Enterprises Gone But Not Forgotten: Lessons Learned from Three Organizations and REDF

Enterprises Gone But Not Forgotten: Lessons Learned from Three Organizations and REDF

By Fay Twersky
and
Laura Lanzerotti
BTW Consultants-informing change

Acknowledgements

Many people reviewed and offered constructive comments to this chapter. The preparation of these case studies required a sensitive process and the honest reflection of all involved. The authors would like to acknowledge the contributions of all the reviewers:

boona cheema
Executive Director
Building Opportunities for Self-Sufficiency (BOSS)

Executive Director
"Agency A"

Assistant Director
"Agency A"

Executive Director
"Agency C"

Jed Emerson
Executive Director
The Roberts Enterprise Development Fund

Melinda Tuan
Associate Director
The Roberts Enterprise Development Fund

Cynthia Gair
Business Analyst
Keystone Community Ventures

Kim Fararo
Interviewer

Overview

In order to keep up with emerging community needs as well as changes in philanthropy and the nonprofit capital marketplace in general, nonprofits of all sizes and types are seeking innovative strategies to achieve greater self-sufficiency. Motivated to broaden their funding base as well as find new ways to pursue their social mission,nonprofits are increasingly aiming to apply market-based principles of accountability and revenue generation to support programs and services. Various market-oriented strategies have emerged as part of this shifting landscape, strategies that have been designed to benefit nonprofit organizations and the people they serve. Terminology in this field has not yet been codified, but some of the strategies often referred to include: corporate partnership, cause-related marketing, income generation and social purpose enterprise. It can be a challenging and complex undertaking for a nonprofit organization to sift through these and other options and select the best approach to suit its organizational culture and capacity.

This chapter tells the story of three organizations that elected to pursue a particular strategy – social purpose enterprise – in order to employ low-skilled and/or formerly homeless individuals and generate a profit. After several years,it became clear, both to the organizations and the investor, that they were not ideally suited or ready to operate businesses that were compatible with the investor's expectations.

These are three organizations that in January of 1997 were invited to be part of The Roberts Enterprise Development Fund's (REDF) portfolio of 10 nonprofit organizations collectively operating 23 social purpose enterprises. The enterprises run by these three organizations respectively include:

- "Agency A" - a silk screen printing business employing young people at risk for gang involvement;
- "BOSS- Building Opportunities for Self-Sufficiency" - BOSS Enterprises, a property maintenance services business employing and training homeless and/or formerly homeless people in the basic skills of the construction trade; and
- "Agency C" - a temporary staffing business employing formerly homeless people in temporary staffing positions.

After two years, Agency A and Agency C were excused from the REDF portfolio. Both organizations have requested that their identities be anonymous for purposes of this publication. During its third year, BOSS's Executive Director felt it was in the best interests of both BOSS and REDF to close down BOSS Enterprises and asked to be excused from the REDF portfolio. BOSS explicitly did not want its case study to be "blinded," as the organization felt it was essential to be as open and honest as possible about the experience in order to learn from what happened and to share that learning with others. This chapter attempts to do just that – document that learning in order to share it with others.

The chapter presents case studies for Agency A's Silkscreening Enterprise and BOSS Enterprises, detailing their experiences in the REDF portfolio and in operating their respective enterprises. It concludes with crosscutting lessons learned. These are lessons that have applicability both to nonprofits seeking to pursue social purpose enterprise or other market-oriented approaches, as well as to philanthropic investors wanting to effectively support these types of ventures.

Agency C requested that the case prepared regarding its temporary services enterprise not be published despite being "blinded" to preserve anonymity. Agency C reviewed the case numerous times, offering input and suggestions, many of which were incorporated in the case. But Agency C was still not satisfied with the multiple perspectives reflected in the final version and declined REDF's invitation to prepare a companion piece that solely reflected that agency's point of view. Out of respect for the agency's wishes, the case is not being published as part of this paper, but the lessons learned from Agency C's experience are integrated into the paper's final section on cross-cutting lessons learned.

It is important that the reader understand that this chapter and the case studies herein do not provide an assessment of the two organizations in general or the services they provide. These organizations are both highly respected in their communities and are known to be effective nonprofit service providers. They are making important contributions to the communities they serve. They have leaders who are committed to making a difference and who have spent most of their adult lives in pursuit of social justice. This chapter should therefore in no way be interpreted as an evaluation of the organizations, their capacity or their overall performance.

The case studies are specifically focused on these two groups' efforts and experiences in operating a social purpose enterprise while part of the REDF portfolio. It includes detailed descriptions of the organizations' experiences in this regard as well as the experiences of REDF, the investor.

As is often the case in science and in life, the more useful learnings are gleaned from circumstances that did not work out as expected. When experimenting with new and different models of social purpose enterprise operation, it is important that unexpected results are examined not as failures but as learning opportunities. This chapter attempts to present the case studies and lessons learned in that spirit – telling the stories with honesty and due respect for all involved. It is from this sort of recounting that others may learn from those who have gone before them and make choices that are more informed as a result.

The Roberts Enterprise Development Fund would like to publicly thank both organizations for allowing their story to be shared with others in the field who are exploring social purpose enterprise creation and seeking to understand the complexities involved in such work.

Background on The Roberts Enterprise Development Fund

In January of 1997, The Roberts Enterprise Development Fund (REDF) invited ten northern California nonprofit organizations to become part of its social purpose enterprise portfolio. By REDF's definition, social purpose enterprises are those ventures that are managed against a double bottom line: a social mission to employ low-skilled and/or formerly homeless individuals and a business mission to operate on a profitable basis.

REDF is recognized as one of the pioneers of an approach to charitable giving known as "venture philanthropy." This practice involves the application of fundamental for-profit venture capital principles to philanthropy. As such, REDF makes a variety of investments in each of the organizations in the portfolio. The organizations receive core financial investments from REDF in addition to a full complement of other support, including:

- capital grants for the business,
- targeted business analysis and assistance,
- involvement and partnership with REDF through Venture Committees,
- enterprise capacity-building through the Farber Interns and Farber Fellows Program,
- business networking through the Partners-for-Profit, and
- access to and training in the use of technology and outcome measurement.

Central to REDF's approach is the notion of a partnership with the enterprises in the portfolio. It sees itself as both investor and business partner/advisor. This way of working with nonprofit organizations represents a paradigm shift in the traditional funding relationship between philanthropy and nonprofits. Through its venture philanthropy practice, REDF is trying to transform the traditional grantor-grantee relationship with an eye toward both sectors becoming more effective. The expectation in this shift is that funders will become more effective investors in social programs and that nonprofits will be better positioned to draw on philanthropic resources to become more effective practitioners.

Thus, the lessons learned from these case studies do not just concern nonprofit organizational decisions and enterprise operation. The lessons also apply to a philanthropic investor, particularly to this new type of venture philanthropy that is trying to establish a different relationship with the organizations and programs they seek to support.

In preparing the cases, five critical themes emerged across all of the groups' experiences. These are expanded upon in the final section: Cross-Cutting Lessons Learned, but it may be helpful for the reader to note five issue areas illustrated in great detail in the case studies themselves. They are:

1. Organizational commitment to the enterprise's business mission;
2. Adequate financial accounting systems;
3. Role distinction between the nonprofit, the enterprise,and the investor as it relates to authority and decision making;
4. Capacity to produce or deliver on business product or service at the level needed; and
5. Consistency and clarity in the investor's approach to the partnership.

Methodology

The case studies were prepared based on in-depth key informant interviews with all of those who were centrally involved in the management of the two businesses as well as a review of written background materials. Twenty individuals were interviewed for the two case studies.[1] The list of key informants was developed and agreed to by both REDF and the organizations. Each face-to-face interview took approximately one to two hours.

Individuals Interviewed for Case Studies

AgencyA/Silkscreen Printing Enterprise	BOSS/ BOSS Enterprises	REDF staff and consultant
Executive Director	Executive Director	Executive Director
Assistant Director	Economic Development Director	Associate Director
Financial Manager	Fiscal Manager and Fiscal Assistant	Business Analyst
First Business Manager	Board Member	
Second Business Manager	Organizational Development Consultant	
Current General Manager	First General Manager	
	Second General Manager	
	Training Supervisor	
	Office Manager	
	Enterprise Employee (BOSS Participant)	

All interviews were conducted with an interview guide that was designed to gather key informants' perspectives on a uniform set of issues related to the business operation. The interview protocol included questions related to

- organizational background and history,
- the decision to launch a social purpose enterprise,
- the enterprise's management with regard to finances, personnel and other operations, and
- communications and relationship between and among the nonprofit, the enterprise and REDF staff and consultants.

REDF engaged BTW Consultants to oversee the case study process. Staff at BTW Consultants have a long history of working with The Roberts Foundation and in providing management information assistance to REDF and the groups it supports. BTW's familiarity with REDF provided important contextual information for the case studies. In order to assure objectivity and open discussion for the first two cases – Agency A and Agency C – BTW contracted with an independent contractor who had no prior contact with either The Roberts Foundation or its funded organizations. This contractor was responsible for conducting all interviews for those cases, including all additional fact-checking and follow-up conversations. For the BOSS Enterprises case study, BOSS welcomed BTW staff to conduct the interviews as well as prepare the written case. No independent contractors were used.

Agency A: Silkscreen Printing Enterprise Summary of Social Accomplishments

- Utilized community artists to produce cultural art with violence prevention messages.
- Provided the vehicle for cultural art to become a viable commercial product to advance the cause of ending barrio warfare. These are not Nike or Fila shirts so commonly seen on youth today, but peace warrior shirts with a cultural message.
- Built community capacity to advocate for community causes utilizing a commercial vehicle.
- Built the business capacity within the larger nonprofit, including strengthening systems, improving skills and efficiency, and expanding economic development strategies beyond the T-shirt business.
- Positively influenced people and communities: 100% of all permanent staff transitioned from Welfare to work. Provided training and/or employment opportunities to youth who were on probation, in group homes or out of school.
- Conducted trainings and workshops on the business model and the associated successes and challenges with community groups, schools and other community based organizations from state,national and international regions.
- Purchased local land, facility and business. The agency leveraged and purchased a 2 acre site which includes a 6,500 sq ft. production facility which will permanently house the Silkscreen Printing Enterprise. This is expected to eliminate enterprise overhead costs by over $400,000.
- Shared information with other chapters nationally and other community organizations about a "Long-Term Sustainability Concept." The concept includes using land acquisition and the creation of small businesses to begin the process of job creation and business ownership through their own ingenuity and resources.
- Leveraged collective experiences, challenges and successes to continue to build a larger economic development strategy for the agency and the Silkscreen Printing Enterprise. As a community-based organization focusing on youth development, the organization is creating community assets through economic development. The enterprise is completing a consolidation process and is taking a major step towards a stable path both financially and programmatically.

(The above information is provided by the staff of Agency A)

Agency A: Silkscreen Printing Enterprise

Background

Agency A is an organization passionately committed to supporting peace and nonviolence in a Chicano community torn apart by crime and drugs. The visionary and charismatic man who runs Agency A has personally overcome obstacles in his own life. He lost two of his brothers to violence and counts 25 relatives in prison.

Now he spends his days visiting prisons to talk about peace, hugging young gang members whom society has given up on, and shepherding a six-year-old nonprofit into ever new stages of development. Agency A provides a variety of violence prevention programs and services in the community and has spawned many other chapters nationwide. As Agency A's Assistant Director says: "We started out to build an organization and wound up building a movement." It was not always that way. For years, the organization was comprised of an informal group of friends and relatives who attended anti-violence conventions, trying to have their voices heard there and in their own community.

To finance their work, the group decided to sell t-shirts they made themselves. In the beginning, they silk-screened t-shirts the hard way. They worked in a living room,laying the shirts out on planks, inking them, and drying them with hair dryers. Then the man who would later become Agency A's Executive Director would pile the shirts in his car and drive off to conventions to sell them. Agency A's leaders say their movement was born in the trunk of that car. Selling t-shirts was a portable activity that allowed them access to and visibility in these convention sites.

While this small group of activists began organizing and spreading the message of peace in the early 70's, they did not actually incorporate as a nonprofit until 1993. During all those years, the group never stopped making t-shirts. In 1994, one year after the organization itself incorporated, Agency A's Executive Director thought it was time for the t-shirt operation to grow along with the nonprofit. He decided a silkscreen printing business would work well with the organization's mission in three distinct ways:

1) Inspirational t-shirts and other silkscreen products could carry Agency A's message of nonviolence;

2) The money earned could finance nonprofit programs and services; and

3) The business could employ young people and adults trying to change their lives for the better.

They soon set about looking for someone to run the silkscreen printing enterprise. They knew it might be difficult to find the right person for the job, because, as the Assistant Director explains,"There's a conflict between business and social values, and the challenge is getting someone to create a balance." The person they hired for the Business Manager position was a woman from outside the Chicano community who had worked in a private sector, for-profit company that did screen-printing and had achieved significant growth to become a major player in the industry. The Assistant Director says he knew within 15 minutes that she was right for the job because she "shared the consciousness of the people."

Agency A's Silkscreen Printing Enterprise Joins the REDF Portfolio

In 1996, the Agency A Business Manager heard about what seemed to be a perfect opportunity for the fledgling company. The Roberts Foundation, building upon six years of funding in this issue area, was embarking on an exciting experiment – The Roberts Enterprise Development Fund (REDF) – investing in nonprofits' efforts to run social purpose enterprises. Agency A would have to adopt some formal business practices in exchange for the investment. The manager met with REDF's Executive Director and then applied for inclusion in the portfolio.

In late 1996, REDF selected Agency A as one of 10 portfolio members and agreed to provide a $100,000 enterprise grant in 1997 to support Agency A's Silkscreen Printing Enterprise. The funds were to be expended according to the needs and priorities of the business. In addition, REDF also gave the enterprise a $15,250 capital grant.

Even at the time of the initial investment, REDF had some concern based on its experience with another silkscreen business about what appeared to be inflated financial projections for Agency A's Silkscreen Printing Enterprise. However, REDF's Executive Director was led to believe that the enterprise had significant commitments for purchases from many of their national chapters. REDF was also interested in portfolio businesses going to scale quickly, so the Executive Director was willing to take a chance that Agency A – with a Business Manager he respected – could accomplish their ambitious goals.

The Business Manager in charge of Agency A's Silkscreen Printing Enterprise had strong sales experience and skills but did not possess business finance or accounting skills. At the same time, Agency A's Executive Director did not fully appreciate the implications of REDF's expectation that the silkscreening operation would have to achieve business outcomes while attending to its social mission. They did not realize, for example, that they might ultimately have to fire staff from their target population if they could not perform their jobs well.

Early Successes

Over the first six months of its participation in the REDF portfolio, Agency A's Silkscreen Printing Enterprise blossomed in many ways. The Business Manager had won loyalty from her workers, and they bonded as a team. She says she could always count on her staff to do whatever was necessary to complete an order, including working long hours. Her strong marketing skills paid off for the company: she brought in work, partly because of her background in marketing and partly because the mission "sells well." People wanted to help a nonprofit that was doing good work.

Things were going so well, in fact, that the progress began to reveal other organizational challenges. Agency A's Silkscreen Printing Enterprise was getting so many contracts that the demand exceeded its capacity and the Business Manager had to subcontract some of the work out to other businesses. It became clear that the business would not be able to handle big jobs until it upgraded its equipment and moved from a slow manual press to an automated one.

From the nonprofit's perspective, Agency A's Silkscreen Printing Enterprise was already a success with respect to its social mission. The business employed several people who had been on welfare before they were hired. Their full-time employment with the enterprise enabled them to achieve self-sufficiency by getting off welfare. The enterprise also employed many young people, especially in the summer. Most of these young people were former gang members – and at risk of ending up in the juvenile justice system if they had not been there already. These jobs not only put money in their pockets, but also kept them off the street and out of trouble.

Early Warning Signs

After a few months,REDF began to have concerns that the Silkscreen Printing Enterprise was in trouble; it did not appear to be generating enough revenue to cover its cost of operation. REDF's staff and business analyst doubted the enterprise was generating as much revenue as it needed to cover the fixed costs of the operation. The problem was they could not tell for sure because Agency A was not able to produce the financial reports necessary for assessing the health of the Silkscreen Printing Enterprise.

Two essential elements REDF built into its venture philanthropy initiative were not working effectively with Agency A's Silkscreen Printing Enterprise: 1) monthly venture committee meetings and 2) the preparation of financial reports.

The Venture Committee meetings were established as a capacity-building forum for enhancing the ability of the businesses to successfully execute their business plans. As originally conceived, the Venture Committee representatives were to consist of REDF staff and business analyst, the nonprofit Executive Director, the Business Manager, and, as appropriate, a Board Member. The Committee was to meet monthly to review financial and operational performance and identify strategies for addressing concerns.

The REDF business analyst was having one-to-one monthly meetings with Agency A's Business Manager to review the enterprise's progress and help get the enterprise's accounting system on line. During the first six months of Agency A's involvement in the portfolio, however, no formal Venture Committee meetings were held. There were multiple factors contributing to this: REDF staff and Agency A had busy and often conflicting schedules, there was significant travel time required between their two office locations, and perhaps most importantly, communications between the two groups were bad. REDF staff said they would leave telephone and e-mail messages and never hear back. Messages were left with the receptionist because no one at Agency A had voice mail or an individual e-mail account. For REDF, e-mail was a primary mode of communication with groups in its portfolio. It was so important, that early on, REDF provided financial and technical support to all of the enterprises in the portfolio to "come online." Over the course of their relationship, not having personal e-mail accounts would be a tremendous obstacle to communication between the two organizations.

In preparation for Venture Committee discussions, Agency A's Silkscreen Printing Enterprise was supposed to prepare and send income statements and balance sheets monthly so REDF and the business management team could assess the enterprise's health and make necessary adjustments. However, no income statements or balance sheets were sent to REDF during the first six months that Agency A was in the REDF portfolio. Agency A could and did produce reports for the agency as a whole, but not for the enterprise specifically. Agency A's first Business Manager says a big part of the problem was that she had no background in financial management and did not know how to compile the reports. She hoped sales were covering expenses, but had no way of knowing because no one was calculating cost-of-sales.

The Business Manager did recognize the need for the data and purchased a software program to make compiling financial reports relatively easy. The REDF business analyst worked with her to select a consultant who would set up the software program. But installing the program and training staff on it took time, and that time lapse proved critical. Because the Business Manager did not know how much money Agency A's Silkscreen Printing Enterprise was losing, she mistakenly thought she had the luxury to manage gently.

She says she recognized there were periods when she had more workers than there was work to be done. She was marketing the enterprise's products but as is common in the industry, sales levels fluctuated. The commitments from Agency A's other chapters did not materialize at the volume expected. She also realized that the enterprise's workers were often performing their jobs inefficiently. In general, they did not take the initiative to find work if there were no t-shirts to be screened and at least some were late to work on a regular basis. The Business Manager says she was preparing herself to get tougher with her workers soon – as soon as she could see her cost-of-sales figures. But she left before she could make the change.

Management Transitions

In May, just five months after Agency A joined the REDF portfolio, the Business Manager gave notice. Although she retains fond memories of her days with Agency A – she still carries around a photo of the group's leaders – she says she decided to leave because of an organizational culture clash, in this case between the for-profit and nonprofit.

For one thing, the business manager had taken a substantial pay cut when she left the private sector and was interested in earning a higher salary. Agency A paid her according to existing organizational standards given her job responsibilities within the agency. As a nonprofit, Agency A could not afford high salaries for its workers, and the Executive Director felt the enterprise staff should not make substantially more than the nonprofit staff. Still,at the time the organization was in the process of increasing the pay for that position, but the manager left before that occurred. The next manager did receive the new level of compensation.

This issue of compensation has come up in many of the REDF portfolio organizations. It has become clear that in order to attract and retain qualified managers with sound business skills, it is often necessary to offer higher salaries than is typical in a nonprofit agency. Agency A wanted to retain its Business Manager, but was not willing to compromise equity in the organization's pay scale to do so. This may have been the first time that it became clear to REDF that Agency A's leaders had not committed to a market mentality.

Beyond that, the Business Manager says some decisions were being made above her that accomplished Agency A's social mission, but hurt the business. As an example, Agency A's Executive Director sometimes gave away t-shirts to promote the organization's social mission, leaving the business to absorb the production costs. For the Executive Director, this is easily defensible because there is a line item in the organization's budget for promotional items. However, that line item in the organization's budget was not accounted for in the enterprise's business plan.

However, most troubling for the Business Manager, was the difficulty accessing earmarked REDF money and enterprise financial information from the agency. Agency A's Business Manager tried to solve the dilemma by suggesting that Agency A allow her to control the business's cash. REDF's business analyst strongly agreed with this approach. For a few months, Agency A went along with this plan. When the Agency A Financial Manager was also not able to get the financial information she needed from the Silkscreen Printing Enterprise, however, the nonprofit resumed its control over the business' finances.

The Business Manager's decision to leave Agency A Silkscreen Printing Enterprise disturbed REDF's Executive Director. He already sensed that Agency A was having trouble balancing its business and social missions. He felt the nonprofit hired some managers and essential personnel for Agency A's Silkscreen Printing Enterprise more for their need than for the need of the enterprise. For example, the production supervisor and bookkeeper were from Agency A's target population but neither had backgrounds in business. REDF's Executive Director was concerned that Agency A would hire another such person as its next Business Manager; he was afraid that such a decision would seriously undermine the business.

REDF's Executive Director sent a frank letter to Agency A's Executive Director stating that the Silkscreen Printing Enterprise needed a high caliber Business Manager to ensure its success and to secure continued REDF funding.

Such warnings are not unusual in the business world; venture capitalists fund people as much as ideas and they often stop investing if an important person leaves a start-up business. However, Agency A's Executive Director did not receive the letter in that spirit. He began to feel that these modern capitalists were not wholly unlike the patrones who mistreated his migrant-worker parents.

"I read that letter and it was kind of like, 'I've got the purse and you're going to dance,'" he said. "It doesn't work that way here. It's again THE MAN telling us, 'You've got to dance for me.'" The letter also began to convince him that he and REDF spoke very different languages. In a sense, the Business Manager had served as a translator between the nonprofit and for-profit cultures. After she left, communications between REDF and Agency A steadily eroded.

The Second Business Manager

Agency A chose a new Business Manager in July 1997 and REDF's Executive and Associate Directors were relieved. The new manager was from outside Agency A's close-knit staff. His business background seemed right – he had screen-printing and management experience. His personal background also suggested he might be more successful in persuading the organization to make changes than his predecessor. He was a Chicano man who grew up in a rough California neighborhood.

REDF's hopefulness did not last long. The weaknesses of the Silkscreen Printing Enterprise continued to manifest. Agency A's leaders blame the second Business Manager for many of the problems – he was considered an especially bad team leader.

But he could not have joined the company at a worse time. The summer is peak season for t-shirt sales. Agency A's Silkscreen Printing Enterprise should have been in a major sales push, but the new manager had to learn the business before he could market it.

Worse yet, the new Business Manager no longer had the luxury of ignoring personnel problems; it became clear several months into his tenure that the enterprise was losing money. Making workplace changes is hard enough, but competing with a popular ghost makes it even more difficult. His workers questioned his stricter approach partly because their first manager never made such demands on them.

Still, it might have been possible to institute change if the new Business Manager had more effectively garnered support for his plans. Instead, workers say he treated them disrespectfully and ordered them to do things differently without always explaining why. They allege he made many personal telephone calls at work. He alienated the Production Supervisor almost immediately, which soured his relations with the shop's youth, who were fiercely loyal to the Production Supervisor.

At one point, the Business Manager tried to have a time clock installed because,he says, his workers were consistently late. Agency A's leaders were adamantly opposed to the suggested change. As a businessman,the manager saw the clock as a standard tool. As compassionate people who side with the oppressed, Agency A's leaders worried the clock would rob workers of their dignity. Once again, it was clear that Agency A's leaders did not share the management mentality of the business people they hired to run Agency A's Silkscreen Printing Enterprise.

At another point, the Business Manager tried to discourage visits by small children, the relatives of workers. He said he took the action after the Production Supervisor brought in a box of toys so young visitors would have something to play with. The Business Manager felt that children are not only distractions in the workplace, but also could be endangered by the shop's heavy equipment if they wandered into the back room. He says the leaders of Agency A were shocked. They pointed out that their mission is about helping youth and building strong families. They were speaking of their social mission, not their business one.

At the same time he was struggling with his workers and superiors, the Business Manager was also having trouble with financial accounting. Like his predecessor, the REDF business analyst says, the Business Manager lacked financial accounting skills. The accounting software program ordered by the first manager had been installed and should have made reporting easier, but the second Business Manager did not understand how to use it and, the REDF business analyst says, he did not seem to want to learn it from her.

It was at this point that Agency A resumed responsibility for the enterprise's finances and the Agency A Financial Manager began preparing the enterprise's financial statements. The Financial Manager took over the financial reporting and attended her first venture committee meeting in October 1997, ten months after joining the REDF portfolio. At the next venture committee meeting, Agency A's Silkscreen Printing Enterprise presented its first standard financial statement, for November. That should have been the 11th monthly statement.

According to the REDF business analyst, however, it soon became clear that it was impossible to have confidence in any of the company's past data presented at that point. The information presented showed that by the end of 1997, sales were mounting. Much later it became clear that sales for the calendar year were approximately 40% less than what Agency A had estimated, and the business posted a loss of approximately $100,000. Despite that, REDF fulfilled its commitment to help groups through their "learning curve" and awarded a second $100,000 for the venture. As part of a venture philanthropy approach, portfolio members were to receive more than just one year of funding, and REDF staff still hoped the second manager could turn the enterprise around once he was more established in the business. They were at least encouraged that the accounting problems appeared to be solved.

The Corporate Incident

By March 1998, the new Business Manager was unable to move the Silkscreen Printing Enterprise anywhere close to its original projections. That was the month when the business's production problems became acute. This production low-point is significant enough that everyone involved still refers to it with a slight sense of horror as "The Corporate Incident."

A large Silicon Valley corporation – just the type of customer Agency A's enterprise wanted to attract – ordered nearly 1,000 shirts that winter. Agency A's Business Manager was ecstatic. The Business Manager says he asked his staff if they could do the job, and they said they could. He did not realize that orders of this magnitude had been contracted out under his predecessor.

It was only as the t-shirts started rolling off the press that the Business Manager realized just how ill-equipped his staff was to handle a large job. The shirts looked awful. Eventually he figured out the workers had used the wrong type of ink.

The manager, a true believer in pleasing the customer, tried to give the Corporation a discount on the job in the hopes of retaining a relationship. Agency A refused to let him, saying they needed all the money they could get to run their programs. The Corporation never took his calls again, the manager says.

The production failure convinced the Business Manager he needed to make major changes – the most important of which was the removal of the Production Supervisor. REDF, who also heard about "The Corporate Incident," agreed that staffing changes were necessary, and began questioning Agency A's leaders about whether they were satisfied with the Production Supervisor's work.

Agency A's Executive and Assistant Directors both resisted firing the Production Supervisor or even transferring him to the nonprofit. The man in question is loyal to their cause and had been with them for several years. They felt that even transferring him into a position within the parent agency would be a betrayal of sorts. First, they suggested moving him to sales and marketing, although he had no previous sales experience. REDF staff countered that perhaps he could work for the nonprofit. The business, after all, was not doing well enough that it could afford to have a salesperson that was not up to the job.

Agency A leadership resisted making any change and the Production Supervisor remained in his position for several more months. Problems with production grew, weakening other parts of the business. Perhaps the greatest effect it had was to tie up the Business Manager's time. After the Corporate incident,the Business Manager felt he needed to oversee production for every job. But that consumed hours he should have been spending on sales and marketing. Eventually, the Production Supervisor was reassigned out of the enterprise, and according to Agency A leaders, has achieved success in another position within the nonprofit.

Trying To Achieve Balance in the Venture Partner Relationship

Throughout this period, REDF was trying to find the right balance in working with the organization. REDF wanted to create a new type of relationship between philanthropic investor and investee; one built more on partnership and trust than "fear-of-the-funder." The foundation was initially unwilling, for instance, to withhold new investment until Agency A produced financial reports because they were repeatedly told that such reports would be forthcoming. REDF believed in Agency A's potential and wanted to provide the opportunity to realize that potential.

In other ways, REDF became more aggressive, trying to safeguard its investment in this high-risk start-up venture. At one point, for instance, so few contracts were coming in that the REDF business analyst began acting as a kind of daily coach. She would call the Business Manager several days in a row, first to remind him of his plans to make sales calls, then to prod him to actually leave the office to make those calls when he said he would.

Difficulty in Producing and Using Financial Reports

More than a year into Agency A's inclusion in the portfolio, the enterprise was still struggling in its attempts to produce accurate financial reports for the Silkscreen Printing Enterprise. It was obvious to REDF that the enterprise was floundering, but without accurate financial statements,managers and REDF could not work to create solutions to solving the company's woes.

The accounting problems were different from before; now Agency A was at least producing income statements for the enterprise. But the data were often inaccurate and sometimes painted a rosier picture than REDF thought possible.

REDF's business analyst says these problems resulted from a communications breakdown between the nonprofit and its for-profit enterprise. She recalled how Agency A's Business and Financial Managers would spend their time at venture committee meetings disagreeing about whether the financial statements were accurate. That made it difficult for the group to assess the Silkscreen Printing Enterprise's performance.

In at least some cases,the consultant stated, the Business Manager was changing the Financial Manager's data before presenting it to REDF, and was masking losses. The consultant says the Business Manager later explained that he thought REDF would not want to hear the bad news, despite REDF's stated commitment to working with its organizations as they dealt with whatever problems were of concern to them. In addition, the consultant says, the Business Manager did not understand financial data well and had difficulty interpreting the reports that the Financial Manager produced. As a result, the consultant says, he would sometimes input the wrong numbers into the financial reports.

The Business Manager remembers the difficulties differently. He says he often told REDF how badly business was going, although he says Agency A's Assistant Director wanted him to present a positive picture. He also says the Financial Manager was overworked,and she would often get him data too late for him to review it adequately before a venture committee meeting. As a result, he said, the days leading up to the meetings were "a frenzy," and disagreements over the data could not be worked out calmly.

Complicating matters,the two managers were locked in a struggle over the bookkeeper, who provided the raw data used to compile the financial reports. The bookkeeper worked at the Silkscreen Printing Enterprise and the Business Manager believed she should take his direction. But the Financial Manager wanted the bookkeeper to give her information directly in order for her to produce the most accurate financial picture of the enterprise's revenue and expenses.

Frustrated that no one was taking action to stop the enterprise's losses, the Financial Manager says she began regularly going into the Executive Director's office to show him data that proved the company was losing frightening amounts of money. She repeatedly said they needed a sales person because current sales could not support the business' expenses; later, she began advocating for the Business Manager to be fired.

The Financial Manager says she does not know why the Executive Director and the Assistant Director did not heed her warnings. She suspects they are simply more patient than she, unwilling for instance to fire someone until they were absolutely convinced problems could not be worked out.

For their part,the Executive Director and Assistant Director say, they did not really understand the import of the financial data. They also are used to succeeding in their nonprofit work,and tend to believe they can overcome even the worst of obstacles. Without that belief, they might not have created their anti-violence movement.

As a result, Agency A's leaders continued to talk to REDF staff in the same upbeat inspirational language they use in preaching their message; they talked about their mission and about being on the "mountaintop." Their words seemed to indicate they did not grasp the magnitude of the enterprise's losses, and REDF's Executive and Associate Directors began having a sinking feeling every time they attended a venture committee meeting.

Agency A's Executive Director was also increasingly anxious at the venture committee meetings, but for different reasons. In the first place, he had never intended to regularly participate in venture committee meetings and had asked his Assistant Director to assume that responsibility. The few times he did attend, he was frustrated that REDF's Executive Director was increasingly focusing on the bottom line and seemed disinterested in the good works the nonprofit was doing.

Often, the head of Agency A says, the meetings were simply surreal for him. He says he attended one the morning after a shooting in his neighborhood and he just could not put his heart into a discussion of financial data – although he never discussed this situation with REDF staff or requested to re-schedule the meeting.

The Final Months

The last months of Agency A's participation in the REDF portfolio were nothing short of tumultuous at the Silkscreen Printing Enterprise. Relations between Agency A and the Business Manager continued to sour. The Business Manager asked to reorganize his staff. He wanted to shift youth to trainee positions and hire a few more highly trained people to oversee production jobs. The organization refused.

The Business Manager and Agency A leaders were also engaged in a longstanding tug-of-war over REDF's money. In February 1998,REDF had made a $48,000 capital grant so the business could buy computers and a van. The Business Manager wanted the van to make deliveries;his idea was to use the service as a selling point. Agency A's Financial Manager did receive the money from REDF and had passed on money for computers, but refused to release the money for the van.

At that point, the Financial Manager says, the Business Manager was overspending his budget. In addition, the Silkscreen Printing Enterprise losses had grown so large that REDF's funding no longer covered them. The enterprise was drawing money out of all the nonprofit programs, and she thought the money earmarked for the van should instead be used to replenish those funds, at least temporarily.

Besides, she says, the Silkscreen Printing Enterprise was in so much trouble, a van was not going to help. She may have been right but what this situation clearly demonstrated was that Agency A, the enterprise, and REDF could not agree on a direction for the enterprise. REDF had, after all, earmarked its money for a van so presumably the investor thought buying it was a good idea.

In May 1998, REDF weighed in on the side of the Business Manager, writing a letter that said Agency A staff should not be able to overrule him, particularly on how he spent REDF's money and on staffing decisions. REDF staff wrote: "The … Manager of the Silkscreen Printing Enterprise needs to have authority to make personnel decisions that will further the growth of the business. This may include letting go certain youth trainees or staff from the target population that are not performing up to the standards of the business."

The Business Manager says Agency A promised to make some changes, but never did. In July 1998, the Business Manager was fired and the enterprise's graphic designer took over, becoming the enterprise's third Business Manager in less than two years.

At about the same time, REDF decided it needed to inform Agency A that it was in danger of being excused from the portfolio. (REDF had recently received feedback from a study it commissioned that investees wanted greater clarity about what merited inclusion or exclusion from the portfolio and so was in the process of "tightening up" its own operating procedures and work with "investee" organizations.)

In a letter dated July 30, 1998 REDF told Agency A's Executive Director that Agency A's Silkscreen Printing Enterprise would not qualify for the portfolio in 1999 unless major changes were made. REDF affirmed the positive developments; REDF specifically noted that financial reporting had improved once Agency A's Financial Manager began participating in venture committee meetings.

But REDF remained convinced that Agency A's leaders were not truly concerned with the "double bottom-line," and were pursuing social goals at the direct expense of the venture, without making adequate provisions for doing so. And they stated this clearly in their letter: "While we share your commitment to achieving both social and business objectives, if the business does not first have the opportunity to build adequate operating systems and sound practices, the effort to blend program clients and staff into the venture will have the end result of sabotaging both goals."

That letter, along with financial necessities, catalyzed a collaborative decision to reduce costs and re-organize operations. The new Business Manager was allowed to replace the Production Supervisor, who was transferred to the nonprofit. He also was allowed to lay people off, reducing the business to a skeleton staff until he could generate sales. That at least staunched the hemorrhaging of money. However, neither the enterprise nor the nonprofit had the resources necessary for hiring a salesperson and rebuilding the business.

Despite those changes, REDF still felt Agency A was unable to commit to market principles – or to REDF – fully enough. The new manager of Agency A's Silkscreen Printing Enterprise was still making financial promises the enterprise could not possibly keep. The enterprise still could not produce reliably accurate financial reports.

During the meeting to discuss Agency A's turnaround plan, the Business Manager presented data to REDF that showed the company would break even for the remainder of 1998. REDF staff felt the business plan was vague and incomplete even though the business analyst had provided the enterprise with a complete outline of what should be part of a turnaround plan. When REDF challenged the numbers,the Business Manager said the business would not, in fact, be able to cover its costs. The manager explained that he provided the break-even scenario because he did not think REDF would want to hear that losses would continue. In addition, REDF says the turnaround plan developed by Agency A's Assistant Director was vague – with little of the essential information found in a standard business plan.

REDF invested (in the form of operating grants) nearly $400,000 in Agency A's Silkscreen Printing Enterprise over two years, including capital grants, but the business was not even nearing its break-even point of $600,000 in annual sales. For the first eight months of 1998, the company posted sales of just $100,000.

Finally, in November of 1998, REDF sent a letter to Agency A saying that after a great deal of discussion,REDF felt it could not continue to keep the group in its portfolio. They extended a grant of $50,000 to support the transition.

Although it was clear by then that Agency A's Silkscreen Printing Enterprise had so far failed as a business, there was also no question that the business had made at least some social impact. During 1998, the enterprise employed 13 people from its "target population," eight of whom were youth between the ages of 16 and 22. The company also provided training and workplace experience for an additional 25 young people from the community.

Looking back, Agency A's Executive Director takes pride in the enterprise's social accomplishments, but is saddened that the Silkscreen Printing Enterprise has not yet succeeded as a business. He assumes his share of the responsibility for the failure. He says he was not ready for the hard choices the market demands. He is unsure he will ever be ready for that.

"Capitalism has done us wrong – it has not been our greatest friend," he says. "We have to see how we can use it on our path." Then he pointed to a picture of the Mexican revolutionary leader Zapata and added: "We don't make money off the backs of our people."

Epilogue

As of April 1999, the Silkscreen Printing Enterprise was still ailing. The Business Manager said sales were dribbling in, and he still did not have a sales manager. He is spending his time, he says, trying to get systems in place that will allow the Silkscreen Printing Enterprise to function well as a business when it gears up again.

Among other things, the manager says he rearranged the physical shop so that work flows more efficiently. He also began locking up inventory because he said it was disappearing.

Agency A's leaders still count the enterprise as a success, and not just because of the number of people they employed during the two years in the REDF portfolio. Beyond that, they say, they learned important lessons about the marketplace. They now know that running a for-profit venture sometimes requires making painful decisions – like firing employees – that not only may hurt people, but also run counter to their social mission.

Agency A's Executive Director says he is continuing to mull over those lessons to decide how the silkscreen operation will be run in the future. He might try to keep the business running as a for-profit, but he also might decide to convert it to a funded program of the nonprofit. As a training program, the T-shirt shop can provide young people with skills development and experience without worries about overhead and breaking even.

If the Silkscreen Printing Enterprise becomes a program instead of an enterprise, the Executive Director says, it will be because he carefully considered the demands of the market and turned away from them. REDF's legacy, he says, may have been teaching him what he needed to know to make that decision.

BOSS Enterprises: Property Improvement & Light Construction Summary of Social Accomplishments

- Trained 39 homeless/low-income individuals in the construction and property maintenance trades — 24 unskilled, 2 semi-skilled, 13 skilled/journey level.

- Partnered with Rubicon Programs Inc. and Juma Ventures in HUD-funded Bay Area-wide Training and Enterprise Collaborative for the Homeless (TECH) which placed 318 individuals in jobs and trainings.

- Through TECH, conducted workshops on enterprise development attended by 36 people representing community-based organizations from Alameda, San Francisco, Contra Costa, Santa Clara, Marin and Sonoma counties; at the close of TECH (October 1998), 6 agencies were engaged in business planning for enterprise development.

- Received 2 merit awards for commercial remodel from the National Association of the Remodeling Industry — enhancing BOSS's image as not just providing food and shelter, but able to deliver quality services to the larger community.

- Increased agency focus on economic development activities during period of enterprise operation:(1) addition/refinement of Job Training Institute — paid training internships in six tracks: clerical,culinary, janitorial, community organizing, urban gardening, adult education; (2) expansion of Clean City street cleaning program; and (3) engagement in new CalWORKS job placement efforts in partnership with Alameda County.

- Attracted other enterprise or economic development funding opportunities: $64,000 from HUD, $20,000 annually from the City of Berkeley, $40,000 (2 years) from San Francisco Foundation, and $7,500 from the East Bay Community Foundation.

- Improvement of agency training approaches — addition of soft skills training and workplace culture education to better facilitate the transition from homelessness and joblessness into daily work routine.

- Educated and positively influenced members of the business community who utilized the services of BOSS Enterprises — 64 separate property improvement contracts were successfully executed by the enterprise.

- Learned from and used experience dealing with enterprise financials to initiate a comprehensive systems analysis and conversion in BOSS's fiscal office.

- Increased interaction with business and individuals in the for-profit community: Berkeley and Oakland chambers of commerce, business associations, business showcases and job fairs — this provided the opportunity to build relationships with businesses that continue to this day which have increased employment opportunities for participants.

- Increased interaction with nonprofits engaged in enterprise — this provided the opportunity to share BOSS's mission and programs and become part of ongoing long-term economic development discussions and planning in the community.

- Built capacity in business selection, operation, and analysis that is currently guiding BOSS in developing a future enterprise.

(The above information is provided by the staff of BOSS)

Building Opportunities for Self-Sufficiency: BOSS Enterprises

Background

Since 1971, Building Opportunities for Self-Sufficiency (BOSS) has provided housing and services to homeless people living in Alameda County. The organization began as a network of street counselors providing assistance to homeless mentally ill and disabled people in Berkeley. Today BOSS is a multifaceted organization that works to end poverty and homelessness using four strategies: economic development, community building, housing and support services. It serves people at 29 sites in Berkeley, Oakland, and Hayward.

BOSS's Executive Director is nationally recognized for the innovative organization she has led for over 21 years. She joined the organization in 1971, after BOSS provided her with the emergency services she needed upon arrival to the United States. She is the tireless force behind BOSS's transformation from a small, obscure organization with a budget of $268,000 to a $7 million agency, recognized as one of California's foremost organizations engaged in the fight against poverty and homelessness.

BOSS is an entrepreneurial organization that has grown according to new needs and opportunities. The seed that grew into BOSS Enterprises was planted when BOSS established a program to help BOSS participants obtain employment. The program helped participants clarify their goals, build self-esteem, prepare resumes, and search for jobs. After 1991, it also included two on-the-job training programs – Clean Streets and Graffiti Masters. Under contract to the City of Berkeley and local businesses, BOSS participants removed litter and graffiti while engaged in the six-month training program.

Over several years, the on-the-job training programs secured larger and larger contracts. While their first contract in 1991 was for less than $5,000, four years later they out-competed several other bidders to get a contract from the City of Berkeley worth nearly $200,000. Both the Executive Director and the Employment Program Coordinator saw that BOSS had the opportunity to secure more public and private contracts and create even more paid training for BOSS program participants. They began exploring additional ways to create training and employment programs that would bring more revenue to the organization.

The Planning Stage

One way to move beyond solely providing paid training opportunities for participants was to start a business that could employ BOSS participants and generate income for the organization. In 1995, BOSS sought and obtained a planning grant from the San Francisco Foundation to learn about enterprise development. A working group comprised of the organization's Executive Director, Employment Program Coordinator, and an Organizational Consultant began in-depth research to investigate other nonprofits engaged in enterprise development and to determine what BOSS needed to do to start a business.

In 1995, BOSS's Executive Director also approached the Director of The Roberts Foundation's Homeless Economic Development Fund (HEDF) to talk about BOSS's interest in launching a business. HEDF's goal was to help nonprofit organizations implement economic development projects that would enable homeless individuals become more fully involved and contributing members of society.

The Director of HEDF was interested in BOSS. BOSS had a strong reputation and credibility among homeless people. The Director recognized BOSS as an experimental, grassroots organization, committed to hiring participants as staff, and "big on client self-determination." These qualities fit with HEDF's interest in innovative nonprofit organizations that were interested in more than simply providing services to homeless people.

The Executive Director of BOSS and the Director of HEDF already had a working relationship. They had both been active on a regional level advocating for policies that met the needs of homeless people. Although they had this connection, the Director of HEDF had to be convinced that BOSS was ready to run a business. For example, he was concerned that the organization might not be comfortable with "firing people who weren't performing, holding themselves accountable for financials, making a profit." Were they ready to enter the competitive world of business? Although he had some concerns, he was interested in helping BOSS determine if they were.

HEDF provided BOSS with $25,000 to begin a planning process. The conversation at BOSS shifted from "Should we attempt a business venture?" to, "If we launch a business, what type of business venture should it be?" The first goal of the planning process was to conduct a feasibility study that would narrow the possibilities for the type of business to pursue.

Under the guidance of BOSS's Executive Director and board, a Venture Team was created. The team was comprised of six members – BOSS's Board Chair, Employment Program Coordinator, and Planning and Marketing Associate, as well as an intern from UC Berkeley, Organizational Consultant, and Enterprise Development Consultant. Over the course of five months, the Venture Team met regularly, performed market research, and completed a document that presented their recommendations. From over 90 different types of business ideas considered, the feasibility study pointed to just one – Property Maintenance Services.

Property Maintenance Services seemed like a natural extension of the types of services – street cleaning and graffiti removal – that BOSS already provided. It also met the criteria against which the Venture Team was measuring each business idea:

1. Low capitalization;
2. Relatively simple equipment needs;
3. Relatively high use of labor;
4. Generates transferable skills;
5. Easy training;
6. Relatively easy entry into marketplace;
7. Relatively innocuous regulatory environment; and
8. Is profitable and expandable.

A Property Maintenance Services business seemed like the most feasible business idea.

At various points in the process and then again at the end, BOSS's Executive Director invited HEDF's Director to attend a board meeting. This was, in part, to help convince her Board of Directors that starting a business was a good idea. It was also to convince the Director of HEDF that BOSS was ready to launch a business. At that meeting, she articulated two distinct reasons for BOSS to start a business:

1. A business would generate revenue that would support BOSS in its mission of ending poverty and homelessness.
2. The business would create long-term, living wage jobs for BOSS participants.

While some board members were more interested in starting a business to generate profits for the agency, others were more attracted to the possibility of creating jobs. Within the HEDF framework these two objectives were inextricably linked and of equal importance. Therefore, BOSS's board was not forced to choose which goal the organization should pursue. After this meeting, both the board and the Director of HEDF were persuaded that BOSS's Executive Director and staff were committed to taking on this new challenge.

The next step for BOSS was to develop a business plan. Supported by money from HEDF, the Venture Team built upon the work they had begun in conducting the feasibility study. They continued their work together to research and prepare a plan for the Property Maintenance Service business. Their thoughtful planning process produced a business plan at the end of 1995.

The plan focused on three core market segments:

1. Residential cleaning (interior and exterior),
2. Commercial cleaning (interior and exterior) and
3. Vacant space preparation.

The business plan explained how the services that BOSS currently offered, specifically graffiti removal and exterior clean up, would be expanded and how a new service, the preparation of residential and commercial units for new tenants, would be added.

BOSS participants would be employed in the business from the beginning. The business plan outlined a start-up team for the business that included a "supervisor," a "skilled worker," and a "helper." This helper would be drawn from BOSS's participant population. As part of its contract with the City of Berkeley to provide street cleaning services, BOSS was already running a six-month on-the-job training program. Enterprise workers could be drawn from this training program. Further on-the-job training would be offered in the enterprise as needed.

The business plan outlined a further goal of creating a separate subsidiary corporation to develop and manage for-profit enterprises. The Property Maintenance Services business was to be BOSS's first, but not last, leap into the for-profit arena.

BOSS's Venture Team prepared the business plan in dialogue with HEDF. The original plan showed the business breaking even after five years. HEDF wanted a more aggressive plan that could demonstrate break-even in three years. After this and other final revisions were made, the plan was completed. The Director of HEDF was interested in the business that was proposed. He suggested that additional funding might be available to BOSS in the near future.

On the eve of the organization's 25th anniversary, BOSS launched its first for-profit venture – BOSS Enterprises.

Launching the Business

It was critical that BOSS locate the right person to lead the new venture. In a document prepared by BOSS's organizational consultant, the ideal candidate was described as: someone who knows the trade, and knows the science of quick and accurate bidding, and is experienced in the details of cost control, and computerized tracking and understanding the dynamics and practice of business development, and can successfully apply the social dimension of BOSS's enterprise (training low-income people for marketable jobs).

In short, BOSS was looking for someone with a unique set of qualities and skills.

Remarkably, before even finalizing the business plan and fully securing funding, BOSS found someone who seemed to have just the right mix of experience and expertise. The candidate would be coming to BOSS from his position as General Manager of a painting and residential remodeling business that had formerly been supported by HEDF.

Reporting on the interview that she and two other members of the Venture Team had held with the candidate, BOSS's organizational consultant commented that the candidate had the "rare combination of skills" they sought. He had run a business that employed people similar to those served by BOSS – the business he was managing had employed 10 people, seven or eight of whom were unskilled workers. From his account, he had run a business that had a strong reputation and high customer satisfaction. The company had a number of repeat customers; most of the company's marketing was through referrals. The candidate was able to demonstrate his ability to bid on projects and track revenue; he showed his interviewers financial statements that demonstrated accurate bidding and high productivity.

The candidate also described challenges he faced in his previous employment. During the interviewing process, he specifically spoke about problems that surfaced as a result of the nonprofit organization's management of the business's finances. He thought it was critical that a business's finances be separated from the nonprofit's. In the consultant's assessment, the candidate's primary reason for leaving the business was that "he [was] tired of working with a non-supportive nonprofit." Despite the frustrations that had come with his work, the candidate had shown strong commitment to running a social purpose enterprise.

The candidate seemed ready to try again with a new social purpose enterprise. Furthermore, because the business he had managed was shutting down, he could bring relevant business contacts and referrals to BOSS's venture. From all angles, it seemed like he was the right person to launch BOSS Enterprises.

With hindsight, staff at BOSS now talk about the hiring process with regret. The Executive Director admits that she did not fully investigate the candidate's background. She realized later what a mistake that had been; "He was coming from a business that had been in bankruptcy. BOSS was not aware of that at the time."

The reason why the Executive Director did not check his qualifications was because, as she saw it, "he came highly recommended from HEDF." HEDF had already been involved in helping BOSS find individuals who could help them start a business. For example, HEDF had recommended the

Planning Consultant who worked with the Venture Team to develop their business plan. BOSS's Executive Director may have assumed that HEDF had more expertise in identifying appropriate candidates than she did and therefore trusted the Director's recommendations.

HEDF's Director did not intend to have such an impact when he gave BOSS's Executive Director the candidate's name. He suggested the candidate be interviewed and while he thought he would be a good candidate,did not intend his suggestion to be taken as such a strong endorsement.

These two different interpretations of the same set of events suggest an inherent difficulty in the relationship between a funder, like HEDF, and a nonprofit organization, like BOSS. HEDF's Director thought he had made it clear that he did not want to have a traditional funder-grantee relationship with portfolio organizations. He wanted to forge a strong partnership where there could be honest communication from both sides without fear of repercussion. Therefore, he was not aware that BOSS's Executive Director felt a strong power imbalance remained between them and that she felt somewhat obligated to heed his recommendations. Neither HEDF nor BOSS had the foresight to see that they had different understandings of the terms of their relationship and that this might be a barrier to honest and equal communication between the two organizations.

Start-Up Phase

BOSS Enterprises opened its doors in July 1996. As was stated in the business plan, the General Manager (GM) determined the business needed a reliable vehicle. He began to look into buying a truck. Given that funds were available to support the business, the GM wanted to purchase a new Toyota truck.

This precipitated the first conflict between BOSS Enterprises and BOSS's fiscal office. The GM remembers being surprised by this resistance. The head of the fiscal office indicated to him that the purchase would not be approved. Both the executive director and fiscal manager felt the GM was moving too fast. BOSS was concerned with keeping start-up costs low and they did not want to buy an expensive truck before getting a sense of what type of jobs were coming in. BOSS's board wanted the GM to buy a used vehicle rather than the new vehicle he wanted.

Although the GM ultimately bought the new truck, he recalls that incident as a pivotal one. He was perplexed and frustrated by how much influence the head of the fiscal office and the board had over the business. Although he had worked for another social purpose enterprise, he still thought like a sole proprietor. He felt "unprepared for working in a large organization like BOSS."

The incident could have served as a catalyst for clarifying the relationship between BOSS and BOSS Enterprises, particularly as it related to decision-making processes and lines of authority. The GM had become aware of the fact that he did not have final decision-making authority on business matters. Still, he did nothing to get explicit direction on the types of issues for which he needed input, the process for regular communication between BOSS Enterprises and BOSS about such issues, and ultimately how different types of business decisions would be made. No one, not the GM, the Executive Director, nor the Employment Program Coordinator, established the groundwork for the multiple decision-points that lay ahead.

Joining the REDF Portfolio

Within a few months after BOSS Enterprises opened its doors, The Roberts Foundation launched a new initiative, The Roberts Enterprise Development Fund (REDF). Under the direction of the former HEDF Director, the new initiative would invest in a portfolio of nonprofit organizations that were already or were planning to operate enterprises that employed very low income and formerly homeless individuals. The goal of REDF was to assist these social purpose enterprises in achieving both increased scale and full sustainability in the marketplace.

In January 1997, REDF invited BOSS to participate in its portfolio of social purpose enterprises. REDF awarded BOSS an enterprise grant of $75,000 for the first year of the business.

REDF was poised not only to provide the organization with necessary funds but also the technical assistance BOSS needed. One of REDF's explicit goals in supporting a portfolio of social purpose enterprises was to be a different kind of funder, one that was a partner in the venture. This was an opportunity for BOSS Enterprises to get the funds and support that it needed.

Operations

BOSS Enterprises was a new, small business operation, but it was already facing significant challenges. For one thing, BOSS Enterprises had tremendous overhead and expenses. Unlike other businesses of its kind that might start out of someone's garage, BOSS Enterprises had rented a warehouse. While someone working alone might fill their toolbox and purchase equipment as gradually as possible and as jobs required, the GM of BOSS Enterprises made purchases immediately. He saw that the business had money available and saw no reason not to ramp up quickly. Someone working alone might build the business slowly, working solo and only hiring day laborers as required for particular jobs. In contrast, BOSS Enterprises had a full time GM as well as a Training Manager, a carpenter, and a helper to keep busy. These people were on the payroll regardless of how many jobs the GM could bring in to the business.

Unlike its competitors, BOSS Enterprises also had expensive liability insurance and workers compensation costs. The GM understood that property owners "get unlicensed and uninsured people to do cleaning and painting." But BOSS Enterprises had to "protect the entire BOSS organization with insurance,license,and liability. [Wewere] competing with people who don't have that overhead." Insuring BOSS Enterprises was necessary, but very expensive.

BOSS Enterprises was also earning only a small profit on the jobs it was completing. The GM was finding that,in general,the profit margin in property maintenance services was miniscule. It was no wonder, therefore, that most of BOSS Enterprise's competitors were one-person, one-truck type of operations. These single operators were willing and able to work for less money than BOSS Enterprises could afford.

Furthermore, as it turned out, maintenance services was not a type of work in which the GM had particular interest or expertise. He had skills as a carpenter and project manager. He had a General Contractor's license. While these qualifications were not necessary for the types of jobs BOSS Enterprises was doing, they could be useful if the business changed its focus slightly. In particular, vacant space preparation jobs might require "light construction" work. This type of job would fit with the GM's particular expertise.

After several months of operating BOSS Enterprises, the GM shifted the focus of the business away from property maintenance. According to him, he "gravitated toward places where [BOSS Enterprises] could make money." Multiple reasons justified this shift. He thought he had enough evidence to demonstrate that it would be impossible to compete in the property maintenance services industry. Furthermore, he was receiving referrals for more profitable jobs in which he could utilize his skills more fully. The GM acknowledged that he was deviating from the business plan and brought this to the attention of the Executive Director, board members,and REDF's Business Analyst.

The board had concerns, but did not intercede except to note that BOSS would be incurring a greater risk of liability. Already, the worker's compensation and other insurance cost more than had been projected in the original plan. The board also did not formally approve or support this change of direction. Despite the fact that on other, smaller decisions such as the purchase of the truck, the board had intervened, board members did not become significantly involved in this major issue.

During these first critical months of BOSS Enterprises's operations, REDF did not play a strong advisory role. REDF was more responsive with its advice than it was proactive. As a start-up business, BOSS Enterprises required more hands-on, expert assistance. Nearly all of the other businesses were already well-established at the time that they joined the REDF portfolio, and REDF may not have had the foresight to see that start-up businesses like BOSS Enterprises needed more intensive support. On the other hand,if REDF had been more involved during this early stage, BOSS Enterprises may have felt that constant supervision from its major investor put too much pressure on a business that was still trying to find its own feet to stand on. In hindsight, however, BOSS staff feels that they would have benefited from getting more support from REDF during this early stage of development.

REDF's Business Analyst was aware that the GM was deviating from the business plan, and, to her, it made sense. He was acting like a "seat of the pants entrepreneur" – taking advantage of contacts and his talents in the interest of making the business successful. The Business Analyst could see that the GM was being opportunistic, acknowledging that "the jobs that were coming in, were not what the business plan outlined." She appreciated the shift given that profit margins in construction were higher than in property maintenance services.

What had happened was that the GM had found a critical flaw in the original business plan. The business plan had identified the fact that, of the 285 businesses in the area offering building maintenance services, very few had more than 4 employees. Rather than seeing this as an indication that the market did not readily support larger businesses, the business plan pointed to this as an opportunity for BOSS Enterprises. By the third year of the business, the plan projected that "our capacity and revenues will be significantly larger than the high percentage of 'mom and pop' operations in the industry." Just a few months into the business, this already seemed like it would be difficult to achieve in the property maintenance services industry.

This was a critical moment for the business. The planning process that resulted in the first business plan involved a large number of people, time, and expense. After only the first few months of the business,however, the original plan was describing a different kind of business than was now evolving and being implemented. Rather than immediately revisiting the planning process and considering how the change in business focus would affect income generation and job creation, the GM moved forward without a clear plan. In reflecting back, the GM said, "in some ways [moving forward without a plan] was my fault. [Someone should have said] if this is the plan, let's follow it. And if not, let's change it."

BOSS's Executive Director strongly disagrees with the GM's sense that he was not given clear direction about this. She recalls numerous conversations in which she and the Employment Program Coordinator emphasized the importance of either following the plan or changing it. They grew more frustrated as he blatantly ignored them.

REDF's Business Analyst commented on this, "what became critical was to move on, look at what the market was telling us, rather than the old business plan's analysis." She did not think the agency's business plan, created prior to REDF's formation, accurately analyzed the market and each market segment's job skill requirements. Only a few months after REDF got involved with BOSS Enterprises, REDF's Business Analyst, as well as everyone involved in the enterprise, began encouraging the organization to revise its business plan.

Looking back, those at BOSS who were involved in the start-up of BOSS Enterprises wonder why BOSS received funds from REDF if their business plan was so inadequate. However, BOSS Enterprises was not so different from other businesses in the REDF portfolio in this respect;other businesses were also reworking the business plans they originally submitted to REDF. If they did not already have sound plans, it was important to REDF that the businesses revise them before more time passed. Particularly in the case of BOSS Enterprises, REDF's Business Analyst saw that the GM was not following a plan and needed stronger direction and oversight.

Venture Committee

The venture committee was the group that should have provided oversight to the business. As a member of the REDF portfolio, BOSS Enterprises was obliged to convene monthly meetings of this committee,as previously stated, a group composed of the REDF Executive Director, Associate Director and Business Analyst, the business's general manager, the nonprofit's Executive Director, and, initially, two board members.

As REDF staff recall, BOSS's Executive Director invited a large number of people to participate on BOSS Enterprise's venture committee. To REDF, the venture committee almost seemed to be a sub-committee of BOSS's Board of Directors. It was something that REDF's staff recall as somewhat unusual. But REDF was hesitant to challenge BOSS's Executive Director's authority with respect to who should participate since they wanted organizations in the portfolio to "own" the process.

BOSS's Executive Director thought she was just inviting the people who she had been instructed to invite by REDF. It was only later, she said,that REDF staff changed their minds and said the venture committee should be a smaller group composed only of BOSS and BOSS Enterprises staff and REDF staff and consultants. Further, she was frustrated that REDF's Executive Director, who was originally supposed to attend,came to only one meeting of BOSS's venture committee.

These two recollections demonstrate one of the challenges of engaging in two development processes at once. While BOSS was starting its business, REDF was still refining its process of venture philanthropy. Perhaps if REDF had foreseen the trouble that lay ahead, REDF staff may have given different instructions on whom to involve on the venture committee. Regardless of the reasons,the fact that REDF did not help BOSS design an effective venture committee had a negative impact on the business. Rather than providing the enterprise with clear vision and direction, the venture committee itself became mired in tension and dissent.

The issue that absorbed the venture committee's focus and time was finances. REDF's staff and Business Analyst wanted the business to be able to produce basic reports on a monthly basis: profit and loss statements, balance sheets, and the actual to budgeted cost of jobs. This was more than the fiscal office could produce using their accounting system, which was tailored to meet the needs of a nonprofit,social service organization. Additionally, the president of BOSS's board was even more demanding. He thought the business should have a particular type of job cost accounting that showed "completed operations reporting."

From the very first venture committee meeting, conflict brewed between REDF staff and Business Analyst and BOSS's fiscal office and between REDF staff and Business Analyst and BOSS board members. The venture committee members could not fully agree on what they wanted or how they wanted it. According to BOSS's Executive Director, "there were as many opinions about how this should be done, as there were people involved." Because the venture committee could not agree, it could not give clear direction to the GM.

Despite the strong differences of opinion that were aired during the venture committee meetings, all committee members agreed that the enterprise would need to begin tracking its financial information in a new way and on a consistent basis.

Internal Finances

As each month passed,the venture committee members grew more frustrated with the inadequate and conflicting information BOSS and BOSS Enterprises were providing. Behind the scenes, in trying to generate this information, there was even more trouble.

According to the head of the fiscal office, in the beginning, she received no written instructions on how she would be involved in the enterprise. She therefore considered it to be no different from all of the other programs at BOSS. She received bills and timesheets; she issued the paychecks and handled the overhead expenses. The head of the fiscal office had developed a unique financial accounting system for BOSS that tracks 125 different public and private sources of funds for the $7 million operation. Although this fund accounting system provided adequate information for BOSS prior to the creation of the enterprise, this system could not provide the kind of specific information a business manager needed. While she could create reports that showed expenses and revenue, for example, she could not generate a profit and loss statement or balance sheet.

The GM also did not know how to keep track of the business's finances in the way REDF and the board wanted. Reflecting back, he recognizes that he did not have adequate experience or courage to be able to say what he should have said: "We can do this, but it will cost you money." In fact, when he explored different options for accounting software,he identified the package that would later be successfully implemented by his successor. That software cost $5,000, and, early in the process, BOSS was not willing to make the investment. As a result, he implemented the system he knew how to use – QuickBooks. According to the Employment Program Coordinator, "he [the GM] wanted to use QuickBooks, but the President of the Board did not want him to. He implemented it anyway." The GM still had trouble producing accurate reports, because he did not have a background in financial accounting.

Creating duplicate sets of books, one at the fiscal office and one at the enterprise, was an inefficient solution to the different accounting needs and requirements of the business. The fact that the two sets of books did not match produced even more problems. The head of the fiscal office was concerned. She was not getting adequate and timely information from the GM – for example, she never knew when jobs had been completed, or invoices submitted. This particularly troubled her, because she doubted his financial management ability. According to the Employment Program Coordinator, "she checked and double checked everything. There wasn't any trust there." Based on the information she did receive, for example, she could see that the GM allowed receivables to remain on the books far too long and invoiced far too slowly.

What is surprising here is that the GM supposedly understood the value of financial accounting. He had previous experience working for a social purpose enterprise that did not receive adequate support from its nonprofit parent, specifically in connection to financial accounting, but he seemed to be making the same mistake again. In reflection, the GM admits to being "blatantly negligent about setting up an accounting system." His focus was elsewhere. At the time, he felt like "it wasn't that important. Trying to keep customers happy was the priority." The GM avoided tasks that he did not know how to do and focused his energy where he had the most capability. Rather than asking for help, therefore, he either tried to hide or ignore difficulties he faced in terms of managing the business's finances.

The fiscal office could see that the GM lacked skills in financial management. Even though BOSS Enterprises hired a part-time bookkeeper to help the GM track the finances, the head of the fiscal office still felt like she was not receiving information in a timely or accurate fashion. As a result, a member of the fiscal office started working part-time at the enterprise. The head of the fiscal office hoped she "would be able to get more of an idea about what was going on there." The assistant from the fiscal office reported that things were in complete disarray at the enterprise. The bookkeeper was already "on the verge of quitting." The fiscal office and enterprise had to reconcile their books at the end of the first year of the business. After a long and tedious effort, they finally did so. This was a fruitless investment of time, however, as the same problems continued through the second year of the business. According to the head of the fiscal office, "they did not even try to reconcile the books" at the end of the second year.

Ultimately, it would take until March 1999, nearly three years after the business had started operating, before a functional accounting system was established. Those who were involved in the venture committee, in the fiscal office, and in the enterprise still talk about this issue with bewilderment and a sense of defeat.

Why did it take so long to establish a standard system for tracking the enterprise's finances? There are several distinct reasons. Those at BOSS question the type and amount of assistance that REDF provided to them in this area. BOSS's staff now say that they would have appreciated more direct advice or specific help in how to set up their system. The head of the fiscal office reflected, "REDF must have had experience with others and known about software that would work, but they left it up to [the GM]. I wish they had given more guidance about this."

It also felt to BOSS staff that REDF's demands kept changing. BOSS's Executive Director remembered, "REDF was also going through a process to figure out how the financials should be done. The rules changed almost every time we met."

BOSS's Executive Director was concerned that the information that REDF's Business Analyst wanted on their financial statements was not appropriate for BOSS Enterprises. She felt like REDF was inflexible about "diverse ways of presenting financial information." They "wanted standardization. This was a burden." She wishes that she had just gone to a construction company to find out how they kept their books, and then copied them. In her mind, the problem was, she trusted REDF to be the "experts," when in reality, they had just as steep of a learning curve to go through as BOSS did, especially about the construction industry.

The REDF Business Analyst had a different recollection about this aspect of events. While it is true that REDF's Business Analyst did not have specific industry expertise, she focused her guidance in the area of overall business financial reporting, something with which she does have in-depth experience. She felt it was her goal to assist BOSS staff in pulling out the basic financial performance information that would help them make informed decisions.

She spent a lot of time at BOSS, training different staff in the general rules of financial accounting. Part of the problem she encountered was that she was not sure whom to work with at BOSS. She tried to work with the Employment Program Coordinator, since he was the GM's supervisor. She worked with the GM. She spent time with the head of the fiscal office and then another person within the fiscal office to try to reconcile the differences between the two sets of books. What she found was that there was no one who had particular aptitude or time to manage this part of the business. It also seemed like they lacked interest. According to REDF's Business Analyst,"no one with the right information was championing the need" for a new system of financial reporting. She remembers showing BOSS and BOSS Enterprises' staff the same tracking and financial report templates numerous times. Each time she felt that she had to start from the beginning and re-instruct them on how to create the reports. She sensed resistance from BOSS staff, as if they did not understand that what REDF requested was standard information that every business manager, owner, and investor needs.

REDF's Business Analyst readily admits she made mistakes in working with BOSS on their financials. At first, she said, she tried to be flexible. When changes did not happen, she "got definitive." Throughout her relationship with BOSS Enterprises, she found it difficult to strike the right balance between being adaptable and giving direction. Her early conflict with the president of the board,about the proper way to present the business's financial information,had also made her more tentative about advising the business.

In the end, missteps by both BOSS and REDF created a financial accounting nightmare for BOSS Enterprises. First, BOSS failed to establish who was ultimately responsible and accountable for this task. On a very basic level, there was a problem with keeping the enterprise's financial accounting under the auspices of the agency's fiscal office if the fiscal office could not produce the standard information the business needed to operate effectively. Secondly, BOSS did not heed REDF's Business Analyst's recommendation that BOSS should invest in different, more appropriate software to track the business' accounting. Third, the GM did not have the necessary skills to develop and manage the enterprise's financial accounting system. Furthermore, because the fiscal office and enterprise were in different locations, this added an additional barrier to communication. Although BOSS Enterprises had the capacity to communicate via email, the technology did not facilitate communication because the GM did not make communication with BOSS's fiscal office a priority.

Further, REDF's Business Analyst did not provide BOSS Enterprises with the type of assistance they wanted and needed. While BOSS hoped for expert advice regarding the construction trade from her, REDF's Business Analyst was more capable of providing general support, identifying issues, and raising questions that would clarify BOSS Enterprises' specific needs. In addition, the style in which REDF's Business Analyst approached her work often conflicted with the work styles of BOSS staff. REDF's Business Analyst's sensed that BOSS resisted her suggestions and help, but rather than trying to find out why or confronting this issue directly, she retreated. As a result, BOSS Enterprises did not develop the internal systems it needed to track financial information that the business needed and that REDF was demanding.

Training and Employment

The GM focused on "establishing a business and getting going," which meant doing jobs, rather than focusing on refining the financial management system. It also meant he focused on doing jobs rather than training and hiring BOSS participants.

The GM's sense was that "as many participants as they could employ was great," and everyone "thought the people part would come." Although from his perspective "there was some pressure from the board to hire [participants]," at this point,he was not aware of any clear mandate about how many to employ and in what time frame.

When the GM shifted the business focus from property maintenance services wholly toward vacant space preparation and light construction, he created the need for more skilled workers. The GM recruited and retained several journey level carpenters and painters to complete the work he solicited. Not only did this mean that the business was employing a higher ratio of skilled workers to unskilled workers but also that BOSS Enterprises had to pay higher salaries to its workers than had been anticipated. Initially, the GM and the Executive Director got into a conflict over how much to pay BOSS Enterprise employees. To keep expenses down, the Executive Director initially did not want to pay workers in the business more than $13 per hour. When it became clear that BOSS Enterprises would never be able to hire workers at that rate, she agreed to raise the wage to $20 per hour. This was still a lower rate than what most carpenters and painters could command. The GM had to find skilled workers who were willing to work for less than the market could bear in order to work for BOSS Enterprises. According to the Training Manager, "the jobs were there but [we did not have] enough journey level people to work the jobs."

One of the consistent workers in the business was the Training Manager. The Training Manager was a member of the original Venture Team that worked on the feasibility study and first business plan (at that time his position was "Planning and Marketing Associate"). Prior to working at BOSS,he had lived in Hawaii where he helped organize and train volunteers to rebuild homes after a hurricane devastated the island. Once BOSS Enterprises opened, he joined the staff as the Training Manager. He was so committed to BOSS's mission that he commuted to Berkeley from Santa Cruz, a two-hour drive in good traffic, to work for BOSS Enterprises.

His job title, Training Manager, did not accurately describe the work he was doing for BOSS Enterprises. The Training Manager worked alongside the GM on jobs while "waiting for direction on how to do the training piece." The Training Manager recalled that "we were trying to get jobs so that there would be a training program." The work of the GM and the Training Manager became increasingly interconnected. According to the Training Manager, "he and I pretty much teamed up. We needed each other…I needed the business to run the training. He needed trainees to run the business. We did things together."

BOSS Enterprises did not have a clear plan for how to conduct training. As the GM saw it, we "slid back and forth between on-the-job training and a sheltered workshop." What BOSS discovered was that it was expensive to run a sheltered workshop, and on-the-job training required finding carpenters and painters who were willing to spend a significant amount of their time working alongside and training BOSS participants. Either way they approached it – sheltered workshop or on-the-job training, providing training in construction was going to be costly for the business to support. In reality, until the business got bigger, it wasn't apparent how BOSS Enterprises would be able to run any sizeable training program.

Many of the BOSS participants who were hired by the enterprise did not stay for very long. The high turnover in BOSS participants might have occurred for a number of reasons. There were numerous, inherent challenges in bringing people who had not been able to work in the past, for any of a number of reasons – mental illness, substance use, homelessness, physical disabilities, or family obligations – and employing them in the type of work that BOSS Enterprises was doing. Turnover among unskilled workers in other construction companies where the GM had worked was high as well. Trainees weren't paid that well and the work was demanding. Job sites changed from day to day, workflow was inconsistent, and work schedules were irregular. Workers were expected to learn new skills and perform tasks according to deadlines. It seemed like the only BOSS participants who could work for BOSS Enterprises would be, according to the Training Manager and the GM, "the cream of the crop."

This is not to say that BOSS Enterprises did not have a positive effect on any of BOSS's program participants. One trainee found BOSS at just the right time – he was struggling with a drinking problem and his father's health was deteriorating. After his mother suggested he contact BOSS, he was hired into BOSS's Clean Streets program. From there, he moved to the Graffiti Masters program. When he learned of BOSS Enterprises,he was immediately interested. He wanted to work there, but he was told they did not have any room at that time. Several months after he first contacted the Training Manager, he was hired at BOSS Enterprises.

He was enormously satisfied with the work and the environment at BOSS. He continued to work at the business for almost a year, until he was injured moving furniture in BOSS Enterprise's office. Although he will not be able to do construction work in the future, he continues to have strong positive feelings for BOSS. His father recently died, and left him some land in Texas. When he is able to sell it, he plans to donate money to BOSS. He wants to help others get the kind of training and work opportunities he received from BOSS Enterprises.

Despite the injury he sustained, this trainee's experience at BOSS Enterprises is a success story. It is important to note, however, he was coming to the business from a unique position. While the trainee came to BOSS Enterprises through BOSS's on-the-job training programs, as had been envisioned in the original business plan, it is not likely that he developed the skills necessary to succeed at BOSS Enterprises from that experience. He had actually worked in the construction industry for 30 years prior to coming to BOSS Enterprises. He was accustomed to the demands and irregularity of construction work and had more skills and resources than the vast majority of BOSS's participant population. He earned less money at BOSS Enterprises than he had previously. His ability to succeed at BOSS Enterprises did not prove that the business could be successful with the majority of BOSS's participant population.

The majority of BOSS's participant population needed more training and assistance before they could succeed at BOSS Enterprises. Like the financial reports, questions about how to do job training lingered for a long time. In reflecting on what happened, BOSS's Executive Director noted that she should have raised money to run the training piece separately from the business rather than trying to do it under the same roof.

The distinction between training, trainees, apprentices, and employees in the business was not clear. The terms were used interchangeably. In the absence of the business's capacity to create long-term employment for BOSS participants, the business was hiring only a few BOSS participants, employing them for a short period of time,and referring to them as trainees.

BOSS had over 25 years of experience working with poor and homeless people. The organization provided emergency and support services to countless people who came to them from a range of circumstances and for a variety of needs. It should not have been a surprise to BOSS staff that it would be difficult to retain participants as employees in a business like BOSS Enterprises had become. Although the original business concept was that BOSS Enterprises would do work similar to what participants were already performing in the graffiti removal and street cleaning programs, by this point, the work was more challenging. The Executive Director realized later that it was a mistake to think that the population BOSS serves had these "high level skills." And she says, "We should have created a different business."

It took BOSS and REDF a long time to recognize that the training component of BOSS Enterprises was not working. The Executive Director of BOSS reflects, "We were depending on [REDF] to pick up on that stuff. It shouldn't have taken so long to determine that the projections were wrong." But REDF had never planned to get involved in helping BOSS develop the job training component. From the beginning, REDF limited the scope of its work by separating enterprise development from job training and working only with the business, assuming, perhaps wrongly, that the organizations knew more about operating job training programs than it did.

From the perspective of BOSS's Executive Director, the fact that the venture committee meetings continued to focus on financials "kept us from talking about strategies to train people to give them skills. We needed deep discussions of training, of marketing…. I don't think the business would have failed if we'd put the same amount of energy and arguing and thought and creativity into other parts of the business."

Marketing

Without clear financial statements and "without a clear plan," according to REDF's Business Analyst, "every venture committee meeting the question was raised of, where did sales come from?" BOSS Enterprises was not sure what their current market looked like. BOSS Enterprises had gotten and completed a number of jobs that had come its way through personal contacts and professional contacts, but to this point had done little explicit marketing.

The Employment Program Coordinator was in charge of marketing and sales for the enterprise, but it was just one of his many responsibilities. He assisted the business by cultivating relationships and making presentations to the business community. In addition to this networking, BOSS did a mailing of 3,000 brochures and placed an advertisement in the Yellow Pages.

The GM never understood the emphasis REDF's Business Analyst placed on marketing. He remembered that REDF was "after us to do marketing." And this was the type of "suggestion and mandate" he got from REDF that "didn't jive with how you run a small construction company." In construction, he thought, you "market by doing the work." This led him to believe that REDF really did not understand the construction industry.

From REDF's Business Analyst's perspective, marketing means far more than deciding what type of brochures to print and where to distribute them. Creating a marketing plan would force BOSS Enterprises to identify a strategy – given that they wanted to both create profit and jobs, where could they make the sales and how would they make the sales in order to achieve this dual mission? She thought a marketing plan would help BOSS Enterprises focus on these critical issues.

In order to produce the marketing plan that REDF demanded, BOSS Enterprises hired a Farber Intern for the summer in 1997. The Farber Internship program is jointly funded by REDF and The Phalarope Foundation; the program provides summer internship opportunities for MBA students within the REDF portfolio.

Within a short period of time, the intern at BOSS became very frustrated. She felt like the GM was not clear on her role and purpose for being at BOSS Enterprises. Furthermore, she felt that she was not being given sufficient guidance and information about the business.

The intern did not think she would be able to provide BOSS Enterprises with a useful plan until she got answers to fundamental questions. Specifically, she saw conflict between BOSS's dual goal of generating income and providing employment opportunities within the type of business BOSS Enterprises was operating. The intern strongly believed that BOSS would have to make a decision about its main priority. Was the main goal of the business to provide income for BOSS? In that case, profit maximization would dictate the market segment they would go after. Or, was the main goal to create employment for BOSS participants? In that case, BOSS Enterprises would have to approach market segments that were more appropriate for the skill level of the enterprise participants. The intern was raising a common issue; all of the enterprises in the REDF portfolio were striving to balance what REDF describes as "the double bottom line" – profitability and social impact.

The issues did not get resolved in the course of the intern's time at BOSS Enterprises. She quit the internship before producing a marketing plan. The concerns she brought forward sparked a new round of conversation between REDF and BOSS. This episode ultimately confirmed to all that BOSS Enterprises needed a new business plan.

A New Business Plan

At the end of 1997, with the experience of the previous year behind them, a new team created a business plan that focused on new market segments. REDF's Business Analyst was heavily involved in the business plan research and writing as were others from the original Venture Team – the Organizational Consultant, Employment Program Coordinator, Training Director, BOSS Executive Director and the GM.

This was an important opportunity for REDF's Business Analyst to work closely with BOSS staff. This time the team focused much more attention on segmenting the market into types of work that could generate profit and those that would create more employment. For each market segment, the plan identified the ratio of skilled workers to unskilled workers. For each segment – janitorial/ construction site clean-up, deconstruction, interior and exterior painting, vacant space preparation, door and window replacement, and light construction – the plan also described marketing targets, gross margin, methods of bidding/estimating, and its relationship to other services BOSS Enterprises provided.

REDF's Business Analyst remembers the process of revising the business plan as a very positive, collaborative one. At the time, she felt renewed hope for a more productive REDF-BOSS relationship. In the period that immediately followed, however, this hope was not realized. To this day, she is unsure the GM used this plan as a road map for the business.

Frustration Builds

Just after the completion of the second business plan, communication between BOSS and REDF stopped. Although the business finally had a clear plan, more fundamental issues at BOSS occupied the time and attention of BOSS's Executive Director. She did not feel like REDF could be helpful in addressing the most critical issue BOSS Enterprises and BOSS were facing: Should she terminate the GM's employment?

The fact that BOSS's Executive Director withdrew from REDF at this time provides some crucial insight into her perception of REDF's role in the business partnership. From the perspective of BOSS's Executive Director, "the communications broke down. [BOSS Enterprises] was so crazy and out of control…. I decided we needed to take care of our own stuff. We didn't meet with REDF for six months." She saw the break in communication as an opportunity for BOSS Enterprises to regroup, rebuild morale, and address pressing personnel issues. Conversations she held with other Executive Directors in the REDF portfolio led her to believe that when things went wrong, BOSS should "watch out." She was afraid of what might happen if REDF found out the extent to which things were going downhill with the business and business personnel. She did not trust that REDF was the kind of partner they said they were – through thick and thin. Because,as she saw it, REDF did not reach out and ask her what was going on, she felt safer keeping the funder at arm's length while significant changes loomed.

From the perspective of REDF's staff, they were confused about why communication had stopped. They contacted BOSS's Employment Program Coordinator to ask him to arrange the monthly venture committee meeting. When the meetings were not scheduled or were canceled, they assumed that it was due to scheduling conflicts. As a result,they were frustrated when they realized there were other reasons that prevented BOSS from scheduling the meeting.

REDF's staff and Business Analyst were not sure how to handle the gap in communication with BOSS. They were reluctant to place a direct demand on BOSS's Executive Director. When REDF's staff did contact BOSS's Executive Director, she informed them that "BOSS was going through a crisis and needed REDF to back off for a time."

Meanwhile, a private conversation between BOSS's Executive Director and REDF's Associate Director began. It was in that forum that REDF staff first realized the extent to which the Executive Director had grown frustrated with the quality of the GM's work.

In March of 1998, BOSS's Executive Director sent a letter to the GM that outlined the areas in which he needed to make changes. It included a number of complaints about his work performance ranging from his weaknesses in managing people to setting up systems, keeping records, and accounting. It also touched on the need for systematic training at BOSS Enterprises. The letter indicated that the GM was insubordinate – resistant to suggestions from BOSS's Executive Director and Employment Program Coordinator.

BOSS's Executive Director hired a management consultant to help turn the business around. After the fact, the Executive Director informed REDF that she had been looking for someone for some time "from the construction trades with a history of running a successful construction company who has also worked in the nonprofit arena." The consultant she found ran his own business for 15 years and served as the Executive Director of a nonprofit organization prior to coming to BOSS. He was hired for ten hours per week for a trial period of three months to pinpoint problems and find solutions for BOSS Enterprises.

The consultant diagnosed a number of problems with BOSS Enterprises:

1. There was no financial accounting system that identified the cost of jobs.

2. Jobs took longer than expected and were more expensive than budgeted because they were being done haphazardly. Tasks had to be redone that were not done properly the first time. The business did not have the skilled workers that jobs required.

3. The GM was underbidding projects. While most construction companies get 10-20% of the contracts they bid on, BOSS Enterprises was getting nearly 50%. This was a clear indication that the GM was not bidding correctly and was underestimating the administrative cost of doing jobs.

4. The GM was not a good team-builder, and there was a lot of tension among staff at the enterprise that made them an ineffective group.

The consultant confirmed that it was costing BOSS Enterprises more money to work on projects than it would if the employees had stayed home.

The Ramada Mistake

In the spring of 1998, BOSS Enterprises secured a $62,500 contract to remodel parts of the Ramada Hotel in San Francisco. The problems that arose during this project forced BOSS to look even more critically at the GM's capacity for running the business. The GM underestimated the level of skill needed to complete the job. He needed to remove trainees who had been working on the project to bring in more skilled workers. According to the Training Director, the project was mismanaged. "The job became bigger and more complex than we realized and we were undermanned." The project was going over budget and going slower than expected. Then the GM got hurt on the job, and had to call in a friend to take over the management of the project. In the end, the $62,500 project cost BOSS Enterprises $75,000 to complete.

The GM did not communicate with anyone at BOSS about the problems that were surfacing. He felt like "it was better just to finish the job. It's in my nature to just finish it and get out." Looking back, he still does not understand why others would see this project as a turning point – a mistake that accelerated his departure from BOSS Enterprises.

The fiscal office staff was alarmed by what happened with the Ramada project. Not only was the project 20% over budget, but the GM had not issued invoices in a timely fashion. The agency's cash flow was adversely affected by having to advance such a large amount of money to the business.

After the problems with the Ramada project, BOSS's Executive Director dove into the management of the business. She mandated that she would approve all contracts over $5,000. Because of continued discrepancies between the enterprise's accounting system and the fiscal office, the Executive Director decided that all accounting for the business would be removed from the enterprise and brought under the responsibility of the fiscal office.

In July 1998 the Executive Director terminated the GM's employment. Half a year had passed since the Executive Director identified major problems with his management abilities. The business had been floundering for some time. When he left BOSS Enterprises, the few skilled workers – a carpenter and painter who had been employed by BOSS Enterprises – left the business with him.

Reconnecting with REDF

Formal contact between BOSS and REDF resumed at about the same time that the GM's employment was terminated. The venture committee meeting in May 1998 marked the first public conversation between BOSS and REDF for nearly half a year.

The relationship between BOSS and REDF was beginning to change. One major factor that caused this relationship to change was the "process appraisal" that REDF commissioned to assess the effectiveness of the REDF model. The process appraisal involved confidential in-depth interviews with Executive Directors and Business Managers of all the groups in the REDF portfolio.[2] BOSS's Executive Director was finally able to express her frustration with REDF as a funder. In particular, she expressed frustration with the dynamic between REDF and her organization. Rather than a partnership, she felt like REDF held all the power. Further, she did not feel that REDF had provided BOSS Enterprises with the assistance it needed. The business was struggling, and she felt that some of the responsibility for the troubles lay with REDF since REDF was developing its approach as it went along while BOSS Enterprises was "left to flounder."

In the process appraisal, REDF had exposed itself to critique and shown that it was willing to learn from its mistakes. REDF openly discussed the process appraisal findings with the Executive Directors as a group and talked about ways REDF could improve. One recommendation from the appraisal was that REDF communicate more clearly with the groups about the venture partnership and about REDF's perception of the enterprises' performance. This led REDF to compose individual "State of the Union" letters to each Executive Director.

In the letter to BOSS, REDF's Executive Director and Associate Director praised the business plan and the strategies outlined in the plan for achieving BOSS Enterprise's goals of generating profit and creating jobs. The major concerns REDF identified were:

1. The venture committee had met only sporadically and was ineffective in its role as an oversight body for the business.

2. The current financial reporting system was inadequate. It was not allowing the business to track performance by month, year-to-date or by job on a consistent basis.

In short, REDF expressed to BOSS that while its business plan was strong, the implementation of that plan had not been effective. REDF recognized that BOSS was going through a critical stage in trying to hire a new GM. Once that manager was in place, REDF urged that this person,

be given the authority to make decisions about enterprise operations, including staffing, bids, and overseeing the day-to-day work…. We expect that this new GM will have timely and accurate financial reports, including monthly budget to actual income statements, year-to-date budget to actual income statements, and reports on profitability by job.

The letter also indicated that after the next GM was hired, REDF wanted to be involved in helping BOSS Enterprises create a "turnaround plan."

BOSS's Executive Director appreciated this direct communication from REDF. From then on, BOSS and REDF communicated in a more honest and equal manner.

In retrospect, BOSS's staff wonders how REDF could state that the business plan was sound, given that there were still two critical issues that had not been solved 1) how to balance profit and job creation and 2) how to grow the training program. These issues would continue to plague the business into its next phase of development.

Rebuilding the Business

BOSS Enterprises needed to be built anew. With more than two years of hard work behind them, however, BOSS's staff and board, as well as REDF, were less optimistic that the business would be successful.

BOSS Enterprises began to look for a new GM in July 1998. Despite some lingering concerns shared by REDF's Associate Director and Business Analyst, BOSS's Executive Director decided that the consultant who had been working with BOSS Enterprises was their best candidate. BOSS's Executive Director recognized the skills that this person brought to the business. He seemed to be good at systems planning and organizational development. As a consultant, he had been a good staff facilitator. He pinpointed some crucial business mistakes that the previous GM had made. BOSS's Executive Director was hopeful that he would avoid making the same ones.

BOSS's Executive Director offered the second GM a salary that was commensurate with industry standards and his experience. She also gave him the mandate to, as he remembers, "do what you see fit" to get the business going. He started work in September 1998.

The Final Phase

The new GM saw significant challenges facing BOSS Enterprises. The first challenge was clarifying the business finances. The new GM had a license for proprietary software that enabled the business to track financial information in the manner that REDF asked and in a way that accurately described job costs. Soon after beginning work, he hired an office manager who had experience working for private industry as a controller. She audited the numbers that had been generated in the past. Although this was an arduous process, at the end of several long weeks, she was able to show the venture committee that there was not as much disagreement between the two sets of books as had been thought. She could not understand what had caused BOSS and REDF so much concern. She also thought QuickBooks would have been fine software to use to manage the business's financials. The real problem, as she saw it, was that the first GM did not have an office manager to help him keep track of the financials while he was out working on jobs. Within a short amount of time, she was able to do what had not been done in the past – produce standard financial reports.

The new GM obtained some financial autonomy for the business. At the GM's suggestion, the Executive Director agreed to separate BOSS Enterprise's financial accounting from the fiscal office. The Enterprise established a separate bank account, and was empowered to deposit revenue and write checks for business expenses. The Executive Director and the Board of Directors began to talk about spinning off BOSS Enterprises as an independent entity as soon as it was more financially stable.

The relationship between REDF and BOSS Enterprises began to change again when the new GM was hired. Although REDF's Business Analyst continued to meet with the enterprise staff to give her input to plans and decisions they were making, she sensed that the new GM resisted her suggestions. While she offered more assistance, no one at the enterprise followed up to draw upon her skills or involve her more directly in the business. At REDF, the decision was made to focus her time and efforts on businesses in the portfolio that wanted and responded to her recommendations. Because BOSS had been unreceptive to her help in the past, REDF assumed that this assistance would not be missed.

The new GM prepared a revised business plan in December 1998 and submitted it to REDF with the request for another $100,000 grant. Like the plan created in 1997, it delineated the dual mission of BOSS Enterprises. More clearly than in previous plans, this plan described the relationship between BOSS and BOSS Enterprises, defined the roles of the different staff of BOSS Enterprises, and clarified financial management systems. The plan focused on three market segments: construction, deconstruction, and door and window replacement. In addition to addressing profit generation and job creation,the business plan described 90-day training cycles. Three trainees would work in the business for that period of time. If there were room to absorb them into the business, successful trainees would become employees at the end of their training period. Otherwise, they would be assisted with job placement outside of BOSS.

While 'things looked good on paper," according to the office manager, the training and employment goals proved difficult to realize. "It was hard to have three unskilled people all the time. The business could not have survived." Part of the problem, as she saw it, was that the jobs the GM brought in were too small, lasting only one or two days, and they offered little opportunity for trainees to learn new skills. As the office manager saw it, the business needed to have steady work in order to do training. "We needed to make a commitment to trainees as much as the business expected a commitment from them." The office manager watched in frustration as the GM and Training Manager made "fake" work to occupy the time of one trainee they retained.

The GM did not think it was possible to create employment for unskilled workers on the scale that BOSS's Executive Director was now demanding. He thought of the business as a training ground for BOSS participants but not for sustained employment. At the first venture committee,he was shocked at the news that one of the explicit goals for BOSS Enterprises was to create jobs for BOSS participants. The office manager remembered this meeting well. According to her, "I don't think he ever quite recovered," from this news. How could the GM not have known that this was an objective? It is not clear, especially given the fact that he had been involved with BOSS Enterprises for several months and did go through a rigorous interview before he was hired as General Manager.

The GM was fairly sure that BOSS Enterprises could not work as a job creation business. According to the GM, "For me, the bottom line was the number of skilled to unskilled workers in construction. Generally you need 4 journey-level tradespeople to every 1 trainee. [BOSS] was looking for 1 skilled worker to every 5 trainees." He thought these expectations would not be met – "You just can't do that in construction. The quality of the work would go down. The cost would go up." In addition, the GM did not think construction was appropriate work for the population that comes through BOSS for the reasons that had already been proven true. "It's stressful work where people are learning new skills. There's a deadline. They need to get to the job sites. They spend time getting to new places all the time…. They had personal issues. Some were injured. One had care-taking responsibilities. Out of four hired, only one was able to hang onto their job."

A new issue began to plague the business. The enterprise staff was frustrated with the GM's communication and work style. Unlike when things went awry with the first GM, this time, the Executive Director moved proactively to address conflicts that were brewing. She brought in an outside facilitator to help resume discussion among the enterprise staff. In facilitated meetings, staff raised serious concerns about the GM's ability to manage people.

Enterprise staff began to resign,sending a clear signal that things were not improving. The Training Manager, who had been with BOSS Enterprises since the beginning, resigned over a personal conflict with the GM. The office manager and a carpenter also chose to leave the business. BOSS Enterprises again was stripped down to a skeleton operation – with only a GM, a painter, and one trainee.

The Decision to Close Down

By this point, BOSS and REDF had invested over three years of effort into BOSS

Enterprises. For three or four months, the focus of the few conversations between BOSS and REDF was the question: Should we close the business? In May of 1999, with the assistance of REDF's Associate Director, BOSS's Executive Director composed a formal letter to her Board of Directors that outlined the reasons why she recommended closing the business.

First, from a financial perspective, it looked like BOSS Enterprises would not break even for another two years. Although the original projections BOSS had made for their very first business plan did suggest that the business would not break even for five years, actually working on the business for this long before seeing any positive return was too disheartening for the organization.

Secondly, in terms of creating employment for BOSS participants, the picture looked worse. Between 1998 and the first half of 1999, ten individuals worked in the business who came through BOSS or who were from BOSS's participant population. There were generally two or three of these workers at the business at a given time. But turnover was rapid as the jobs became more physically and technically demanding. Even if the business had grown substantially enough to create long-term employment, it was unclear that it would be an appropriate kind of employment for the vast majority of BOSS's participants. At the end of five years, if the business was able to bring in sales of $500,000 annually, it seemed likely that the business would create no more than five permanent jobs for BOSS participants. In contrast, in its third fiscal year, BOSS Enterprises was projecting revenues of $200,000 and was not retaining any trainees or BOSS participant employees for longer than a few months at a time.

Overall, it looked as though BOSS had chosen the wrong industry to pursue. Construction was not a feasible business for BOSS to run if it was trying to both create profit and provide employment. From the GM's perspective, the business could have either "generated a revenue stream or created jobs for the target population, but doing both was a challenge."

Reflecting on why REDF had not "pulled the plug earlier," REDF's Executive Director recalls that there were so many other issues – accounting, business operations, personnel – which masked the most fundamental problem with BOSS Enterprises – the market focus. REDF would not have invested in the business if the business plan had said this business can create profit or it can employ people from BOSS's participant population, but it can not do both.

BOSS staff also may not have invested their time and energy into this business idea if they had known it would create so few jobs. BOSS Enterprises required a lot of the Executive Director, Employment Program Coordinator, and head of the fiscal office, and distracted them from other responsibilities. Meanwhile, the enterprise had done little to advance BOSS's mission of ending poverty and homelessness – it was far from generating a profit to support BOSS programs, and it had not created sustained employment for BOSS participants. BOSS's board agreed that it was in the best interest of the agency to close BOSS Enterprises.

Ultimately, BOSS did benefit from this experience of operating BOSS Enterprises. The business created jobs and training opportunities for those who participated. The experience was helpful in pointing out some of the limitations of the agency's financial systems, which are currently being addressed. BOSS developed new relationships with individuals, businesses, business associations and other entities that are interested in working together to create more job training and permanent job opportunities. Furthermore, the organization gained valuable knowledge to guide them in future enterprises.

Having gone through this experience with REDF, BOSS is ready to try a different business approach in the future. As the Executive Director explains it, she is interested in focusing more on creating a value-based, employee-involved, and profit-sharing business venture. Business ideas, ranging from printing to food services, are percolating at BOSS now. Everyone involved in BOSS Enterprises – BOSS staff, board members, and REDF – learned and grew a great deal from their efforts. Reflecting on BOSS's potential to start a business in the future, REDF's Executive Director remarked that, like other entrepreneurs who have tried to start one business and failed, BOSS should have a much greater chance of success the second time around.

Cross-cutting Lessons Learned

In reviewing the cases of Agency A's Silkscreening Enterprise, BOSS Enterprises as well as the unpublished Agency C business case for an understanding of the cross-cutting lessons, it is important to place them in the larger REDF context. While these three groups did not continue with the REDF portfolio for a variety of reasons, seven other organizations, which by 1999 were collectively running 23 enterprises, have continued their participation in the portfolio. For these other seven groups, REDF's approach to venture philanthropy has generally worked. There are certainly areas for improvement and those have been documented in another chapter.[3] Generally, however, the REDF initiative has been instrumental in helping these social purpose enterprises accomplish both their business and social missions. During the 1998 calendar year, 73% of the groups in the portfolio were making a profit or reducing their losses according to plan. Approximately 600 individuals were employed from the groups' respective target populations. More than half of these individuals were either homeless or at risk of homelessness before becoming employed in a portfolio enterprise.

Where did these three groups differ from the rest of the groups in the portfolio? Did all of the others have stellar business plans and accurate financial reporting systems? No. Did all other portfolio enterprises have perfect production or customer service systems in place? No. Did all others comfortably shift into a new venture partnership relationship with a philanthropic funder? No. There were two key differences that served to differentiate the experience of these groups from that of the others.

First, all three of the groups who have left the REDF portfolio were young businesses—they were not yet in full operation when they joined the portfolio. In that sense they were the riskiest investments for REDF because the enterprises were untested. The second factor differentiating these groups is that they experienced a critical mass of obstacles in their attempts to operate social purpose enterprises. The combination of these factors differentiated their experience from that of others in the portfolio and contributed greatly toward making continued business operation untenable.[4] Finally, the stakes were high for these groups because they had received a significant investment in their young businesses and they felt like they were under a spotlight to perform. Most of their missteps were quickly noticed by a social investor (REDF) trying a new investment strategy and admittedly making some missteps of its own.

For others who are thinking about becoming involved with social purpose enterprises, either from an investor or from a practitioner perspective, these case studies offer eight take-away lessons to keep in mind. They fall into two categories: 1) Pre-Selection Process, and 2) Business Operations.

Pre-selection Process

1. Foundations should go beyond traditional foundation due diligence when screening nonprofit organizations for participation in a venture philanthropy portfolio.

When REDF was deciding to invite organizations into its portfolio, it did what most foundations do: met with the managers, looked at general operations and strategies,and made a decision to fund based on its belief in the management team and process – not the specific viability of the enterprise. With respect to each of the cases, REDF did not conduct a complete assessment and independent analysis of the businesses in which it was investing. REDF relied considerably on relationships and understandings with the organizations that developed during the earlier HEDF initiative when HEDF provided planning grants to these groups. In particular, REDF relied on the expertise that the enterprises themselves brought to the table. All three agencies presented REDF with business planning documents, but as it turned out,none offered realistic performance goals or financial projections. Had REDF originally brought in consultants with specific industry expertise to independently assess the businesses' projections, everyone involved would have had a clearer picture of the true possibilities for the enterprises in their respective industries. Not only would REDF have benefited as the investor, but also the enterprises themselves would have learned a great deal. Had REDF helped BOSS more clearly understand the trade-offs for what it was undertaking in the construction industry, for instance, it may have made different decisions from the start.

As mentioned above, one of the characteristics that made these three cases risky investments for REDF is that their enterprises were in start-up modes. In retrospect, it may have been more prudent for REDF to make its long-term investment explicitly conditional upon performance after two years. This kind of "evolving" due diligence would have clarified the investment relationship from the beginning and may have helped all parties more rapidly and openly identify and address problems as they arose.

2. The nonprofit must perform its own due diligence, in particular asking whether the organization is fully committed to continuously balancing the tension of the "double bottom line."

In order for the enterprise to be sustained in the long-term, the organization must be as committed to its business mission as it is to its social mission. This means it must be able to make the hard business choices when necessary, even if it conflicts with deep-rooted social service instincts. It means shedding traditional dualities of social good versus business profitability. It means embracing a process of moving toward a higher unity of opposites. When assessing their capacity for pursuing a double bottom line, the nonprofit should also recognize that every aspect of their organizational culture may be affected: management, programs, documentation of social impact, financial accountability, and relationship to investors. Agency A and Agency C were both passionately committed to their social missions, but they were never able to treat their business mission with the same level of commitment. Ultimately, they both viewed their respective businesses as another program in their organization. Neither ever became comfortable with business necessities and neither was ever able to make the commitments necessary to achieve small business development success.

BOSS had a different experience in trying to manage its double bottom line. In the end, it seemed more likely that BOSS Enterprises could be a profitable construction company than a social enterprise that employed a large number of participants on a sustained basis. This tipped the balance of the double bottom line too far from BOSS's social mission – so they closed the business.

For BOSS, closing the business was a direct result of the due diligence process. In the words of BOSS's Executive Director, sometimes a "'best practice' is to know when to fold 'em," when to close down an operation that is not succeeding in its goals and redirecting organizational efforts based on lessons learned.

3. The desire for revenue generation plus the desire to help vulnerable community members become employed does not equal social purpose enterprise.

All of the agencies had an interest in generating alternative revenue streams for their agencies. Moreover, all had an interest in helping low-skilled or high-risk people gain access to training and employment. However, those two interests do not necessarily mean the organizations were ready to support a social purpose enterprise, particularly in partnership with an enterprise investor like REDF. The organizations profiled are human service organizations and they are largely comfortable in that role. Two of the organizations—Agency A and C see the for-profit marketplace as their adversary and oppressor. If those feelings are so strong, REDF's motto of "Capitalism for a Cause" is not a theme song they will ultimately want to sing.

Effectively running an enterprise requires a complex mix of skills and capacities – in the areas of finance, accounting, marketing, production, business connection,and so forth. It may be that developing a more modest approach to income generation separate and apart from a more programmatic approach to job training and placement is what these groups needed to pursue. Part of a nonprofit's due diligence process needs to include a serious questioning of what is really the right strategy to suit that organization.

Business Operations

4. For a venture philanthropy approach to be effective there must be full engagement in the venture partnership.

This lesson relates both to the investees and the investor. With respect to these three investees, none of the agencies were comfortable with or fully committed to the kind of venture partner relationship REDF was seeking. Agency C was fearful of funders. Agency A was distrustful of the power imbalance and of having outsiders participating with them in discussing strategic decisions. BOSS said that it was eager to have expert advice in the development of its enterprise but could not find a compatible way to communicate with REDF. Each of these organizations had difficulty making the transition to a new kind of funding relationship – and in communicating that difficulty back to their funding partner.

For its part as an investor launching a new and untested strategy, REDF was also unclear about its role as a venture partner given the fact that it was evolving an approach to philanthropy that is still very new and for which there is no "training manual." While the strategy was based on its prior experience, REDF was quite literally writing the book as it went along. REDF staff and Business Analyst vacillated between an aggressive and then more tentative approach. Sometimes they challenged the businesses and closely monitored their activities and other times, REDF stood back, not wanting to appear as meddlesome in internal affairs. The problem was the groups often experienced REDF's "evolving strategy," as inconsistency or lack of clarity in information requests. As an investor, REDF could have been more clear and consistent about roles and responsibilities, particularly with respect to these enterprises where there were early warning signs of trouble. As mentioned above, REDF could have considered instituting a system of investment that was conditional upon performance. Had it done so, it is possible that the process of determining those performance measures would have improved the clarity of expectations all the way around. The underlying point here is that REDF allowed a lot of time to go by while the groups were unable to meet basic expectations of financial reporting and/or venture committee participation and did not link performance to financial support. That time lag ultimately was to the detriment of the businesses.

5. It is essential to establish and maintain ongoing effective communications and relationships between and among all of the different partners: nonprofit, enterprise and investor.

The constellation of relationships and communication systems required for this partnership is complex. A breakdown in one area affects all other areas. For both Agency C's Temporary Services Enterprise and Agency A's Silkscreening Enterprise, the relationship between investor and investee never reached a sustainable level of trust and candor. After REDF engaged in its own self-assessment and self-critique, BOSS and REDF did achieve a high level of honesty and candor with one another, but that was already two years into the process with a lot of water under the bridge.

There was also significant tension between the enterprise and the nonprofit in all of the cases. The lines of supervisory responsibilities and decision-making authority were unclear. The enterprise wanted more autonomy to operate like a business while attending to its social mission and in at least two of the cases,the nonprofit did not want to relinquish any significant control of the business,especially if it meant any compromise to its social mission.

Communication between REDF and these agencies was challenging on a practical level, because REDF relies upon a technology that the organizations were not accustomed to using. Much of REDF's communication within the portfolio occurs via e-mail, which allows for frequent,direct,and efficient interaction. At the time of their involvement in the portfolio, however, none of the three agencies' Executive Directors used e-mail on any regular basis. Because REDF and these organizations did not develop an alternate system for maintaining communication, they simply did not have an effective way to stay in touch as issues and problems arose.

The other principal way REDF communicates with investees is through Venture Committee meetings. These meetings tend to be business-like; there is some socializing, but the meetings are intended to focus on the business' bottom lines. For someone like Agency A's Executive Director, personal encounters are just that: personal. He likes to look people in the eyes when he communicates with them, or at least be able to hear their voices. He considers getting right down to business impolite. In these situations, REDF's communication style sometimes came across to the organizations as disrespectful or arrogant.

Communication that did take place between REDF and the agencies did not always deal with content in a way that would have been most helpful to both parties. When REDF staff ask questions or offer suggestions, they hope to be taken at face value and to be challenged when appropriate. Staff from these agencies did not always feel comfortable challenging REDF. They were more indirect and guarded in communicating with them,in part, because they were concerned that openly discussing problems might lead to the loss of a major investor. That discomfort is a reflection of the perceived power imbalance between the investor and investee, a challenge that is intrinsic to this kind of partnership.

Further exacerbating the perceived power imbalance between REDF and the groups who exited the portfolio, is the fact that all of the excused organizations are headed by people of color. These directors resisted "standard business practices" which they often associated with the "white world of business" and instead wanted to pursue alternative ways of doing business. BOSS, for instance, is now looking for ways to incorporate its core values of equality and social justice into its next business model, perhaps in the form of a cooperative or another way of profit sharing.

6. A business's management team must include people who possess a range of critical business skills.

This is especially true for the business manager but it is also true for other staff in management positions, such as salespeople or production supervisors. In order to attract and retain staff with strong business skills, it may be necessary to offer more competitive salaries than is typical for a nonprofit. It is also unlikely to be the case that a single business manager will possess all of the skills needed for operating a business. Finance, marketing, and personnel management are examples of different skill sets that are not likely found in one individual, but they are all essential for running a business. If the business cannot afford to hire multiple managers, it is important to make sure that either outside experts or other people in the organization can help fulfill those essential functions. None of the groups who have left the REDF portfolio had business managers with strong finance backgrounds, for instance, but they could have drawn more seriously on financial accounting support from the nonprofit much earlier in their process. Also, when entire skill sets are missing, an organization must be able to seek and accept help from outside experts.

7. The business must maintain adequate financial information systems for credibly assessing and supporting the health of the business.

This lesson has been learned every time a social purpose enterprise is examined,but it is a lesson that has obviously not yet been effectively heeded because it keeps re-emerging! In order to make sound business decisions, it is essential to have accurate financial information. Credible financial statements, particularly those that show trends over time,should be used to inform decisions about a range of business concerns – hiring, expansion, production, inventory – whether or not there is an investor who is requesting to see the information. The fact that there is an investor willing to provide problem-solving assistance, however, makes the need for financial data only more compelling. The absence of accurate financial reports and accurate projections for these three businesses made it almost impossible to understand the extent of the problems until the problems became acute.

It may be that the groups required a different type or intensity of technical support in this area than REDF was able to provide. As part of the upfront due diligence process, it is important to recognize the financial systems gaps and identify the right match to meet those gaps.

8. For social purpose enterprises, seriously pursuing the business mission will ultimately provide more opportunity to pursue the social mission, not less.

All of the organizations resisted "standard business practices" when they went against their basic social service or social justice instincts. But, in the end, if they had been able to produce more accurate reports, plan for problems like cash flow and production capacity, and effectively draw on the advice of business consultants, they would have been much more likely to grow their business over time. For BOSS, seriously pursuing their social mission might have meant seriously pursuing a different business in order to employ larger numbers of their participants. Which is what they are now exploring. Still, in all cases, a healthy and financially sound business would have better positioned each of the groups to create greater numbers of employment and training opportunities for their target populations.

All three of the organizations that have left the REDF portfolio have reflected on the lessons of their first enterprise experience and are incorporating those lessons in ways that make sense for their respective organizations. REDF too has learned lessons along the way and is seeking to incorporate those lessons in its partnerships with other social purpose enterprises. This process of reflection leading to a process of correction is a key ingredient of successful social entrepreneurship. The REDF initiative was meant to be new, bold and experimental. By definition, an experiment means some strategies are bound to turn out differently than expected. From that perspective, these cases do not profile failure, they profile learning – and learning that is incorporated into practice advances organizations, communities and a new field of social investment.

Footnotes

1 An additional five people were interviewed for the case study for Agency C that is not published here.

2 See “Challenge of Change: Implementation of a Venture Philanthropy Strategy” in Chapter 2 of this book.

3 See “Challenge of Change: Implementation of a Venture Philanthropy Strategy” in Chapter 2 of this book.

4 For examples of how other enterprises in the portfolio successfully addressed some of the issues faced by groups who exited the portfolio, see Volume 1 of the REDF Box Set, *Practitioner Perspectives.*