant effort to planning. We have also tried to present several alternative approaches to each of the planning tasks that must be faced. And there are additional resources, including a podcast series dedicated to social enterprise development and a searchable database of worksheets, manuals, case studies, and news items, all available to you for free at www.enterprisingnonprofits.ca.

We know that a resource like this Guide is only as good as its results, so we ask that you help us by sending feedback on your reactions to the Guide and how you have used it. Our hope is that we can continue to improve this publication in future editions, and that we can develop other specialized publications that relate to different stages of enterprise development. Your feedback will help us to better meet the needs of the growing social enterprise sector. You may send us a message at: info@enterprisingnonprofits.ca.

When we wrote this Guide, we realized that each reader would use it in whatever way was most appropriate to his or her situation. If you have used it as a step-by-step Guide to your social enterprise planning, then you likely are well on the way to having a viable and compelling business plan and are getting ready to launch. If you have read the Guide primarily as a primer on social enterprise planning, then we expect that you have learned much about what goes into this process, and are considering whether to take the steps toward creating a social enterprise yourself or otherwise supporting that sort of endeavour. No matter how you use this Guide or our other resources, we wish you success!

