CURRENT CONDITIONS FOR THE NONPROFIT-LED SOCIAL ENTERPRISE COMMUNITY IN ILLINOIS

PREPARED BY THE DELTA INSTITUTE FOR FOREFRONT WITH SUPPORT FROM THE DUNHAM FUND

INDEX

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EXECUTIVE SUMMARY

In the last 20 years, many nonprofits have employed a social enterprise structure to accomplish their mission, and this recent acceleration has more than doubled the number of social enterprises that were established between 1850 and 1990 in Illinois.

Social enterprises are augmenting traditional service providers by working primarily in education, employment, and youth development and diversifying the funding of mission-related activities through the sales of products and services. While some of Illinois's social enterprises are experiencing some level of success, many need considerable assistance with funding, information exchange and management consulting. This need is even more profound given the diminishing amount of government funding and inconsistent dispersal of funds to nonprofits in Illinois.

In 2015, with support from the Dunham Fund, Delta Institute, in partnership with Forefront, conducted research on the social enterprise sector in Illinois which led to the following key findings:

- Social enterprises seek a community of practice with their peers to share sector-based knowledge concerning evaluation, finances, funding and sponsors, hiring and diversity, and mentorship from those enterprises that have achieved scale.
- Social enterprises seek reliable, multi-year sources of funding, matching grants, and/or low interest loans.
- Social enterprises seek funds for securing consulting sources, such as strategic planning assistance, market research, feasibility studies, critical strategy decisions, accounting, financial planning, and branding, marketing and administrative structure.

Additionally, successful social enterprises shared several lessons learned that would have changed their approach had they known then what they know now:

- Social enterprises would have hired staff and consultants to write grant proposals, sell products and services, and assist with operations and scaling.
- Social enterprises structured as not-for-profits would have created more active boards better equipped for fundraising, better at providing oversight, and supported scaling up.
- Social enterprises wished they had more funding, more diverse sources of funding, and more individual donors to support their sales and infrastructure needs.

In order to support the growth of nonprofit-led social enterprise, the following actions are needed:

- Establish a community practice for nonprofit-led social enterprises and nonprofits seeking to create social enterprises to network, collaborate, and share lessons learned.
- A focused effort is needed to develop strategic partnerships with the business community, especially large corporations (ie. supply chains, access to vendor networks).

- Foundations and lenders need to either market financial products for social enterprises or develop products for social enterprises.
- Nonprofits social enterprises to be established by entrepreneurs and managed by leadership with business acumen.

BACKGROUND

Forefront, formerly known as the Donors Forum, is the nation's only statewide membership association for nonprofits, philanthropy, public agencies and advisors. Forefront provides education, advocacy, thought leadership, and project management to attract investment to the Illinois social impact sector, develop top talent, improve systems and policies, and build organizational capacity. In January 2015, Forefront established the Social Innovation Roundtable comprised of funders, social entrepreneurs, universities, incubators, businesses, and nonprofits to discuss the current state of social enterprise in Illinois and how we might better align those organizations with the funding and resources they need to succeed. Those discussions pointed toward a need for more information about social enterprises, their nonprofit parent organizations, and the challenges they face in growing their enterprises and impact. Nonprofit leaders created a working group to conduct a scan of Illinois's nonprofit-led social enterprises. With the support of the Dunham Fund, Delta Institute, a member of the working group, engaged with Forefront and the University of Chicago Booth School of Business Social Enterprise Initiative to conduct the scan. This report is the summation of that scan. Section 1 outlines the introduction and methodology; Section 2 details the survey results; Section 3 presents key findings from interviews with nonprofit leaders in social enterprise; and Section 4 includes the appendices.

SECTION 1:

INTRODUCTION

A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being. This report focuses on nonprofit organizations that establish business enterprises (both for-profit and nonprofit in structure) to generate revenues that enable them to fulfill their mission. This scan focuses on nonprofit-led social enterprise because this report is a product of the nonprofit-led social enterprise working group. Additionally, it is important to breakout nonprofit-led social enterprise separately from for-profit enterprise because the mission-based formation and board-led management structure of the founding nonprofit create additional challenges not typically present in the for-profit world.

Maximizing human and environmental well-being can require social enterprises to compete in the marketplace from a disadvantaged position related to labor, material, or location. For example, a nonprofit might utilize a social enterprise to provide a service using employees who have transitioned from a workforce training program; another might specify the use of environmentally-sustainable materials; or locate a business in a weak-market location to achieve community development objectives. While these challenges may undermine success, it is these extra challenges related to labor, material, and location that achieve mission.

While the concept of nonprofit-led social enterprises may seem like a new idea, the reality is that these hybrid organizations have been around since the turn of the 20th century. For example, Goodwill Industries, which meets our definition of nonprofit-led social enterprise, was founded in 1895. Its 2013 revenues reached $5.17 billion, and it has over 3,000 stores and 261,875 employees, many with barriers to traditional employment.

Over the last decade, social enterprise has proven to be an effective "change-making" tool to create social and environmental impact. Like effective nonprofit programs, social enterprises can be built to achieve a range of social and/or environmental impacts. However, unlike nonprofit programs, social enterprises aim to rely primarily on earned income to fund the enterprise. By earning income, social enterprises are positioned to achieve financial sustainability and leverage market forces with the potential to achieve greater scale than solely grant-supported work.

METHODOLOGY
In October 2015, Delta Institute conducted a literature review to determine what information was available about nonprofit-led social enterprise and, specifically, information published on Illinois-based nonprofit-led social enterprise. Much of the literature Delta reviewed included case studies about specific social enterprises, but no literature at the time of the review contained statistical analysis of nonprofit-led social enterprises. Appendix B contains a bibliography of the literature reviewed. Concurrent with the literature review, Delta Institute assembled contact information for over 100 social enterprises in Illinois.

In November 2015, Delta Institute engaged with the Social Enterprise Initiative at The University of Chicago. In consultation with the Social Enterprise Initiative, the project team developed a survey to assess the conditions, experience and near-term needs of nonprofit-led social enterprise.

In December of 2015, before distributing the survey, Delta interviewed leadership staff from four nonprofit-led social enterprises (with a total of six social enterprise subsidiaries) utilizing a questionnaire (provided in Appendix B). In-person interviews were conducted with the top leadership at each organization. Individual comments were consolidated to encourage candid conversations with leaders about the challenges of starting and expanding a social enterprise. They were also asked for their recommendations for developing an infrastructure of support to help build the sector.

Using the lessons learned from the interviews, Delta Institute in partnership with the Social Innovation Center made final revisions to the survey instrument (provided in Appendix C). The survey was marketed to the social enterprises Delta Institute identified, as well as to Forefront's network of nonprofit and philanthropic members. Participants that completed the survey were included in a raffle for a $250 Amazon gift card.

Literature Review   Interviews   Market Survey

Draft Survey   Revise Survey   Assess Results
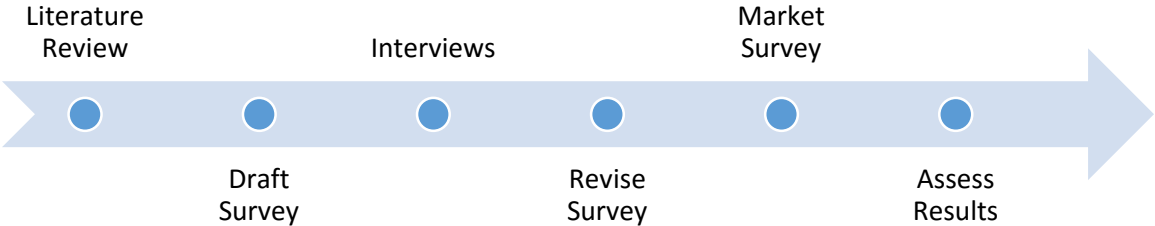
SECTION 2
SOCIAL ENTERPRISE SURVEY RESULTS

In partnership with Forefront and the University of Chicago, Delta Institute released a survey on February 11, 2016 to the civic community to determine the existing conditions for social enterprises. Delta shared the survey with a target list of over 100 Illinois-based social enterprises and nonprofit parents of social enterprises, and Forefront encouraged its network of nonprofit and philanthropic members to share the survey with social enterprises. The survey closed on February 29, 2016, and the survey device shows that the survey was opened over 500 times and completed 221 times. The survey was divided into two sections with the understanding that Section 1's data would be attributed to the respondent and made publically available and that Section 2's data would not be made publically available nor attributed to the respondent. This document provides the full summary of results.

DATA TO BE MADE PUBLIC AND ATTRIBUTED TO RESPONDENT

Survey respondents were asked to identify the organization type using the following prompts:

❍ Parent - My organization is the parent entity to a social enterprise.
❍ Child - My organization is the social enterprise and we have a parent organization.
❍ Both - My organization is the social enterprise but we have no parent organization.
❍ N/A - Not Applicable; none of these categories describe my organization (please specify).

Any respondent identifying itself as "Not Applicable" was thanked for their participation and then exited from the survey. The following charts identify the number of respondents and the percentage of the entire responding population each audience contained.

N=249

Parent	35
Child	17
Both	50
NA	147
Total	249

Survey Respondents

Parent 14%
Child 7%
Both 20%
NA 59%

■ Parent   ■ Child   ■ Both   ■ NA
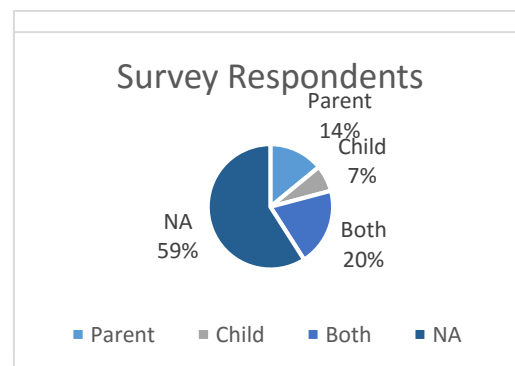
Survey Participants

The following organizations were identified as social enterprises. Parent organizations that supplied information about social enterprises or were identified as founders are in parenthesis following their associated social enterprise.

A Red Orchid Theatre
A Safe Haven
Advocate Medical Center
Alzheimer's Association
ArtReach at Lillstreet
Arts, Cultural and Literacy Connections (Changing Worlds)
Asian American Community Exchange
Barat Education Foundation
BIg Brothers Big Sisters of the IL Capital Region (Big Brothers Big Sisters of America)
Blue Sky Bakery
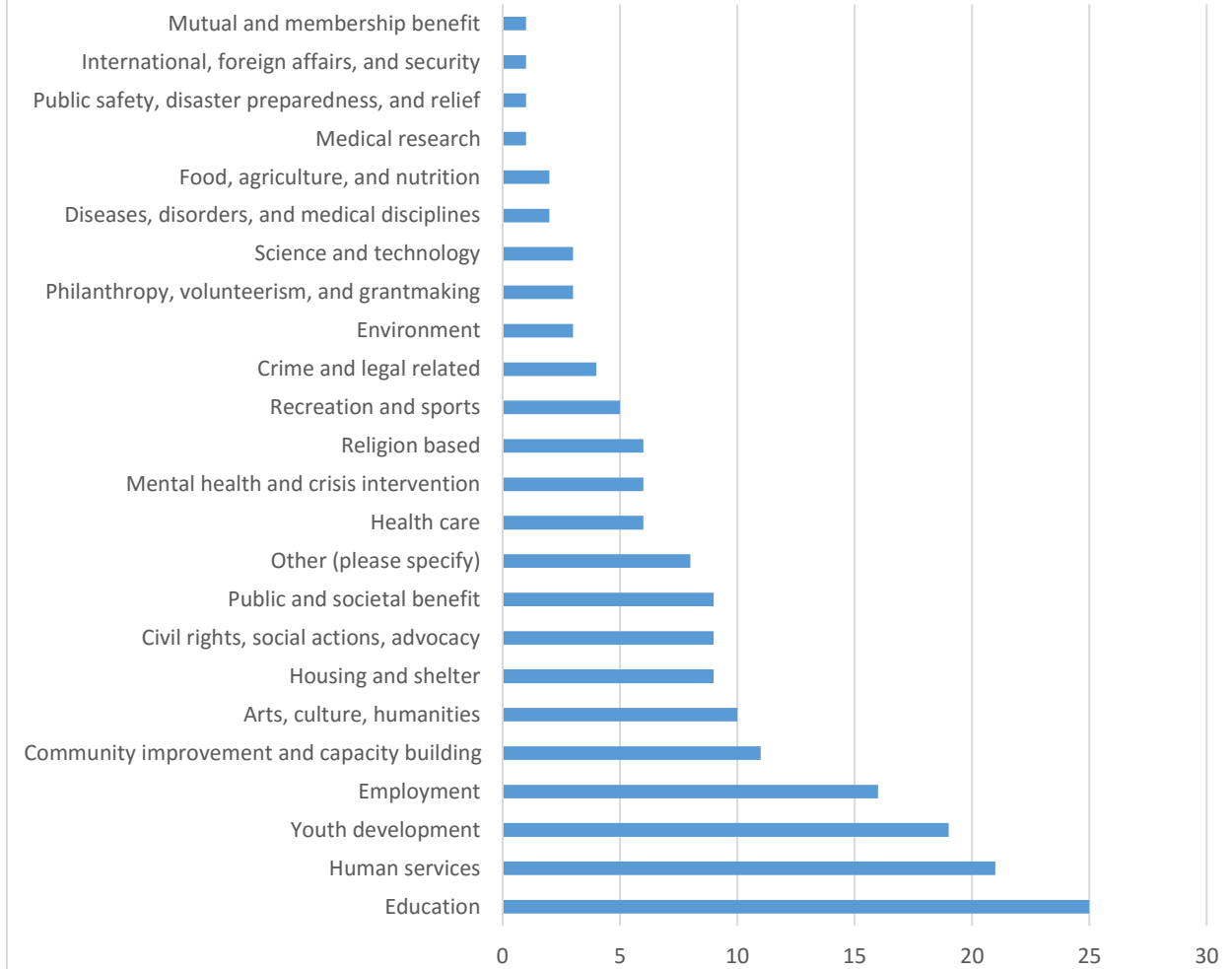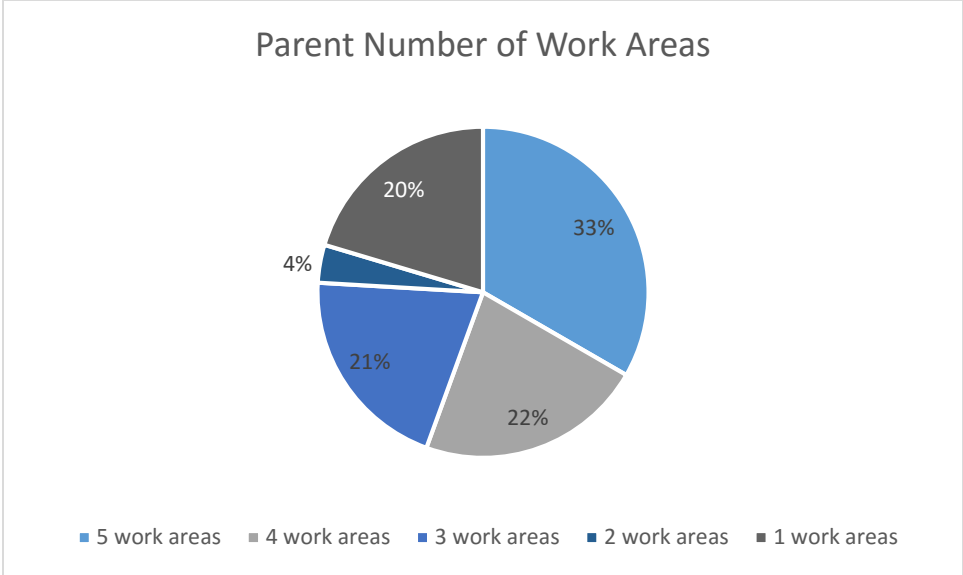Bright Endeavors (New Moms, Inc)
Casa Central
Center for Jewish Genetics (Jewish Federation of Metropolitan Chicago)
Chasing Hope Foundation
Chautauqua Preservation Committee (City of Shelbyville)
Chicago HOPES for Kids
Chicago Innocence Center
Chicago Metro History Education Center
Chicago Run
Chicago Sunday Evening Club
Children's Museum of Illinois
Citizen Advocacy Center
Cleanslate Chicago (The Cara Program)
CommunityHealth
Concordia Day (Concordia Place)
Counseling Data L3C (Housing Action Illinois)
Cristo Rey St. Martin College Prep
Dare2tri
Dead Writers Theatre Collective, Inc.
Delta Redevelopment Institute (Delta Institute)
Delta Revere LLC (Delta Institute)
ELCenters (One Hope United)
Embarc
Ensemble Dal Niente
Envision Unlimited
Epilepsy Foundation of Greater Chicago
Erie Family Health Center
EverThrive Illinois
Experimental Station
Faith Coalition for the Common Good
Family Bridges
Fe Y Justicia (Interfaith Worker Justice)
Final Options Illinois

Food He.ro L3C
Fox Valley Academy of Music Performance
Fox Valley Hands of Hope
Free Spirit Pro (Free Spirit Media)
Friends of the Chicago River
Gardeneers
Gary Comer Youth Center
GCYC EDUCATION FARM (Comer Science and Education Foundation)
Genesys Works Chicago (Genesys Works (National))
Golden Circle Nutrition Program (C.E.F.S. Economic Opportunity Corporation)
Gracie's Café (St. Leonard's Ministries)
Greater Good Studio
Growing Home
Healthy Educational Life Style (Prevention Partnership, Inc.)
Home of Hope Cancer Wellness Center
HOPE Fair Housing Center
Illinois Department of Financial & Professional Regulations
Illinois Tollway Customer Service Call Center
Imagine Englewood If
IMD guest house
Innovate Springfield (Community Foundation for the Land of Lincoln)
Inspiration Café (Inspiration Corporation)
Jazz on the Square
Kindling Group
La Casa Career Internship Program (The Resurrection Project)
Lake Cook Behavioral (One Hope United)
Lake County Regional Foundation
Legal Prep Charter Academy
Mercy Home for Boys & Girls (Archdiocese of Chicago)
Metro Achievement Center for Girls (Midtown Educational Foundation)
MetroSquash
Midland Institute for Entrepreneurship
Motorola Solutions Foundation
Myrtle's Club (YWCA Metropolitan Chicago)
NAMI CCNS (NAMI)
National Progressive Institute for Community Development (Progressive Community Center, the People's Church)

New Moms (Bright Endeavors)
NLCP
Northeastern Illinois University
Oak Park Banquets (Nineteenth Century Club and Charitable Association)
Obstacle Warrior Challenge (Action for Healthy Kids)
Old Town School of Folk Music
Oprimta-1 (PODER)
Organic Produce Sales (Growing Home Inc.)
Outreach Community Ministries
P2E2 Center (Delta Institute)
Palestine Development Association
Pediatric AIDS Chicago Prevention Initative
Peer Health Exchange
Preservation of Human Dignity
Pyramid Partnership, Inc.
Real Estate Development(The Resurrection Project)
Rebuilding Exchange
Rebuilding Exchange (Delta Institute)
Rebuilding Together Aurora (Rebuilding Together)
Richard H. Calica Center for Innovation (JPA)
RISE & Shine Café (NAMI DuPage)
RISE & Shine Print Shop (NAMI DuPage)
ROW Foundation
Ruckus Entrepreneurs (Concordia Place)
Sarah's Inn
Seguin Auto Center (UCP Seguin of Greater Chicago)
Senior Connections

Social Enterprise Information:-Organization Name
South Shore Gallery and Estate Sales (Community Health & Education, Inc.)
Spark
Springfield Ballet Company
St. Joseph Services (Daughters of Charity)
StoryStudio Chicago
StreetWise
Strong Beginnings Early Learning Center
Sweet Beginnings, LLC (North Lawndale Employment Network)
TCP Staffing (The CARA Program)
The Art Institute of Chicago
The Brown Elephant (Howard Brown Health)
The Chicago Community Trust
The Chicago High School for the Arts
The Chicago Lighthouse
The Community Builder's Inc
The Justice Entrepreneurs Project (The Chicago Bar Foundation)
TRP Reality (The Resurrection Project)
Truth in Accounting
UI Health Call Center
UIC (University of Illinois)
University of IL Extension (University of Illinois)
Vanavevhu - Children of the Soil, Inc
Wilmette Child Care Center (One Hope United)
WTTW|WFMT
Yshop (YWCA Metropolitan Chicago)

Parent Work Areas

Work Area	Value
Education	25
Human services	21
Youth development	19
Employment	16
Community improvement and capacity building	11
Arts, culture, humanities	10
Housing and shelter	9
Civil rights, social actions, advocacy	9
Public and societal benefit	9
Other (please specify)	8
Health care	6
Mental health and crisis intervention	6
Religion based	6
Recreation and sports	5
Crime and legal related	4
Environment	3
Philanthropy, volunteerism, and grantmaking	3
Science and technology	3
Diseases, disorders, and medical disciplines	2
Food, agriculture, and nutrition	2
Medical research	1
Public safety, disaster preparedness, and relief	1
International, foreign affairs, and security	1
Mutual and membership benefit	1

Parent Number of Work Areas

Segment	Percentage
5 work areas	33%
4 work areas	22%
3 work areas	21%
2 work areas	4%
1 work areas	20%

Social Enterprise Primary Work Areas

Social Enterprise Work Areas

Work Area	Value
Education	53
Youth development	36
Employment	29
Public and societal benefit	22
Human services	21
Community improvement and capacity building	20
Arts, culture, humanities	19
Food, agriculture, and nutrition	16
Mental health and crisis intervention	15
Health care	14
Housing and shelter	12
Civil rights, social actions, advocacy	10
Environment	9
Recreation and sports	6
Philanthropy, volunteerism, and grantmaking	4
Crime and legal related	4
Religion based	3
Diseases, disorders, and medical disciplines	3
Mutual and membership benefit	2
Science and technology	2
Public safety, disaster preparedness, and relief	2
International, foreign affairs, security	1
Medical research	1

Social Enterprise Work Areas

21%	14%	25%	17%	23%

5 work areas ■ 4 work areas ■ 3 work areas ■ 2 work areas ■ 1 work areas
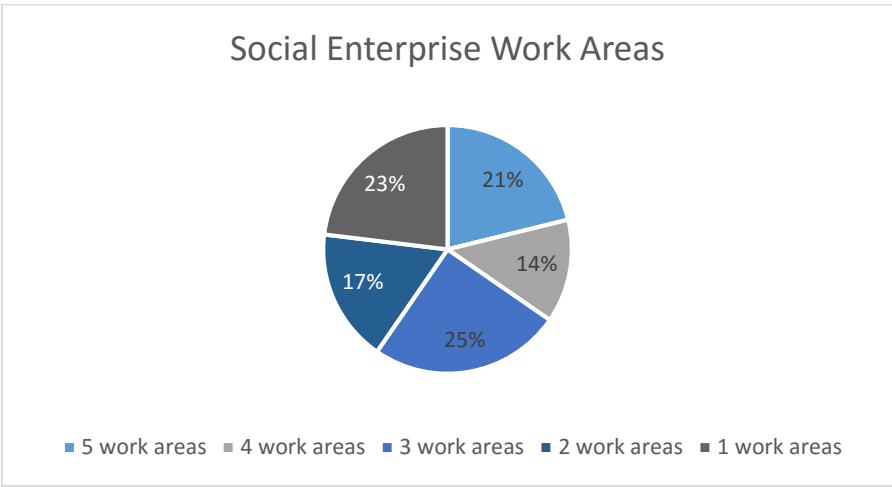
Number of Social Enterprises Founded by Parent Organizations

	Number of parent organizations that have founded specific numbers of social enterprises	Percentage of parents founding that number of social enterprises
1 Social Enterprise	26	57%
2 Social Enterprises	7	15%
3 Social Enterprises	9	20%
4 Social Enterprises	1	2%
More than 5 Social Enterprises	3	7%

Number of Social Enterprises Founded by Parent

2%	7%	20%	15%	56%

■ 1 Social Enterprise   ■ 2 Social Enterprises

■ 3 Social Enterprises   ■ 4 Social Enterprises

■ More than 5 Social Enterprises
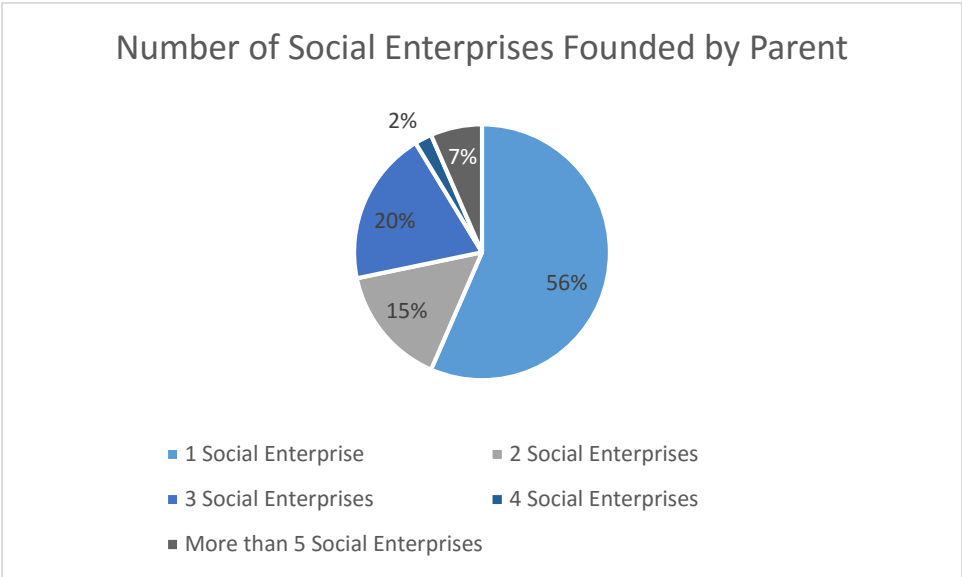
Year Established for Both Parent Organizations and Social Enterprises

	Parent	Social Enterprise
1850-1899	4	2
1900-1949	4	3
1950-1969	5	5
1970-1979	6	3
1980-1989	7	9
1990-1999	14	13
2000-2009	8	29
2010-2016	3	33
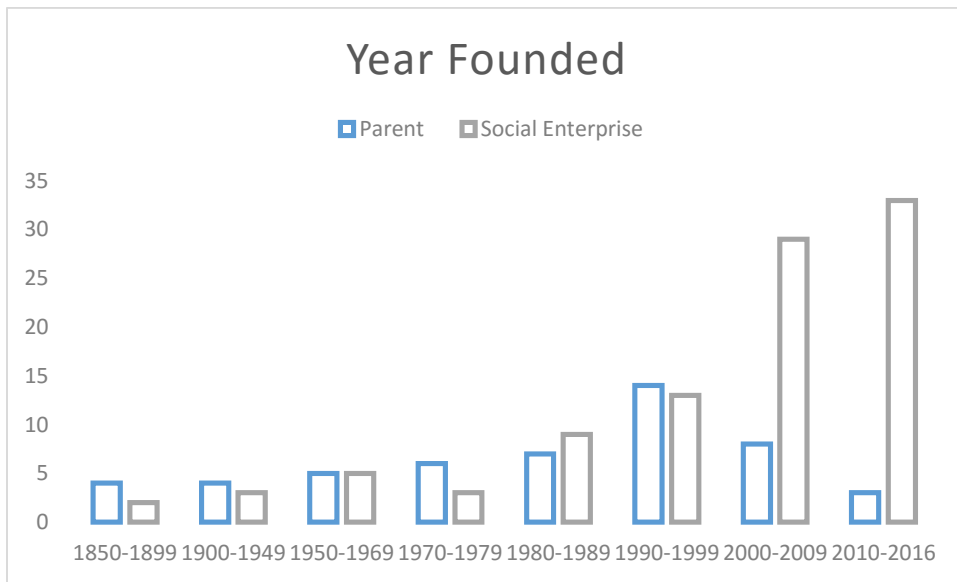
Social Enterprises Organizational Structure

Nonprofit 501(c)3	81
Nonprofit 501(c)4	1
LLC	7
L3C	3
Foreign Entity	1
Public Benefit Corporation	1
"C" Corporation	1
"S" Corporation	1
Programmatic Initiative	9

Social Enterprise Structures

- Nonprofit 501(c)3
- Other

Nonprofit 501(c)3: 77%
Other: 23%
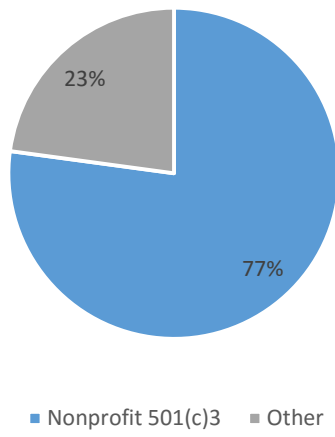
Other Social Enterprise Detail

- Nonprofit 501(c)4
- LLC
- L3C
- Foreign Entity
- Public Benefit Corporation
- "C" Corporation
- "S" Corporation
- Programmatic Initiative
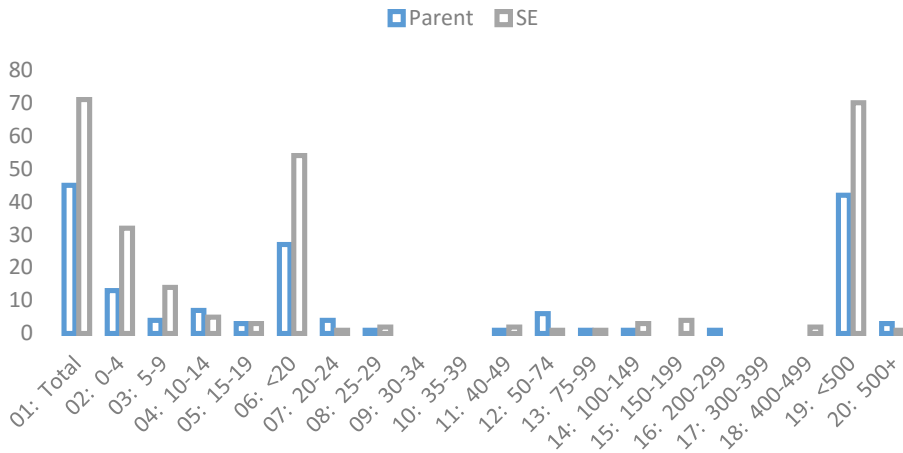
4%
29%
13%
4%
4%
4%
4%
38%
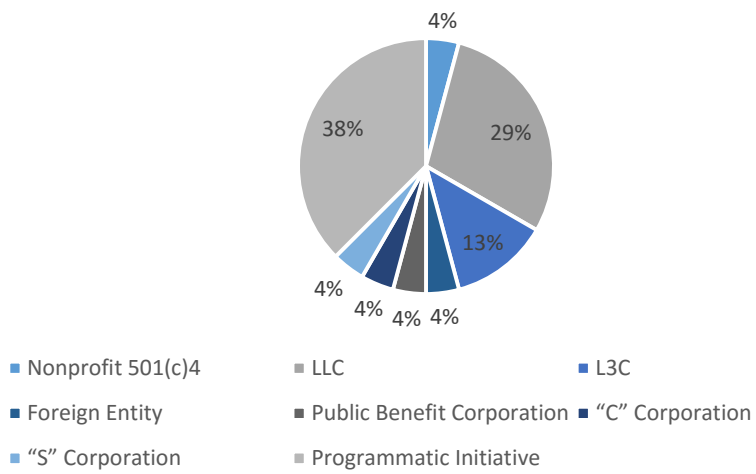
Employees at Parent Organization and Social Enterprises

The following table describes the number of organizations with specific numbers of full time employees and part time employees. The majority of organizations are under twenty employees.
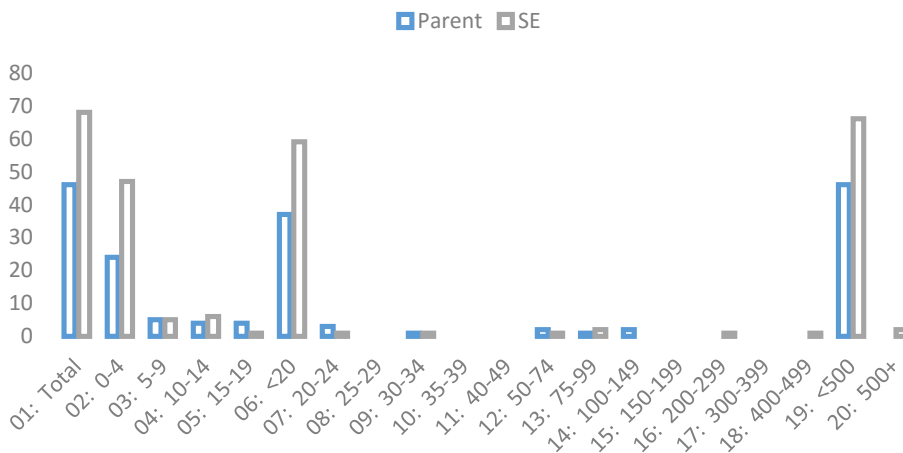
Number of Employees	Parent FTE*	Parent PTE	SE FTE	SE PTE
01: Total	**45**	**46**	**71**	**68**
02: 0-4	13	24	32	47
03: 5-9	4	5	14	5
04: 10-14	7	4	5	6
05: 15-19	3	4	3	1
06: <20	**27**	**37**	**54**	**59**
07: 20-24	4	3	1	1
08: 25-29	1	0	2	0
09: 30-34	0	1	0	1
10: 35-39	0	0	0	0
11: 40-49	1	0	2	0
12: 50-74	6	2	1	1
13: 75-99	1	1	1	2
14: 100-149	1	2	3	0
15: 150-199	0	0	4	0
16: 200-299	1	0	0	1
17: 300-399	0	0	0	0
18: 400-499	0	0	2	1
19: <500	**42**	**46**	**70**	**66**
20: 500+	3	0	1	2

*FTE is defined by having at least 32 hours of work per week.

Full Time Employees

Parent ▢ SE ▢

| | 01: Total | 02: 0-4 | 03: 5-9 | 04: 10-14 | 05: 15-19 | 06: <20 | 07: 20-24 | 08: 25-29 | 09: 30-34 | 10: 35-39 | 11: 40-49 | 12: 50-74 | 13: 75-99 | 14: 100-149 | 15: 150-199 | 16: 200-299 | 17: 300-399 | 18: 400-499 | 19: <500 | 20: 500+ |

Part Time Employees

Parent ▢ SE ▢

| | 01: Total | 02: 0-4 | 03: 5-9 | 04: 10-14 | 05: 15-19 | 06: <20 | 07: 20-24 | 08: 25-29 | 09: 30-34 | 10: 35-39 | 11: 40-49 | 12: 50-74 | 13: 75-99 | 14: 100-149 | 15: 150-199 | 16: 200-299 | 17: 300-399 | 18: 400-499 | 19: <500 | 20: 500+ |

How Social Enterprises Sell Products and Services

Ways Social Enterprises Sell Products and Services

- Retail Store 6%
- Online 18%
- Business to Business Sales 21%
- Direct to Consumer Sales 25%
- Split Fundraiser 2%
- Other 28%

Number Sales Strategies Used by SE

None	One	Two	Three	Four

FY 2014 Annual Budget and Revenue

FY 2014
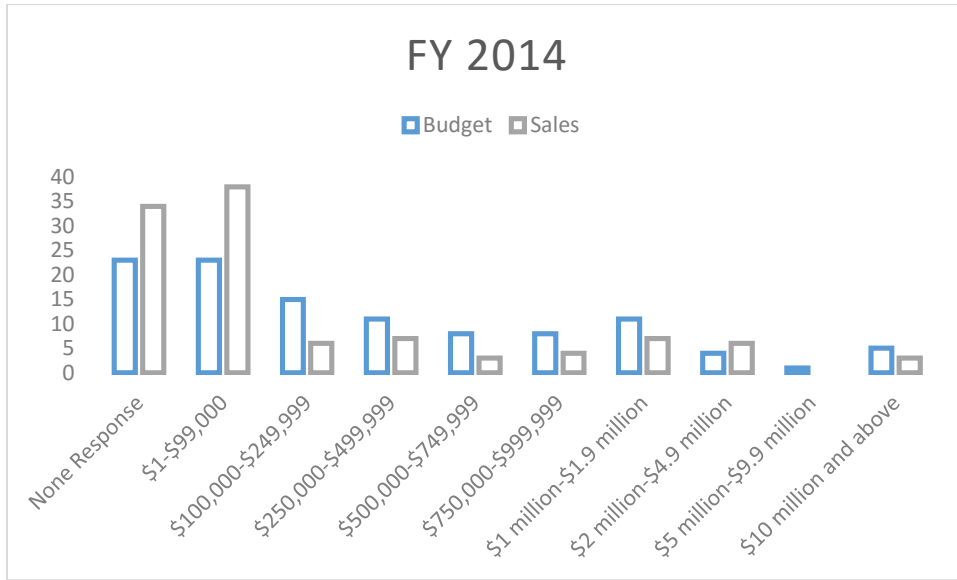
□ Budget □ Sales

	Budget Number of SE	Sales Number of SE
No Response	23	34
$1-$99,000	23	38
$100,000-$249,999	15	6
$250,000-$499,999	11	7
$500,000-$749,999	8	3
$750,000-$999,999	8	4
$1 million-$1.9 million	11	7
$2 million-$4.9 million	4	6
$5 million-$9.9 million	1	0
$10 million and above	5	3

Sources of Revenues over Lifetime of the Social Enterprise

Types of Revenues Used by Social Enterprises

Number of Revenue Sources Used by SE
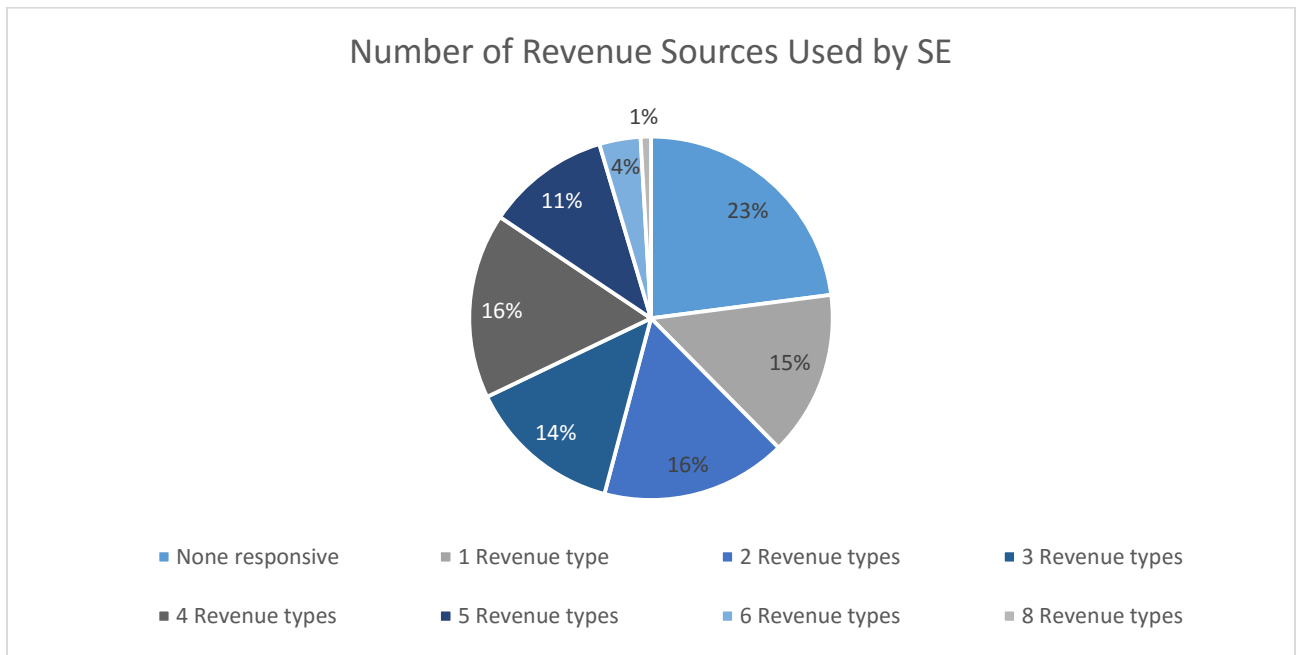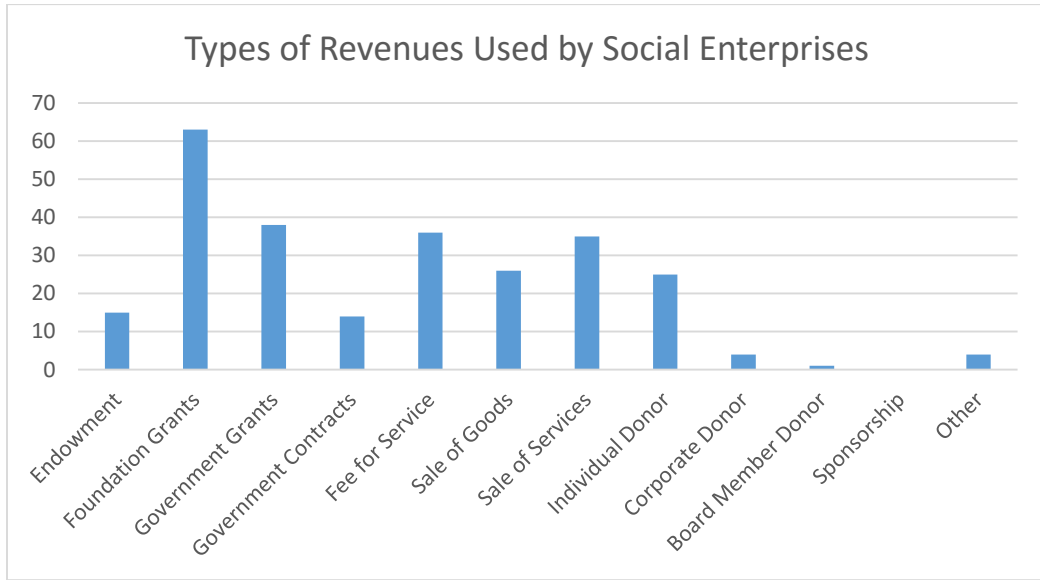
Sources of Revenue for Social Enterprise Start Up

Start Up Funding Types Used by Social Enterprise

Bar chart with y-axis from 0 to 30.

- Grant support to nonprofit parent: 28
- Grant support to social enterprise: 26
- Program related investment to NPO...: 10
- Program related investment to social...: 6
- Endowment income: 1
- Organizational unrestricted net assets: 26
- Angel investment: 7
- Venture capital: 1
- Line of credit: 4
- Other: 28

Number of Fund Types Used by SE

Bar chart with y-axis from 0 to 60.

- None Responsive: 22
- 1 Fund Type: 55
- 2 Fund Types: 19
- 3 Fund Types: 9
- 4 Fund Types: 3
- 5 Fund Types: 1

SUMMARY OF INFORMATION NOT TO BE PUBLICLY ATTRIBUTED TO RESPONDENTS

Of those who responded to the question "Have you had adequate resources to operate the social enterprise", 18 said they had adequate resources and 24 said they lacked adequate resources.

Respondents to the question "What do you wish you had in the early stages of social enterprise development, and why?" sited wishes related to funding, planning, leadership, their board, their employees, and volunteers. Funding, planning, and leadership were most frequently identified.

Funding					
Unrestricted support	More funding	More funders/Dedicated sponsors	Larger individual donor base	Endownment or bigger endowment	Knowledge about grant process and SE fundraising
3	2	3	2	2	1
13					
Planning					
Better, more realistic business plan		Strategic plan		Financial plan	
4		4		3	
11					
CEO/Executive Director					
Business accumen	Marketing/Business Development		Mentor ship for CEO/ED	Stronger leader	
4	3		1	1	
9					
Board					
Better oversight board and participation		Better fundraising		Board development	
4		2		1	
7					
Employees					
More		More experienced/highly skilled			
3		2			
5					
Volunteers					
More		More skilled			
2		2			
4					
Facility					
Donated		Appropriate services			
2		1			
3					
Parent					
Autonomy from parent and funds to reduce strain on parent					
1					
1					

In response to the question "What would you do differently if you knew then what you know now?" respondents most frequently reported that they would: select different staff and/or consultants; seek out different board members or develop their board differently; and have more money, diversity of funding, and more individual donors.

Hire the right staff/Consultant				
Operations and scaling	General manager	Grant winning staff	Sales	Social enterprise expert
1	1	3	2	1
8				

Better board				
More committed to fundraising	Active	Oversight	Able to deal with rapid growth	Better network
2	1	2	1	1
7				

Funding		
Had more money	Had more diversity	Individual donors
1	2	3
6		

Strategy		
Engaged in slower growth	Planned for future growth at beginning	Been 501(c) 3 to get grants or partnered with 501 (c) 3 to manage grants
1	1	1
3		

Facility	
Better facility	Understand facility choice impacts
1	1
2	

| Marketing	
Brand system	Target audience
1	1
2	

In response to the question "What phase of maturity do you consider your social enterprise to be in?" the majority of respondents described themselves as emerging or in growth.

- Developing - Recently launched, products and services still being developed and added, little revenue
- Emerging - Products and services are established, still developing a customer base, may still be improving infrastructure
- Growth - Increasing sales and broadening the customer base, devoting more time to growth than to forming the business and infrastructure, may still be standardizing products and services
- Maturity - Enterprise has reached a point of stability, sales are not expected grow quickly without adding new products or services or significant investment

SE Phase of Maturity
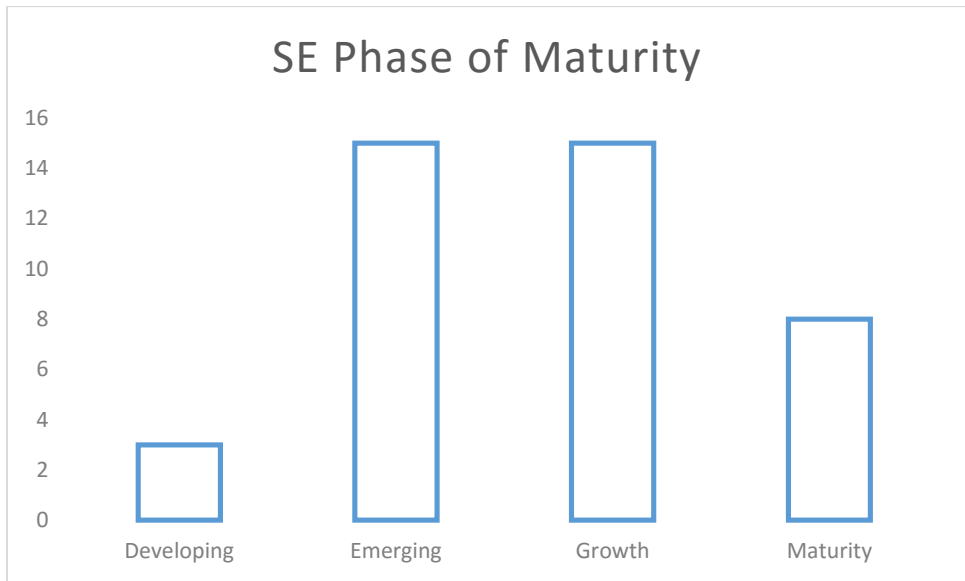
Developing	3
Emerging	15
Growth	15
Maturity	8

Many organizations had ambitious growth plans, and some needed significant capital to advance their plans. The following chart indicates that many needed an allotment under $250,000.

Capital Needed to Finance Growth in 18-36 Months
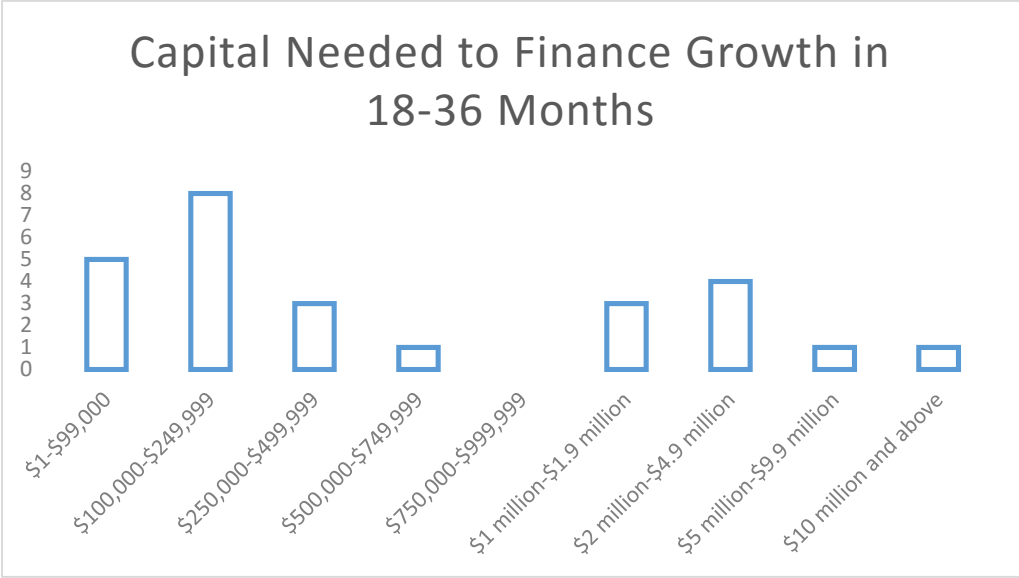
In response to the question "What resources or technical assistance would be most helpful to your social enterprise, and why?", respondents most often indicated need for information exchange, followed by funding and then consultants and staff.

Type	Need	SE
Communications & Marketing	Brand development, Social Media, Communications	3
	Subtotal	**3**
Consultant	Strategic planning assistance	1
	Consulting services for market research/feasibility studies/critical strategy decisions	3
	Infrastructure/design/architecture	1
	Accounting and financial planning assistance	2
	Office administrative structure	1
	Subtotal	**8**
Funding	Reliable sources of funding, matching grants or 0% loans with preference for multi year	9
	Subtotal	**9**
Information Exchange	Learning and evaluation: consistent measures of success	1
	Peer comparison studies	1
	Autonomous common sized financial shared among peers	1
	Youth employment best practices for those with multiple barriers	1
	Help hiring diverse staff	1
	Help getting corporate sponsors	1
	Networking with other SE s or startups	2
	Sector based knowledge sharing (not SE), but business focus	1
	Mentorship from nonprofit SE entrepreneur who has achieved scale or coach	3
	Subtotal	**12**
Policy	Local governments to prefer social enterprise contractors	1
	Subtotal	**1**
Staff	Employee devoted to data management	1
	Fundraising staff, grant seeker, granter writer, grant winner and expertise	5
	Subtotal	**6**
Tech and Software	Customer management software	1
	SEO/Website/Email optimization assistance	3
	Subtotal	**4**

SECTION 3
SUMMARY OF INTERVIEWS WITH NONPROFIT SOCIAL ENTERPRISE LEADERS

During November and December 2015, Delta Institute interviewed executive leadership of Chicago social enterprises to learn about their successes, challenges, and recommendations. Delta confirmed that social enterprises face many of the challenges that other businesses face. Starting a new business is inherently challenging. In fact, the Small Business Administration (SBA) estimates that over 70% of small businesses fail within 5 years.[1] Under-resourced, over-ambitious, and often lacking access to sufficient working capital and financing, small businesses enter a well-organized market where competitors have significant advantage. Nonprofit-led social enterprises face the same challenges as traditional small business startups. In addition, social enterprises aim to blend profitability with mission, and as nonprofits, they work within a culture that places a higher value on mission than money. Additionally, emphasis on mission may involve commitments to maximizing value to society and environment that make it even harder for nonprofit-led social enterprises to compete in the marketplace.

Informed by interview and survey results, the following is a summary of the current conditions faced by these leaders and their ideas and recommendations for improving conditions.

I.   Current Conditions

CEO/Executive Director Board Partnership: Success is predicated on the strength of the relationship between a CEO and the Board of Directors. It is critical that some board members have business knowledge and expertise, as well as a reasonable level of comfort with start-up risk. While nonprofits take risks to achieve their mission, the concept of business risk is foreign to nonprofit culture and can be a barrier to starting a social enterprise. Risk avoidance is common among boards of directors with fiduciary responsibility for organizations, as well as funders and investors.

Additionally, there is great need to educate board leadership on what a social enterprise can and cannot do. Sometimes board leadership does not realize the profitability limits of social enterprise. A social enterprise is unlikely to be a cash cow for the parent. Because of the tradeoffs between mission and profitability, the social enterprise will not perform like a traditional business.

Staff: Identifying, hiring, and retaining talented staff with a mind for both nonprofit management and social enterprise operations is challenging. Staff need domain knowledge and business skills. Identifying and assessing entrepreneurs to lead enterprises is very difficult.

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[1] (https://www.sba.gov/sites/default/files/Business-Survival.pdf)

Additionally, there can be profound cultural differences between nonprofit leadership and social enterprise workers, which can make it hard for management to motivate staff. Another challenge is that management and social enterprise employees may work very differently, with management working in offices with salaried positions and social enterprise workers being paid hourly.

Management staff can be spread too thin to grow or expand the enterprise and its impact. Some organizations do not have the funds to hire senior staff which forces the executive director to focus on day-to-day operations rather than strategic leadership.

Wages are a constant struggle. Comparatively low wages can lead to turnover of talented staff, resulting in retraining costs and loss of institutional knowledge.

Core skills training and additional professional development are hard to fund and make time to prioritize.

Funding challenges: The nonprofit parent frequently serves as intermediary, helping to get businesses off the ground. Many funders and investors want to fund the business directly and do not appreciate the value of intermediaries. Yet, the intermediaries make the market by bringing the entrepreneurs and the investors/funders together. Additionally, the nonprofit parent and child can be forced to compete against each other for foundation grants.

Funding for ideation and concept development: Nonprofit-led social enterprises need funding to support the development of the business idea and creation of the business plan. Once the idea is solidified, there are further costs to prove the concept, the market opportunity, and the value proposition. Often during proof of concept, it is necessary to pivot and change plans to sell the concept to customers and to compete successfully with other businesses. As one social entrepreneur described it: "There is a lot of work that needs to go into 'the ask' to create the momentum to get the first check." The startup phase is particularly challenging for nonprofit parents, because they do not have access to family money, seed funding, or angel funding. They have to support the startup costs from operating surplus, which is difficult, or raise new funds, which risks competing with other fundraising priorities.

Unlike venture capitalists, foundations want measureable accomplishment for their grant dollars. Because the foundation grant systems are not geared to funding business startups, the funding source can create too many constraints.

Another challenge is the lack of risk tolerance with funders and investors. They are unwilling to invest in new ideas out of concern that the idea will fail. Yet failure is a reality for many startups. Funder requirements for metrics in early stages can be counterproductive, because the need to attain metrics may prevent a nonprofit from changing strategy, which may be better in the long-term.

Onerous information requirements: Some investors place more strenuous information requirements on nonprofit-led enterprises as compared to most entrepreneurs, because nonprofit entrepreneurs do not have the history and the track record to make credible long-term projections.

Access to capital: Nonprofits face a significant barrier to access capital. Unlike small businesses owned by individuals accountable to lenders, nonprofit-led enterprises have board oversight. While the board is responsible for fiduciary oversight, traditional lenders may want a sole individual to be responsible. Additionally, lack of facility ownership can also limit access to loans. The following were specific needs identified by social enterprise leaders related to capital:

- Access to flexible, low-cost capital at 0-3% interest;
- Flexible seed money;
- Better management of competing fundraising goals between the parent and child social enterprise or the social enterprise and specific funders and partners;
- Funding for marketing; and
- Adequate funding for parent organization to support the startup.

Managing costs: Business operation is expensive. In order to help the social enterprise succeed, parent organizations frequently share costs and services. Some social enterprises can reduce costs through cooperative buying for discounts. Without cooperation with parent nonprofits, social enterprises lack the high-level consumer power required to negotiate for better prices.

Professional services. Professional services, like human resources, accounting, business consulting, and marketing, can be very expensive, but they are critical for success. The following were identified as requirements that social enterprises and their nonprofit parent need but may have a hard time paying for:

- Operational infrastructure: HR policies, financial reporting, operational processes and other procedures.
- Accounting and bookkeeping: Because of the unique way nonprofit accounting works, it is a large cost. The addition of product and service sales through retail environment increases complexity on top of grant and donation accounting.
- Business strategy consultants may be able to assist with defining success.

II.   Recommendations for Support and Resources

Support a community of practice and high-quality training. Nonprofit social entrepreneurs would benefit from a variety of support that could be provided through a peer learning environment for entrepreneurs. Because nonprofit governance, accounting and missions create work environments that are profoundly different than more typical business environmental networking and facilitating information exchange between these professionals is very valuable and meaningful. Additionally, there are many professional services that social enterprises need assistance accessing. Leaders need funding for professional services or mechanisms to access lower cost professional services. Those services include:

- Business strategy and strategic planning
- Marketing for non -traditional products and services
- Developing criteria to halt an unsuccessful social enterprise. Sometimes the momentum is strong to keep investing where failure is likely. The parent organization has to be clear about its goals and its criteria for investment and for

success. If the startup is not meeting goals and criteria, it needs to be stopped before

Change funder and investor Attitudes. Many different funding types are needed by both the parent nonprofit and the social enterprise (child). Funders and investors need to be engaged to facilitate a dialogue on the potential of this social impact sector and how their investment can be instrumental. Additionally private foundations should strive to create easy access and use capital. This may include appropriate loans for equipment, build out and working capital.

Educate funders and investors on the importance of program mission and how that impacts the profit and loss.

Establish a methodology for monetizing the social return so that investors and funders are not just focused on financial return.

Establish funding types that may be grants/investments that start with only a mission return and slowly expect a financial return. That would give the business an opportunity to grow profits before having to pay a financial return.

SECTION 4
APPENDICES

Interview Template for Nonprofit Led Social Enterprises

Please provide your organizational information.

- Organization name
- Address
- Corporate structure
- CEO name, email and phone
- Operations Director or Marketing Director, email and phone

Please identify information about the business and its markets.

- What product or service does it sell?
- Who does it sell to?
- How does it sell?
- What channels?
- What marketing does it do?

Please share your history.

- Date Started
- How started
- Changes in structure, products or services, markets, funding etc.

Please share your Mission.

- What is the mission?
- What metrics do they use to measure success?
- What systems do they have to measure success?
- How do they document lessons learned?

Where do you see future opportunities?

- New products
- New services
- New Markets
- Other expansion
- New funding/financing?

Please describe past challenges

   a. Start up
   b. Expansion

What are your recommendations for support and resources?

SOCIAL ENTERPRISE SURVEY QUESTIONS

Instructions to Respondent: Please complete each question using FY2015 information. Part 1 of the survey will be used to create a database of nonprofit led social enterprise in Illinois. This information will be available to members of Forefront (formerly known as Donors Forum). Members include foundations, impact investors and their advisors, and nonprofit organizations.

Part 2 of the survey will be kept confidential. This information will be used to inform a report for funders and investors on the challenges, barriers and opportunities facing nonprofit organizations that want to start or grow a social enterprise.   This report will include recommendations for increasing financial and technical resources for nonprofit led social enterprises.

Questions about the survey can be directed to Jean Pogge (jpogge@delta-institute.org) or Eve Pytel (epytel@delta-institue.org)

PART 1

	The questions 1-17 are for inclusion into a catalog of Chicago based social enterprises	
	Parent Organization	**Social Enterprise**
Q1	Contact information: Name: Organization Name: Address Line 1: Address Line 2: City/Town: State/Province: Zip/Postal Code: Email Address: Phone Number:	Contact information: Name: Organization Name: Address Line 1: Address Line 2: City/Town: State/Province: Zip/Postal Code: Email Address: Phone Number:
Q2a	What is the legal status of the social enterprise? - Nonprofit - For profit	
Q2b	What is the legal status of the parent organization? - Nonprofit - For profit - The social enterprise has been found independently	
Q2c	Are you answering on behalf of the parent or the child organization? - Parent - Child - Both - N/A	
Q3		Name of parent or founding organizations: [Free Response Text Box]

Q4	Please provide your organization's mission statement? [Free Response Text Box]	
Q4 A	Please choose the primary areas in which the parent works (choose no more than five): - Arts, culture, humanities - Education - Environment - Animal-related - Health care - Mental health and crisis intervention - Diseases, disorders, and medical disciplines - Medical research - Crime and legal related - Employment - Food, agriculture, and nutrition - Housing and shelter - Public safety, disaster preparedness, and relief - Recreation and sports - Youth development - Human services - International, foreign affairs, security - Civil rights, social actions, advocacy - Community improvement and capacity building - Philanthropy, volunteerism, and grantmaking - Science and technology - Social science - Public and societal benefit - Religion based - Mutual and membership benefit - Other (please specify) -	
Q5	What year was your organization founded? [Free response Text Box]	
Q6	How many full-time employees (working at least 32 hours every week) does your organization currently employ? [number]	
Q6a	How many part-time employees (nonunion employees working less than 32 hours per week.) your organization currently employ? [number]	

Q7	How many social enterprises has your organization started? [Numerical response choice of 1, 2, 3, 4, 5, 6, 7, 8, 9, 10] Combine Q7 and Q8 and embed in the loop	
Q8	Name(s) of Social Enterprise (s): [This should be up to 10 text boxes that can be completed. [Ideally, this could be connected to Q9 so that the respondent completes the questions for each text box filled in in Q8]	
Q9	[Beginning of logic loop] What is the mission statement of the social enterprise?	
Q10	Please choose the primary areas in which the social enterprise works (choose no more than five) - Arts, culture, humanities - Education - Environment - Animal-related - Health care - Mental health and crisis intervention - Diseases, disorders, and medical disciplines - Medical research - Crime and legal related - Employment - Food, agriculture, and nutrition - Housing and shelter - Public safety, disaster preparedness, and relief - Recreation and sports - Youth development - Human services - International, foreign affairs, security - Civil rights, social actions, advocacy - Community improvement and capacity building - Philanthropy, volunteerism, and grantmaking - Science and technology - Social science - Public and societal benefit - Religion based - Mutual and membership benefit - Other (please specify)	
	What year was the social enterprise founded? [Free response Text Box]	
Q11	What is the organization structure of the social enterprise? - 501(c)3 - 501(c)4 - B Corp - LLC	

	- Corporate - L3C - Common Law Trust - Foreign Entity - Public Benefit Corporation - "C" Corporation - "S" Corporation - Flexible Purpose Corporation - Sole Proprietorship - General Partnership - Limited Partnership - Cooperative Association - Other (please specify) -
	How many full-time employees (working at least 32 hours every week) does your organization currently employ? [number]
	How many part-time employee (nonunion employees working less than 32 hours per week.) your organization currently employ? [number]
Q12	What product or service does the social enterprise provide?
Q13	What is the target market for the product or service provided by the social enterprise?
Q14	How does the social enterprise sell its product or service? (Choose all that apply) - Retail store - Online - Business to business sales - Direct to consumer sales - Split fundraiser models where other fundraising organizations share profits - Other (Please specify)
Q15	What is the social enterprise's FY15 annual budget and/or annual sales? - $1-$99,000 - $100,000-$249,999 - $250,000-$499,999 - $500,000-$749,999 - $750,000-$999,999 - $1 million-$1.9 million - $2 million-$4.9 million - $5 million-$9.9 million - $10 million and above
Q16	What sources of revenue does the social enterprise have? (Check all that apply) - Endowment income

	- Foundation grants - Government grants - Government contracts - Fee-for-service or consulting - Sales of goods - Sales of services - Other (Please specify)
Q17	How was the social enterprise startup funded? (Check all that apply) - Grant support to nonprofit parent - Grant support to social enterprise - Program related investment to NPO Parent - Program related investment to social enterprise - Endowment income - Organizational unrestricted net assets - Angel investment - Venture capital - Line of credit - Other (please specify)

PART 2

	Answers to questions 18-27 will be kept anonymous and will not be attributed to the respondent. The consolidated responses may be used to provide advice to funders so that they can better support social enterprise.
Q18	Have you had adequate resources to operate your social enterprise? [Yes and No box and then free response text box]
Q19	What do you wish you had in the early stages of social enterprise development, and why? [Free response text box]
Q20	If you knew then what you know now, what would you do differently? [Free response text box]
Q21	What phase of maturity do you consider your social enterprise to be in? [choice] - Developing (recently launched, products and services still being developed and added, little revenue). - Emerging (products and services are established, still developing a customer base, may still be improving infrastructure). - Growth (increasing sales and broadening the customer base, devoting more time to growth than to forming the business and infrastructure, may still be standardizing products and services). - Maturity (enterprise has reached a point of stability, sales are not expected grow quickly without adding new products or services or significant investment).
Q22	Do you consider this social enterprise to be successful? Why or why not? (End of logic loop – back to beginning of loop if NPO has started more than 1 SE org)
Q23	What are your plans for growth in the next 18-36 months?
Q24	How much capital do you need to finance the growth and do you plan to finance future growth?
Q25	What resources or technical assistance would be most helpful to your social enterprise and why?
Q26	Please provide the names of social enterprises in Illinois that you consider peers.
Q27	Please provide the names of funders that support social enterprise that we should talk to.

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