

Managing the Social Purpose Enterprise

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Introduction

In concept, the social purpose enterprise makes sense: it provides an innovative way to solve social problems while allowing clients to enter or stay in the economic mainstream. Clients earn money and gain work experience while they improve their given situations. The combination of real work experience with a closely aligned social program provides a powerful model for change. Additionally, the nonprofit organization through earned income creates an additional stream of revenue for the parent organization. At the same time, the operation of the social purpose enterprise provides managers with a complex challenge of bringing together seemingly competitive business goals with a mission of providing jobs and work experience to disadvantaged individuals.

Based on years of experience operating four social purpose enterprises, the authors have identified three management challenges specific to the operation of these ventures:

(1) operating competitively with an unskilled and disadvantaged labor pool; (2) achieving a level of efficiency while balancing social and business goals; and (3) finding and retaining management staff.

This chapter reviews these operational challenges and illustrates them with several examples from the four business ventures. Management strategies that have been developed to address the operational challenges are proposed in order to share the learning that has taken place in operating these ventures.

The management challenges examined in this paper are illustrated by real business situations that occurred in various social purpose enterprises. At the end of the document outcomes to these scenarios are reviewed. It is important to note that all the examples are taken from well managed and profitable ventures whose management acted quickly when issues arose in order to effectively address the situations.

The Three Leading Management Challenges

Unskilled and Disadvantaged Labor Pool

The most difficult management challenge involves operating competitive businesses with an unskilled and disadvantaged labor pool. Social purpose enterprises hire people that other businesses would not hire, due to the level of their skills and their life circumstances.

The labor pools managers choose from when operating social purpose enterprises consist of individuals who confront significant barriers to employment such as: are or have been homeless, poor, abused, involved with crime, or victimized by domestic violence. There are two sets of issues a disadvantaged workforce brings to the social purpose enterprise that must be managed effectively: (1) poor skill levels; and (2) varying degrees of social problems.

Poor Skill Levels

In the workplace, employees are usually evaluated according to two sets of skills: hard skills and soft skills. Hard skills include an employee's proficiency in reading and math, operating equipment such as a telephone, calculator, fax machine or cash register, and his or her ability to understand directions, problem solve and exercise good judgment.

Soft skills, referred to as emotional intelligence or social skills, are harder to describe and measure, and tend to be the most difficult for employees to master. Soft skills include an employee's attitude, ability to handle frustration, manage anger, delay gratification and his or her ability to develop appropriate relationships.

Business managers rely on their employees to possess a certain level of both hard skills and soft skills in order to meet business goals. Frequently, many employees of the social purpose enterprise are seriously lacking in both sets of skills and do not possess basic hard and soft skills that employers can take for granted when they hire from the general working population.

The following example demonstrates how a group of employees that were lacking in a particular hard skill negatively impacted the operations of a business.

Opening Day

This situation took place in a ballpark concession business. At an opening day baseball game where the seats had been sold out, a new group of employees that were trained for one month prior to the beginning of the season were excited and ready to work the game. Minutes before the gates opened and the crowds started coming in, the manager, after giving her employees money to count, realized that several of her employees could not count money. It never occurred to the manager or trainers that this was a hard skill that 16, 17 and 18 year olds would be lacking. As a result, every adult supervisor had to stop what they were doing, and handle the money for over four different locations. Their level of customer service was seriously compromised because the employees could not keep up with the volume of customers and these youth employees ended up having a stressful experience. This lack of a very basic hard skill cost the business their sales for that particular day, and took managers away from their duties. In addition, the business experienced an increase in cash shortages from too many counting errors by the employees.

The next example also takes place at the ballpark concession and illustrates the challenge of hiring employees with underdeveloped soft skills.

Jami

A young woman, Jami, had been working at the ballpark for over a year and a half. She was an excellent employee and one of the top-selling vendors. On a busy Saturday, she took the freight elevator to get downstairs. Using the freight elevator during game times to transport employees was against the ballpark rules. Jami was caught and reprimanded by the concessionaire manager. Jami then blew up at the concession manager, arguing, yelling, and using inappropriate language. She then went to her manager and continued her tirade, in front of other youth employees. The manager sent her home and put her on suspension.

Jami's inability to manage her anger had many negative consequences. First, the relationship with the concessionaire manager was damaged. Because the concessionaire controlled much of the power at the ballpark, this incident posed potential problems for the business as a whole. Second, viewing such inappropriate behavior upset the employees who had witnessed the explosion. They were concerned for their fellow worker and knew what she did was inappropriate. Third, sales for the business were lost because of the dismissal of Jami, one of its best employees. Fourth, Jami herself lost wages and her job for a period of time. Finally, it took an enormous amount of the manager's time to resolve the incident, taking her and others away from their main business duties.

Social Problems

In addition to poor hard and soft skills, these employees also bring the problems associated with living in disadvantaged communities. Often their life circumstances lead to situations that impact their ability to work successfully. In our experience, many of our employees live on the edge, where one small event can send their lives cascading down. Just because disadvantaged workers become employed does not mean their "social" problems go away. In fact, the workers bring their problems into the workplace.

The following example from a retail shop describes a situation where an employee experienced a family problem that affected his job.

Antoine

Antoine, an employee for one year, had been promoted from a sales position to a supervisor. Antoine wanted to better his earning potential for his girlfriend, child and himself so he was attending City College. However, Antoine's girlfriend's mother died one evening from a drug-related incident. Antoine, his girlfriend and child were permanently living with her mother and the girlfriend's two siblings.

The impact of this incident on Antoine and his job were tremendous. First, Antoine had to use \$2,000 of money he had saved for school to pay for the funeral. Second, Antoine had to find a new

place to live because after her death they were not eligible for her subsidized housing. Third, he felt compelled to help his girlfriend get custody of her two younger siblings. In sum, Antoine found himself responsible for himself, a girlfriend, a son and two children who had just lost their mother.

Because of the challenges in his family life, Antoine was unable to work as much in the business. Consequently, problems arose in getting his supervisor shifts covered. In addition, Antoine's work performance plummeted. Moreover, the business manager and program support staff spent numerous hours helping Antoine through such a difficult time.

Hiring employees with poor skills and complicated life circumstances results in operational dilemmas for the manager. Employees with poor skills make more mistakes and are not as productive. Employees from disadvantaged living situations miss more work due to circumstances outside of their control. They experience more unsettling life events that directly affect their job performance than their more advantaged peers do.

In the case of Antoine, while it can appear to be an extreme situation, it is not uncommon at all to have overwhelming life circumstances such as his present themselves on an ongoing basis in these business ventures.

Operating a competitive business with an aggressive social mission, a manager must find ways to compensate for these deficiencies. Antoine's manager had to cover some of his shifts herself, quickly promote another employee into a supervisor position and deal with the unexpected loss of one of her best employees during the high season of her business. Additionally, there were psychological repercussions among staff and other youth employees. They wanted to support Antoine through his situation and help as much as possible.

Balancing Goals

The second fundamental challenge for the manager is to achieve a certain level of effi-

ciency while balancing the social and business goals. Producing business results requires a manager to take a different course of action from one that produces social program results. A manager must be aware of these differences and maintain a balance that results in efficient operation of the business and social program. Balancing the dual goals sets up a situation whereby the manager often works in an environment with a high degree of uncertainty, contradiction and possible stress.

The following example illustrates a dilemma between a social goal and a business goal.

Job Creation vs. Controlling Costs?

A particular retail business operates in an industry that has seasonal fluctuations in sales. Thomas, who was hired from a local training program, had spent time in jail. As a condition of his parole he was to be employed in this particular social purpose enterprise. Thomas took his job seriously and made many improvements in both his work and his personal life. He attended counseling and met all the conditions of his parole. He secured subsidized housing and started to take classes at a local community college. His supervisors were pleased with his work and he had recently received a promotion to be a supervisor in training.

As the winter season approached and the weather (which affects sales) turned particularly bad, sales dropped to an even lower level than projected. The manager had a dilemma. She had to control her labor costs over the winter months in order to reach her business' financial goals. The only way to efficiently operate her business was to cut back on all the employees' hours, including Thomas.'

While the manager's solution of cutting costs was the right course of action for the business problem, this resolution caused a downward spiral for Thomas. He needed a certain number of hours to pay his bills and meet his parole obligations. Thomas quickly tried to find another part-time job to augment his hours for the winter months, but with a felony on his record he was unable to secure another job. He could not pay his electric bill and was late

in paying his rent and his frustration level was quickly mounting.

In the case of Thomas, to increase his chances of building a stable life for himself, maintaining his hours in the shop would be the course of action the manager would take. The worst thing would be to reduce his hours and lose ground on stabilizing his situation. However, as stated above, to reach her business goals the manager had to quickly reduce expenses, and labor was the only area in which to make the changes.

The next example provides another view of the dilemma between the social and business goals a manager faces operating her business venture. This example is not about a specific employee, but rather about the contradicting environment in which the social purpose enterprise operates.

A Living Wage

A social purpose enterprise operates in a community that has an active merchants association. The association, made up of local small businesses, is very concerned about recent debates centered upon whether or not the city should require businesses to pay a "living wage (\$9-13 per hour)." Members of the association want all small businesses to rally together against this issue. The manager of the social purpose enterprise completely understands and shares the views of the small business owners, many of whom could not operate their businesses if they paid higher wages. She goes back and looks at her labor budget. She cannot make the numbers work with higher wages. Higher wages would put such a burden on her business that she would not be able to operate.

On the other hand, the manager recognizes the problems that low wages cause her employees. It is extremely difficult to assist a person that makes minimum wage in creating a healthy living situation for themselves and their families. A living wage can make an enormous difference in improving the quality of their life. The dilemma for the manager consists of how can she publicly work with the small business owners to oppose higher wages when she works so closely

with her employees who are struggling to make ends meet on their existing minimum wage.

In operating social purpose enterprises, managers frequently find themselves in situations where the social goals directly oppose the business goals. The living wage example does not have a simple, clear solution and may never. The manager must balance the two opposing viewpoints and continue to operate her business without an immediate resolution to the issue.

Finding a balance between profit and people is a common management challenge to any business operation. The quandary for the social purpose enterprise encompasses the dual goals of these ventures. The fact that both the business and social goals are equally important and are housed under the same business structure result in the decisions being more complicated for managers to make.

Finding and Retaining Competent Management Staff

The third challenge of successfully managing a social purpose enterprise is to find and retain management staff. Having the right manager in place is the central ingredient for the success of the venture. The manager occupies the position that orchestrates the connections among the business staff, the program staff, the clients and the parent organization. The business manager operates on the front-line and must possess the disposition necessary to hire people no one else will hire and operate a competitive profitable business with these same people as their primary labor force.

Recruiting and Hiring

When recruiting and hiring management staff it is important that they have: (1) sound business skills; (2) the ability and skill to handle a marginalized population as their workforce; and (3) the capacity and energy to work in an environment with dual goals and courses of action. Employers can avoid many business

problems by making careful hiring decisions based on examining qualifications in these three areas.

Retaining Managers

There are several ways the parent organization that hires the business manager can position him or her for success and ease some of the tension associated with this job. First, traditional nonprofit service organizations develop structures and procedures to act as buffers between the "social worker" and the client population. Constant exposure to individuals with overwhelming life situations takes its toll on the workers. In the social purpose enterprise, one of the strengths of the model lies in the constant exposure of the client to real work environments. Consequently, this also means constant exposure for the front-line management staff to serious social problems. Business managers also need buffers and support in handling some of the difficult social mission situations they will inevitably encounter.

Second, working in the dual environment of the social purpose enterprise requires more energy, skill and responsibility than a single purpose environment. It is important that the parent organization be aware of the complexities involved with the manager position and set realistic expectations.

Third, financial compensation can be an issue because individuals with the skill set required to operate these ventures can easily make more money in the private sector. While working in the nonprofit sector will never be as lucrative as private industry, steps can be taken to address this issue. Creating bonus structures based on sales goals is one solution. Added benefits from the parent organization such as training, more vacation time than private industry standards and health insurance coverage are all ways to add to the compensation package for the business manager. If a nonprofit social purpose enterprise decides to incorporate a bonus structure it is important to research the legality of this approach. Traditional bonus plans are considered a violation of IRS statutes and these plans need to be developed accordingly.

Management Strategies

Managers who operate social purpose enterprises will benefit from two types of management strategies designed to deal with the dual goals of the business. First, the parent organization must develop a structure to support the manager in his or her work. Second, the manager needs to develop methods that bolster the operations of the business in order to compensate for the problems the workforce presents.

Structural Strategies

There are five strategies a parent organization can use to create a sound structure for operating the social purpose enterprise.

Training and Counseling Program

The venture needs to be closely connected with a training and counseling program in order to deal with the social problems employees bring to the workplace. We have found the program to be most effective if it works with employees on their social problems outside of the immediate business environment. For example, a counseling session that addresses an employee's current housing problem does not take place while the employee is working. Staff develop clear distinctions and space between working and solving personal problems.

Attempting to operate a social purpose enterprise without program support will lead to serious operational problems in the venture. A business manager cannot be expected to operate a successful, profitable business while simultaneously playing the role of a social worker. While a manager can talk to an employee about a personal problem, he or she must also be able to pay close attention to the severity of it, and determine when to involve program staff. More often than not, the manager of the venture is first made aware of a problem through the employee's work performance.

The situation of Antoine described above is a good example of the need for a program. In this case the business manager was the first to know Antoine had a personal problem. She contacted the program staff who immediately worked with Antoine. If the manager had not had a social program interwoven into her business she could not have afforded the time

it took to resolve his situation and run her business. In this case, the business manager quickly found people to cover his shifts, dealt with the issues of getting a new supervisor and made hours available to Antoine when he was able to work. The program staff assisted him with housing information, counseling and guidance on his next steps. Antoine kept his job through the crisis, and the needs of the business were met.

Similarly, in the example of Jami, who had problems with controlling her anger, again the program staff worked with her to examine what had happened and helped her take the necessary steps to make improvements in this area. The business staff stayed focused on the business consequences of the situation.

Without a program in place both Jami and Antoine would have lost their jobs and more importantly would not have learned from their mistakes. Both of these young people made significant changes after the incidences. Jami has not had another outburst of anger on her job.

Role Definitions

Roles need to be clearly defined for the staff working in the social purpose enterprise. Business managers are responsible for an employee's work performance. This involves hiring, training, evaluations and watching for personal problems that might affect their job. Program staff are responsible for working with employees around personal issues that could affect their job performance. This might include problems with housing, school, substance abuse, domestic violence or health issues.

Many operational problems in the business and program can be averted if clear roles are defined and observed by staff. Clear boundaries also provide a more effective program for the client/employee. As illustrated in the examples above, highly volatile situations were handled in a routine way and with significantly greater ease due to the clear roles of the business staff and the program staff.

Decision Making Process

Establishing a clear decision making process for the manager facilitates the balancing of social and business goals. Managers will be in

situations on a daily basis where they will be called upon to consider two opposing views and make a quick decision that in the long run will balance the dual goals of the business. A process that identifies the final decision-makers and communicates this to all employees is the first step. Managers should be trained in how to examine two opposing views and determine the priority, while remaining aware of the impact of their decision on both sides of an issue.

In looking at the example of Thomas, the young man whose hours were reduced, the situation illustrates the hard decisions managers make in a social purpose enterprise. In this business, a decision making process was in place for the manager. At this particular time she made the decision to prioritize the business over the social goals and was supported by the program staff. While the staff did not like to see Thomas lose hours, they fully understood why the manager had to make the decision she did. The staff were all well aware of the negative impact on Thomas, but they also realized if costs were not quickly contained the business would not exist. It was more important to support the continuation and success of the business venture over the benefit to one specific employee. This is not to say that this business manager always chooses the bottom line; as a matter of fact she has made many decisions over the years that support the social need over the business need. The key to the manager's good decision making is having a process in place that supports deliberate decision making. In Thomas's situation the program staff were able to help him secure additional hours in another business and he successfully navigated his way through his dilemma. Although the manager made a difficult decision the outcome was not as grim because other resources were in place.

Vision

Another structure for the parent organization to put in place involves creating a long range vision for the business venture that sets a context for decision making. Managers will have an easier time making hard day-to-day decisions if they understand and believe in the larger picture and vision for the social purpose enterprise. A vision paints a picture, sets parameters and acts as a guiding force that helps managers make sense of the day-to-day circumstances they encounter. Understanding

how a particular decision fits into the overall scheme comes from a clearly articulated vision. In the case of all four examples used in this paper, the managers were well grounded in the vision of the business venture.

Culture

Developing one organizational culture that embraces both the nonprofit culture and the business culture creates an environment that supports the manager in his or her work. Building a culture that values diversity, promotes learning, rewards risk-taking and encourages patience with the dual and competing goals results in a productive work environment for the manager and employees.

To illustrate this point, we take the example of the living wage discussion described earlier in this chapter. In this situation, the manager had a dilemma that was not going to be resolved soon, if ever. This manager was in a position where she had to move forward and operate her business with a highly visible, unresolved contradictory issue. If the culture of these businesses only valued behaviors that led to quick resolution with no ambiguity, she would not be supported in her situation. Operating social purpose enterprises is inviting contradiction and paradoxes into every crevice of the work environment. On the contrary, if the culture values patience with all that is unresolved, this manager is supported in the dilemma she faces. The culture in the social purpose enterprise needs to support the challenges the manager faces to produce productive work environments.

Operational Strategies

The structural strategies described above provide the manager of the social purpose enterprise with a strong foundation to operate his or her business. There are three operational strategies that combined with the structural strategy bolster the operations of the business venture.

Cross Train Staff

One of the best investments a social purpose enterprise can make is cross training business and program staff. If the program staff have a basic understanding of business concepts they are better equipped to do their job. If they understand the financial picture of a small

business they support decisions that promote the goals of the business.

Similarly, if the business staff are grounded in the basics of working with a disadvantaged population they in turn make better decisions and can manage their workforce more effectively. Business managers can make grave errors if they do not understand the basics of working with populations of people that experience social problems.

A team that is cross-trained supports one another and overall makes better decisions. Cross training staff does not need to be overly expensive and can be an added incentive for staff working in a social purpose enterprise.

Balanced Workforce

While the mission of the social purpose enterprise is to hire its employees from a disadvantaged labor pool, this must be done in a way that also helps stabilize business operations. In our experience, hiring 100% of the workforce from a disadvantaged labor pool with few skills and various personal problems leads to serious instability in the operations of the business.

We have experimented with different formulas for each of our businesses with mixed results. While there is no “one right formula” to follow, each business must determine its rules. For example, in one of our businesses we strive for an 80/20 mix – 80% of the employees come from the disadvantaged labor pool and 20% come from the general population and have more skills and fewer personal problems. This formula works for this particular business. When the labor pool moves out of this mix there is an increase in operational problems.

The examples used earlier about the ballpark concession illustrate this point. We describe two rather serious issues: the lack of

money-handling skills in a group of employees and the issue with an employee having an outburst directed at our main business partner. Even with these two problems and many others not described in this chapter, we nearly doubled our sales projections for the year and made a healthy profit from this business venture. One of the reasons the business still performed well financially was because the manager carefully monitored her labor mix. She hired the majority of her employees from the disadvantaged labor pool, but also had enough stable employees to keep the business on track to meet its goals.

If a business has too many unstable employees several issues arise. First, the manager cannot operate the business effectively. Second, the employees that are under-skilled and lack experience do not have stable role models to work with and consequently, the job environment is not strong enough to promote the learning and growth that is needed.

Team Building

Building a strong team comprised of the business staff and the program staff add to the stability of the business venture. With a team in place, the complex issues a disadvantaged labor force bring to the venture can be addressed. Bringing both sides together on a regular basis builds the capacity of the social program and the business operations through direct communication.

Building a team requires an investment of time on the part of the business staff and the program staff. Teamwork can mean additional meetings and preparation time. It is a smart investment to have a functioning team that has learned how to communicate and solve problems together. When issues arise it can be the most effective vehicle for a manager to quickly solve complex problems.

Conclusion

Managing the social purpose enterprise, while being double the challenge, also offers double the rewards. Managers working in these ventures develop skills that are learned in few other situations. Working on a day-to-day basis with employees that have experienced difficult

life circumstances is a valuable experience. The energy and enthusiasm generated from these ventures make the management challenges less daunting. With the proper structures in place, a social purpose enterprise can be one of the most creative and stimulating work environments.