The Venture Fund Initiative: An Assessment of Current Opportunities for Social Purpose Business Development and Recommendations for Advancing the Field

The Venture Fund Initiative: An Assessment of Current Opportunities for Social Purpose Business Development and Recommendations for Advancing the Field

Executive Summary

By Jed Emerson

Executive Director
The Roberts Enterprise Development Fund

The Venture Fund Initiative

Conveners:

Shelly Herman
Shorebank Advisory Services
Chicago, IL

Bruce Rosen
Center for Nonprofit Management
Los Angeles,CA

Marc Levine
Lauren A. McHargue
Center for Economic Development
University of Wisconsin
and
Karen Gotzler
Urban Economic Development Association
and
Kathryn Cairney
Helen Bader Foundation
Milwaukee,WI

John Ducey
Jerry Salama
The Enterprise Foundation
New York, NY

Pam Sugarman
Peter Gillespie
The Nonprofit Resource Center
Atlanta, GA

Charles Penner
Paul Saginaw
Nonprofit Enterprise At Work
Ann Arbor, MI

Facilitated by:

Jed Emerson
The Roberts Enterprise Development Fund
The Roberts Foundation
San Francisco, CA

The Venture Fund Initiative was made possible through the support of

The Rockefeller Foundation

The Clark Foundation

J.P. Morgan Trust

The Roberts Foundation

The Surdna Foundation

The Tiger Foundation

National support for the Initiative was matched locally by

The Bader Foundation

The Chicago Community Trust

The Durfee Foundation

The Community Foundation for Greater Atlanta, Inc.

The City of Ann Arbor
and County of Washtenaw

J.P. Morgan Trust

Abstract

Over recent years, increasing numbers of nonprofit organizations have begun to engage in a variety of efforts to plan, launch and manage social purpose businesses. For the most part,these efforts have been pursued on an individual basis, with little or no systematic communication and learning between similar groups in the same city or at the national level.

The Venture Fund Initiative was a mapping and exploration process which took place in six cities:

Ann Arbor

Atlanta

Chicago

Los Angeles

Milwaukee

New York

The purpose of the initiative was to provide organizations operating social purpose businesses with the opportunity to examine the organizational and external obstacles limiting their business development efforts. Based on that assessment, focused discussions were then held with leaders in the business, business-school and philanthropic communities.

These discussions were targeted at identifying what existing and new resources could be more effectively mobilized in support of the work of nonprofit organizations operating earned-income and social purpose businesses.

This initial report presents the findings from four out of the six cities and recommendations for the creation of local support mechanisms to assist social purpose businesses in achieving greater scale, sustainability and impact.

The report also suggests several sector coordination, learning and support functions that could assist practitioners in expanding supported employment opportunities for very low-income people and in generating new sources of earned income for nonprofit organizations.[1]

A complete copy of The Venture Fund Initiative report may be downloaded from the REDF web site, www.redf.org.

Introduction

The Venture Fund Initiative was a strategy and mapping process that began in January of 1998 in six cities:

Atlanta
Ann Arbor
Chicago
Los Angeles
Milwaukee
New York City

The goal of the initiative was to support community and regional efforts to evaluate the capacity of and challenges confronting nonprofit organizations operating social purpose businesses. These business ventures were launched in recent years to provide transitional and permanent employment to very low-income individuals and/or to generate new sources of revenue to support the sponsoring organizations' social mission. This report summarizes the work in four of the six sites; the experiences of Ann Arbor and Atlanta, whose efforts were not yet completed by the drafting of this report, will be incorporated in later versions.

Background and Rationale

It seems that once every decade, the nonprofit, government and foundation worlds rediscover social purpose business development.[2] Many of the original community development corporations founded in the 1960s included business ventures as a part of their overall strategy to engage in community economic development. These efforts joined other activities of social service organizations, many addressing the needs of people with disabilities, to operate supported employment enterprises. A number of organizations, such as Goodwill Industries, the Salvation Army and other well-known institutions have achieved laudable success in their efforts to operate revenue-generating businesses.

Despite these anecdotal achievements, the experiences of those organizations attempting to launch social purpose businesses have rarely matched expectations. Indeed, for every successful venture,there have been a significant number of failures, and the overall legacy of initiatives in this area has been poor. Despite this history, the vision of blending a social purpose with sustainable,market-based businesses is still being pursued by increasing numbers of nonprofit organizations.

Critics might argue that the United States is currently in the midst of yet another "rediscovery" of social purpose businesses doomed to fail. But unlike past efforts in which motivation for job creation and business development came from broadly conceived governmental and foundation initiatives, current efforts are being undertaken "from the bottom up" by a new breed of social entrepreneurs—despite the reservations and occasional inability of many funding bodies to support such work.

This emerging class of nonprofit managers views social purpose business as a means to secure opportunities in the changing marketplace, in which traditional grant funding is being reduced and government services cut back. Moreover, prior efforts by nonprofit organizations to operate business ventures were frequently launched without the involvement of for-profit partners from the business community. Today's ventures benefit from substantive and sustained involvement of those successful in their for-profit pursuits,through their industry and management expertise as well as their links to potential customers and financing sources. Their participation as advisors, board members or managers does not assure success; however, it does reinforce the use of sound business practice in the operation of social purpose businesses.

Well-intentioned nonprofit staffs who often found themselves hamstrung by a lack of fundamental business skills have, in fact, launched many efforts. Increasingly, today's social entrepreneur brings not only a command of nonprofit management skills to the enterprise effort, but also business-development skills. Many social workers are complementing their degrees in community work with MBAs or are learning business skills through other avenues. In addition, numerous social purpose businesses are now managed by individuals with MBAs and direct experience in the for-profit sector, a rarity in prior years. As a result, nonprofit businesses are now operated with a sharper focus on meeting the demands of the market and with the knowledge that they cannot afford to repeat the lessons of the past.

Supporting the Emergence of New Social Entrepreneurs

The Roberts Foundation began its work in this arena in 1989 and is regarded as a leader in the field of social purpose business development. The lessons of the Foundation are documented in *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation*, which details the Foundation's experience and that of its grantees.[3] The response to the book from the nonprofit, foundation and business communities has far exceeded expectations and confirmed the great demand for practical information about enterprise development in the nonprofit sector.

In the two years since the book's release, The Roberts Foundation has come to serve as a broker of information and "intellectual capital" exchange between practitioners of social purpose businesses. In the fall of 1997, these conversations led to the realization that many organizations across the nation were pursuing an array of business development strategies in isolation. A unique opportunity was at hand to develop a more effective approach to the field of social purpose business development, supported employment and earned income.

In response to this opportunity, a group of national and local funders came together to support The Venture Fund Initiative (VFI). The Initiative was a mapping and exploration process that enabled staff of The Roberts Foundation to work with conveners and nonprofit practitioners in six cities to assess existing local markets, resources and capacity for social purpose business. The aim was to explore the need for and feasibility of improved support mechanisms for social purpose businesses in these sites. Each site's process involved local social entrepreneurs as well as representatives from the foundation, business and academic communities. Each process was led by a local organization that directed the planning effort in concert with practitioners from the community. This draft document includes the findings from four of the six cities and suggests strategies for the creation of support systems for local enterprise activities.

The Mapping and Exploration Process

A series of sites was selected for participation in the Venture Fund Initiative based on

- the presence of talented social entrepreneurs
- an organizational infrastructure supportive of the concept of social purpose businesses and capable of acting as a convener to facilitate the six-month process
- the presence of existing social purpose businesses in the city under consideration and
- potential funding partners.

In each city, participating practitioners were identified who were operating revenue-generating businesses in support of their mission, which were either centered on job training and employment for low-income individuals or earned income for the parent nonprofit.

The exploration process was based on the assumption that there is no set model for engaging in social purpose business development. Rather, there are certain business fundamentals that cut across the field and core issues of capacity and development that organizations must address if they are to operate a successful social purpose business. Those business fundamentals and nonprofit capacity issues are expressed differently depending upon the regional economy, the array of resources available locally, and the composition and experience of those nonprofits involved in the sector.

Appendix A outlines the five critical elements of successful social purpose business development. Those five elements appear across the field and include

- organizational capacity
- managerial ability

- market definition and penetration
- capital mix and availability
- investor relationships.

Based on this core outline and with the guidance of the executive director of The Roberts Enterprise Development Fund, each site developed its own framework for approaching the analysis of local capacity and opportunities. What follows are the lessons drawn from this exploration and reports from each city, which map out how those elements are arrayed in each location.

Facilitation of this process was both challenging and rewarding. Representatives from the convening organizations were brought together in months One and Five of the six-month period. In addition, staff from The Roberts Foundation visited each city in order to participate in and contribute to discussions taking place at the regional level. Extensive use was made of email, phone and, to a lesser degree, an initial web site in order to ensure communication between each site and the lead facilitator, Jed Emerson.

While the specific experience of each city differed, the practitioner was the starting point for the discussion in all sites. Therefore, organizational and enterprise audits were the core of the process and provided the basis for subsequent conversations with those outside the organizations involved (such as business people and foundation officers). Given the importance of the enterprise audits to frame an understanding of local organizational capacity and limitations, a sample audit outline is included at the end of this executive summary.

Matching grants were awarded to organizations at each of the six selected sites. These grants were leveraged with local funds (both to ensure "buy-in" and as an investment in the future process) in the form of a 3:1 match. The funds covered local staffing and administrative costs associated with the Initiative. The total cost per site averaged $40,000, and grant disbursement was managed by The Enterprise Foundation.

In reviewing the sections from each city, two points should be kept in mind. First, the summary reflects the experience of a given city in assessing both current capacity and limitations of pursuing social purpose business development. While each site pursued sound strategy and mapping in its planning, each site executed a *different* process designed by the local conveners in concert with local practitioners and national facilitators. Therefore, each section of this document's outline, presentation and form of analysis varies to reflect these local conditions.

Second, each summary was derived from a comprehensive report on each site.[5] These documents range from 40 to 70 pages and provide greater detail concerning the local market for social purpose business. For obvious reasons, summary statements from each region are most effective for the purpose of this chapter. And, as stated earlier, reports from both Atlanta and Ann Arbor (both of which are still in process) will be added to future versions of this document.

The Importance of Social Purpose Business Development as a Community Strategy

A common assumption is shared by all six cities and those involved in supporting this effort: the practice and expansion of social purpose business development is important for both the nonprofit sector and the communities it serves. Because this assumption is not necessarily widely shared, it is worth addressing before presenting the experience of the Venture Fund Initiative.

Practitioners, funders and advocates of social purpose business development feel this pursuit is important for the following reasons:

The mainstream labor market,in a time of historic lows in the nation's unemployment rate, still cannot absorb and support the employment and training needs of homeless, very low-income and chronically unemployed individuals. A for-profit business is not a training center. The primary purpose of a for-profit corporation is to create wealth for its investors—not jobs for the poor or untrained. Social purpose businesses offer unemployed individuals the opportunity to train in market-based environments, yet with the support and flexibility needed by individuals facing serious or multiple obstacles to standard job training or mainstream employment. Transitional employment in a social purpose business is provided to individuals deemed inappropriate for traditional job training and placement programs and unwanted by the labor market. It provides a critical path for those who neither meet traditional for-profit hiring needs nor fit into nonprofit training programs. For many, such employment can be a bridge to traditional employment.

In the next century, nonprofits will not be able to rely exclusively on governmental funding sources, limited foundation resources or the charity of individual donors and must identify alternative sources of financial support to help fulfill their program and social missions. Currently, there are over 600,000 nonprofit organizations pursuing a wide variety of social and charitable missions to benefit this country. As federal funding decreases and local funding comes under increasing strain, nonprofit organizations must diversify their funding base to decrease their risk of having inadequate resources to pursue their missions. Social purpose business development must take its rightful place as another financing option—next to individual contributions, government contracts, foundation grants and program-related investments—in the future capital structure of the nonprofit sector.

The community application of business skills and practice is not isolated within an organization's business venture, but rather acts to increase the overall management skill and expertise of the nonprofit, reaping broader benefits for other charitable investments. Nonprofit organizations that operate social purpose businesses usually must do the following in order to succeed:

- improve their accounting systems
- create more effective information and data management systems
- increase the level and sophistication of their overall management.

This process of operational improvement is driven by the requirements of the market; however, it has the "spillover" benefit of contributing to the broader success of organizations pursuing a social mission. Investing in nonprofit capacity to successfully manage earned income and supported employment ventures means investing in those same organizations' ability to pursue their broader social and charitable mission more effectively.

Current foundation support of social purpose business development tends to be made on a grant-by-grant basis, without leveraging earnings from multiple players or coordinating efforts to assist nonprofit organizations in achieving their goals. Initiatives such as the VFI provide funders with more effective ways to leverage grant dollars and other support. Although individual successes have taken place, what is needed to improve the practice and impact of social purpose business is the establishment of support mechanisms to meet the special needs of business ventures that achieve market as well as social returns. While foundation grants and program-related investments have been important in supporting the efforts of individual practitioners, the following are still needed:

- Nonprofit organizations running social purpose businesses benefit from networking with each other to improve management and industry-specific practice, as well as participate in collaborative efforts to address the specialized challenges of pursuing a "double bottom-line."
- Isolation and the lack of information about the field of social enterprise have made it difficult for businesses run by nonprofit organizations to access resources of the business academic community and the larger business community; a coordinated strategy could effectively leverage a variety of resources in support of the field's expansion and the success of individual nonprofit organizations.

Based on the emerging success of individual practitioners, the field is now in a unique position to move both the standards and the execution of the practice to a new level of confidence and sustainability in the marketplace.

Finally, the support of this emerging field is important for the following reason:

If the market alone were adequate to meet the needs of the nonprofit sector, the nonprofit community would not now show

the rapid expansion in the number of organizations attempting to leave the historical security of traditional funding for that of earned income and supported employment. Small business development is hard—in risking a family's nest egg, the failure rates are great, and the uncertainty of the marketplace is greater. However, social purpose business development is *harder*. For those operating such a venture to earn income that may be directed in support of a charitable mission, there is a constant battle between social and profit goals. For those starting businesses as a vehicle to provide supported employment to the marginally employable, the task of engaging a labor pool already excluded from the mainstream labor market is a constant challenge.

The only reason to take on such challenges is to address one of the four factors stated above. As the field grows and increasing numbers of nonprofit managers take up these strategies, those who have gone before can provide great value to the field by sharing their lessons with others and acting as mentors. The Venture Fund Initiative has been one step forward in this process, and it provides an important launching point for the support of local practitioners, as well as an opportunity to assist in the development of the field as a whole.

General Findings and Lessons of the Venture Fund Initiative

While the goal of the VFI has been to provide practitioner groups in six cities with an opportunity to assess local capacity and challenges in the field of social purpose business development, a number of crosscutting lessons and conclusions were also generated from this process. These general lessons are presented below:

Social purpose businesses fall along a continuum of activity ranging from those that are primarily market-driven to those that are primarily mission-driven. Nonprofit organizations may fall on a number of points along this continuum, but the key issue is that those involved in such ventures understand where they are on that continuum.

In "Enterprising Nonprofits,"[5] Gregory Dees presents a continuum of social enterprise ranging from the Purely Philanthropic to the Purely Commercial. Organizations fall along this continuum at a number of levels. For example, under a Purely Philanthropic model the beneficiaries of the organization would pay nothing for the services they received, while a Purely Commercial venture would charge beneficiaries market-rate prices for services.

It is interesting to note that organizations participating in the VFI did indeed reflect points along this continuum. In the experience of VFI participants,those operating ventures in the six target cities were doing so either to provide transitional or permanent employment to individuals outside the mainstream labor market or to generate revenue to support the parent organization's social mission. While they are all social purpose businesses, organizations pursuing revenue generation tend to be more fully market-directed than are those that must also pursue market opportunities with a strong social mission. For example, an organization interested in revenue generation may establish a for-profit subsidiary corporation that, while not violating the fundamental mission of the parent nonprofit, may operate more freely from the constraints and challenges of those who also seek to employ a target population with multiple barriers to employment.

Nonprofit organizations that operate businesses that are both profitable and provide transitional employment are thought of as "hybrid" organizations that may encompass the strengths and limitations of both commercial and social purpose business and may therefore represent greater overall risk in operation and management. This is due in part to the fact that organizations concerned primarily with revenue generation may be market-driven but not fundamentally social mission-driven, while organizations pursuing profitability and employment goals must be both market and social mission-driven.

An important lesson from across all six cities in the Initiative was that groups operate along a continuum; it is not a question as to which is best or where one should be on that continuum, as much a question of needing to know where one really is along that continuum. *Many nonprofits appear to believe they are more fully market-driven than they actually are.*

The nonprofit organizations involved in the VFI process also engaged in a variety of types of planning and pre-development to prepare for launching their ventures. Some organizations had engaged in a significant amount of business and organizational planning prior to launching their venture activity, while others had simply "happened upon" what was perceived as a business opportunity and moved to act on that opportunity. On the whole, it is clear that many organizations need assistance in developing and executing more effective planning with regard to the ventures in which they are engaged and the enunciation of most effective strategies for managing those ventures.

Part of the enterprise audit process involved an assessment of business plans, organizational development and other documents that were used to gauge the capacities and challenges of organizations pursuing nonprofit ventures. While many organizations had such plans in place and made use of them to guide their work, a majority of the organizations operated with only marginal business plans and had done virtually no marketing or other studies that could inform their strategy.

On balance, the organizations that had such business plans in place operated with greater success and competence than those that did not. In short, having a business plan does not guarantee success, but not having one usually contributes to failure. Many of these organizations, however, have the potential to develop business strategies that are adequate to their needs and would contribute significantly to the future success of their efforts.

The boards of directors of many nonprofit organizations pursuing venture-development efforts are evolving, creating diverse ways to effectively oversee and plan for the future expansion of their organizations' ventures.

As might be expected, organizations surveyed demonstrated a wide range of board capacity and involvement in the enterprises being operated in the field. Some boards have made effective use of outside business expertise, while others could develop significantly greater ability to leverage such input. Many boards appear to be addressing the challenge of how to balance their responsibility for fiscal oversight and guidance with the need for operating committees and others charged with overseeing the execution of those policies and strategies. Larger organizations, which tend to have more clearly defined roles and responsibilities, appeared to do better addressing this challenge than smaller organizations, where there tended to be more potential for overlap and possible conflict or confusion with both operations managers and advisors.

The structures of board oversight and involvement in enterprise development are clearly evolving. The challenges addressed by any nonprofit board become all the more complex when that board is overseeing and balancing the potentially competitive demands of core program areas and social purpose businesses. While some are effectively managing these challenges,others are clearly in need of additional training, guidance and support as they move from traditional nonprofit structures of the past to the hybrid structures of the future.

Many cities have a wealth of potential technical assistance support that could benefit those operating social purpose businesses, but this support is often fragmented and not readily accessible to nonprofit practitioners and managers. This fact is compounded by the diversity of the nonprofit organizations operating ventures in any given city, representing a wide range of organizational capacity, culture and managerial skills.

Each of the cities was able to identify a wealth of potential and actual support that could contribute to the success of nonprofit ventures. These resources may be found in the business-academic, mainstream-business and foundation communities. In virtually every case, when presented with information regarding the number of practitioners in a given city, individuals within these communities expressed both an interest and ability to participate in direct partnerships with nonprofit ventures. There is significant potential to directly link community resources more effectively with practitioners and managers in need of their technical assistance and support.

However, it is also clear that many managers lack the time or networks to identify, negotiate with and secure the support of these potential sources of technical guidance and support. Many managers focus on operations and have little time available to secure the technical and other assistance often available in their own community.

This time shortage is compounded by the fact that organizations operating social purpose businesses have a wide range of capacity and need. They do not easily fit a single "mold" and therefore require individual assessment and evaluation in order to identify specific areas requiring assistance,as well as support in identifying the most appropriate potential technical assistance providers and other possible partners.

The potential for growth and a significant increase in the sustainability of social purpose business is clear. However, for these ventures to be successful,they must receive a variety of supports. The way that assistance is provided will play a major role in their potential for future success.

The success of efforts to provide consultation and assistance to any corporation (whether for-profit or nonprofit) often hinges on how that assistance process is framed and on how a number of very complex issues are addressed. Specifically, the following factors appear to be critical:

- Participating organizations must at the outset be open to critique and must be amenable to input on the assessment, operation and ongoing management of their enterprise.

- The process by which input is solicited and received must be owned by participating organizations.

- Participating organizations must fundamentally believe that the process, while entailing a commitment of time and resources on their part, will ultimately be of real benefit to the organization and its staff.

- Participating organizations must know that an end goal of engaging in the process will be the potential to receive additional capital to underwrite the pursuit of their strategies.

- While accessing additional financial support is a critical element, practitioners often feel that of equal importance is the potential to access additional, non-financial resources to augment grants and assure the development of greater organizational capacity to successfully execute agreed-upon strategies.

- In order to address the above factors, significant time needs to be invested in the process at the start to ensure clarity of all parties' expectations. In addition,the various nonprofit terms, which govern the relationships between significant stakeholders (nonprofits, foundations, technical assistance providers, mentors, etc.), must be clearly understood by all.

While these factors may appear essential if a successful initiative is to move forward, many nonprofits have built their success on funding and other relationships that are primarily "arm's-length" relationships, whereby funders and others are not often informed of significant operational concerns that managers and key Board members have. Yet,if the goal of an initiative is capacity building and support, open and honest communication with regard to the true weaknesses and limitations of an organization is critical to its receiving appropriate and meaningful technical assistance.

Traditional approaches to funding make many potential grant recipients leery of a funder's knowledge of an organization's weaknesses. They fear that they will not be viewed in a positive light and may lose critical funding. If future support is to be secured and effectively applied to assist social purpose business efforts, that support will no doubt require a different approach to the funding relationship.

Furthermore, the traditional approach toward capacity building that entails providing an organization with a grant to hire a consultant to guide it through its process is also less effective in this area of practice. What organizations express (and what both the six-city inquiry and the experience of the Roberts Enterprise Development Fund have shown) is that while groups certainly do need access to technical assistance, the assistance must be founded on knowledge-transfer aimed at genuinely increasing the nonprofit's capacity to engage in the task on its own in the future. It must also be understood that technical assistance without networking, staff development, capital funding and for-profit business mentors is much less effective in social purpose business development than technical assistance in the form of traditional consultation and guidance, as is the current mainstream practice.

The challenge for the field is how to mobilize the array and type of support needed to best achieve long-term goals for development and sustainability. Such frameworks are available and may be designed based on regional needs and opportunities. However, such frameworks must be supported for the field of social purpose business development to achieve its real potential for success.

Many cities have a significant number of nonprofit organizations operating social purpose businesses of various types. Most of these organizations have self-financed the start-up of these ventures or launched them with extremely limited grant support. These organizations have brought their ventures through the initial stages of start-up, but now lack access to financial resources to adequately capitalize their venture for expansion or achievement of market sustainability. Some funders may already understand the following information. However, for those that are not familiar with for-profit financing strategies, a "primer" may be of assistance.[6] It should be understood that there are a number of ways for-profit small businesses meet their needs for the capital investment required to "bootstrap" the start-up and expansion of their venture. One classic scenario follows:

An individual with vision sees an opportunity in the marketplace and has an idea for some product or service offering she feels will be better than other offerings presently available. She approaches friends and family members for support, offering either a loan payback (with a fixed rate of return) or an equity position (an unsecured investment with some type of owner share in the business provided in exchange for the requested funds). This is known as "first-stage" or start-up financing.

As the business grows, the owner will require additional equipment, space or access to cash flow. This is commonly referred to as "stage-two financing" or "mezzanine financing." Two sources of funding may be available at this point. The owner may find a "business angel" (usually an individual with significant personal wealth he or she invests in promising start-ups). This "angel" may not only provide the funding required, but also offer technical assistance and access to his or her own business networks to leverage additional contracts and industry contacts. A second source of funding is available through a variety of small-business loan programs. For example, the owner may apply for 7A lending (loans awarded through local banks but secured by the Small Business Administration), or, depending on her credit rating, the owner may pursue a traditional small-business loan from a bank or credit union. These two types of financing are not mutually exclusive and may be undertaken together.

Finally, many larger businesses will further diversify their funding by issuing bonds, stock offerings or other, more sophisticated forms of debt and equity to underwrite capital requirements. Even if the business remains "privately held" (i.e., does not offer its stock to the general public), an array of equity options may be offered to individual investors. With access to this final stage of financing, most businesses in America become fuly matured in the capital market and are able to finance capital requirements through a variety of investment and loan instruments that trade financial risk for the promise of some level of future financial return. If the capital instrument is a loan, it is tied to a fixed rate of return and usually secured with some underlying asset of the corporation. Those capital requirements that are beyond what may be directly underwritten with an asset may be met *through additional equity offerings that, while usually unsecured, offer an ownership position in the business and the possibility of greater financial returns with no fixed rate of return on investment.*

It is important to understand that, depending on the type of business and the overall industry in which it operates, there are usually certain percentages of "debt to equity" that are considered prudent and reasonable. Banks, in assessing whether a given corporation is credit worthy, will assess such issues as the debt-equity ratio in order to evaluate the relative risk present in any given loan proposal. Taken together, the amount of debt and equity present in a business that underwrites the financing requirements of the corporation is referred to as the "capital structure" of the business.

Financing the growth of any small business is not easy. It takes tenacity and often requires the owners to undertake significant financial risk to ensure the creation of their vision. The potential and promise of financial return is what makes the risks worthwhile. However, financing social purpose businesses may be even more difficult, due to two main reasons. First, there are usually very limited assets available with which to secure (or underwrite) loans. Many nonprofit organizations are grant-driven, with funds being made available annually in return for the fulfillment of commitments made by the organization to provide certain services or programs to the community—often to "markets" which do not have the funds to otherwise pay for those services. Youth programs, food banks and low-income health centers are all examples of such programs, and the nonprofit sector is populated with many other examples.

Indeed, in many ways the very nature of charitable activities is driven by the fact that there is no primary financial market capable of supporting such work—this is what makes them "charitable." Therefore, most nonprofits operate with "weak" balance sheets, carry few assets (such as buildings or other hard holdings that might be used to underwrite loans) and are often without large endowments that might be available to fund enterprise activities. Those organizations that do have a building or other real estate asset with which they might secure a loan have often already made use of that asset to secure lines of credit to support the operating cash flow of the agency itself. This strategy is often necessary due to the risky nature of supporting an organization with grants, but has the secondary effect of making those assets unavailable to finance a start-up or expansion of a social purpose business.

A second barrier to providing "mezzanine financing" is the lack of equity options available to nonprofit organizations. Nonprofits are established under strict Internal Revenue Service codes as charitable organizations that may not provide private inurement to outside individuals (e.g., investors). In the event a nonprofit "goes out of business," all its assets must be distributed to other existing nonprofit organizations to continue the pursuit of charitable works. Remaining assets may not be sold or given to outside investors (though in the event of bankruptcy, they may be sold off to cover the outstanding debts of the organization). Since there is no possibility of providing individual investors with the same financial return they might receive in the for-profit sector in exchange for taking on a significant degree of financial risk, "angel" investors or other individuals who might otherwise fund various stages of a business start-up are not interested in such a high-risk, no-reward proposition. Therefore, even though a nonprofit may have some access to loan dollars through buildings or other assets, it usually has no ability to secure true equity investments—the lifeblood of any business enterprise. The gap in financing represented by this lack of equity is termed the "equity gap" in the nonprofit sector, and it stands as a critical challenge for most nonprofits attempting to pursue their social mission through market-based enterprise activities.

There are a variety of efforts presently underway in the nonprofit sector to try and address the "equity gap" through what may be referred to as "equity equivalents." Through the legal and creative use of charitable dollars, foundations and individual donors may provide long-term charitable "investments" which can provide organizations with the type of funding required to support the expansion of their social ventures. Program-Related Investments, whereby a foundation makes a below-market rate loan available to a nonprofit organization, is one strategy. PRIs are usually secured loans in that they are tied to some underlying asset, but they often take a subordinate position to a banking or other institution's first loan position.

Another such strategy is the provision of cash guarantees, whereby a foundation, loan fund or donor places funds in a bank account which is then tied to a line of credit extended to a nonprofit that would not otherwise qualify for a loan. Over time,as the nonprofit pays back the line of credit, the original funds that served as a cash guarantee are returned to the original source while the nonprofit develops both a successful credit record and its own independent commercial-lending relationship with the bank institution. Finally, a third example of addressing the "equity gap" is that of "recoverable grants," a type of PRI, but one that is not tied to any underlying asset and therefore serves as a direct equity equivalent in that it is fully at risk.

In the for-profit community, the challenge of adequately capitalizing business enterprises has received literally centuries of attention, and a variety of capital markets have developed to address it. In the nonprofit community, while there are limited options and emerging models for structuring such capital investments, accessing such funds, having adequate funds available and educating funders as to the variety of funding options available to support charitable work remains a significant challenge. While the for-profit capital market is fairly well defined and organized, the nonprofit capital market remains fragmented and under-capitalized.

Many private-sector funders (corporate, community and family foundations) have supported a wide array of nonprofit ventures in recent years and continue to be interested in understanding how their support may better contribute to the success of nonprofit venture development. However, there is a wide disparity of understanding and skill in the foundation community with regard to its ability to act in the role of "informed investor" and community partner.

While the traditional "generalist" program officer approach has, on the whole, served both the nonprofit and foundation communities well, it makes it difficult for program officers to participate as fully or with the depth of expertise that may be required in areas of specific interest (for example, social purpose business development). In many cases, while a foundation program officer is able to participate in the basics of initial due diligence, it is often more difficult for him or her to assess the perceived and actual risks of enterprise creation and long-term business development strategies. In light of this fact, the inability of many funders to literally "understand the deal" limits their effectiveness in the capitalization of such deals,thereby limiting the potential for expanding foundation support of the field and its practitioners.

In addition, while many foundations become committed to a certain area of interest and are good at enunciated areas of priority giving, many foundations have funding timelines that often entail six months or more of proposal review, followed by a grant commitment of one to three years. Again, while this approach has generally served community interests well, it makes it difficult for funders to support such long-term investments as are often required in the area of social purpose business creation. These investments often require the presence of not only a long-term funding partner, but also a funder willing to support what are often the dual strategies of both business and organizational development.

There are increasing numbers of foundation and individual donors interested in supporting the work of emerging social entrepreneurs. However, existing resources tend not to be well coordinated, are often presented in a form that makes them unavailable to many potential grantees and have evolved into a nonprofit capital market that is often fragmented and inefficient. If the foundation community is to get the best return on its grant-making activities in this area, coordinated funding strategies that support and leverage existing community resources will have the highest potential for leveraging these limited dollars most effectively. Indeed, over the course of the six-month Venture Fund Initiative, a number of funders stated that it would be of great assistance if they had access to minimum standards for the field and generic social purpose business proposal formats and were provided with appropriate guidance with regard to how to make grants in this program area.

It is a given that many practitioners are finding their way through the evolving field of

social purpose business development, which is neither fully business nor nonprofit, drawing on skills based in both traditions. However, on the whole, the field is populated with individuals whose skills are more entrepreneurial than managerial and who appear to be grounded to a greater degree in vision than practical expertise.

While the number, size and scope of social purpose businesses currently in operation or in planning are impressive, one is struck by the degree to which many ventures are operated on "a wing and a prayer," and are not grounded in solid managerial expertise and practice. Often the success or failure of an enterprise hinges on the talent and commitment of a single person or small management team working to achieve the venture's goals and objectives. While this managerial strength is what has enabled the field to grow impressively over recent years, it also points to a critical issue for many social purpose businesses: a lack of managerial depth and successor strategies.

If the field is to benefit from both the investments that have already been made and the high level of effort undertaken by these "social entrepreneurs," more effective networking, training and other support systems will be essential. In some cases, it may be only a question of providing the opportunity for practitioners in a given region or sector to come together and share their experiences. In other cases, a more formalized strategy will be necessary. In any case, the potential for adding greater value for this expertise and the potential to use these experiences to strengthen the overall managerial capacity of the nonprofit sector are significant.

The field of social purpose business development is an emerging one with no formalized knowledge base. There is a real need for ongoing and appropriate training for mid-level staff of social purpose businesses, specifically in the areas of financial management and accounting.

Significant attention has been paid to the role and emergence of "New Social Entrepreneurs" and others who are guiding the shifts presently taking place in the nonprofit sector. However, it must also be recognized that the organization's capacity to succeed at these strategies only begins at the level of the executive director or enterprise manager. Organizations need assistance in providing targeted training opportunities to mid-level managers as well, for these are the individuals who will operationalize the business and other strategies being pursued by the nonprofit corporation. Such training may entail workshops in business fundamentals, but must also be tailored to address challenges unique to social purpose business, such as issues related to social return on investment, supported employment, mission drift and other factors that affect the potential for the organization to achieve its goals.

The issue of compensation is related to training support for mid and upper-level managers. In addition to requesting assistance in defining the appropriate compensation packages for individuals with both business and nonprofit expertise, the role of bonus and commission incentive programs was found to be an area of need. Finally, opportunities to address the impact of compensation on the overall nonprofit culture need also be addressed. While many employees understand the need for and support an organization's movement toward the creation of social purpose business, the reality of newer, business-connected staff receiving higher compensation than program personnel can be a challenging one for all involved. Assistance could be provided to many organizations with regard to the creation of both a process and a policy for fairly compensating all staff.

The successful operation of any enterprise requires effective information management systems to track program activities, accounting and business operations. These systems are critical in that they generate information that may then be used by managers to make strategic and operational decisions. Most nonprofit organizations have never received the investments necessary to develop management information systems adequate to their needs or appropriate for what is required as they move into the development of social purpose businesses.

Many funders are exploring a move toward achieving greater accountability for their grant dollars and attempting to execute "outcome" evaluations. However, most nonprofit organizations have not been supported in the development of management information systems adequate for tracking and generating the basic client and program data required to respond to this shift in the foundation community. Such systems are critical to any effort at comparing the relative costs and benefits of various program strategies. In addition,they are central to the organization's ability to engage in long-term retention documentation. These data are necessary if funders are to engage in any effort to calculate a true social return on investment and they require the development of common standards and valuation assumptions upon which such calculations may be made.

In addition to program and business information systems adequate to the task, many nonprofit organizations operate with only the barest type of accounting system—a system largely unable to handle either the complexity of business transactions or provide operations managers with the "real time" information needed to make informed decisions based on accurate financial evaluation. The nonprofit community needs accounting models and systems that a wide range of practitioners and funders could use. In addition, greater access to industry-standard information based on specific sectors (such as retail, co-packaging, landscaping, etc.) should be developed. This information would include the "social sector equivalents" for those enterprises operated by those in the nonprofit sector.

While many social purpose businesses have access to competent, pro bono legal consultation, additional legal expertise is required to successfully negotiate the field of social purpose business development.

For years, nonprofit organizations have benefited from meaningful, pro bono assistance provided by both individual attorneys and law firms. Although that support has been extremely effective, as organizations move out of traditional arenas of nonprofit law and into new pastures, access to competent, knowledgeable legal consultation is critical. In addition to the traditional, generalized guidance they have received to date,nonprofits also require access to what is often strategic, short-term legal advice with regard to Unrelated Business Income Tax, mergers and acquisitions, and general issues regarding tax exposure. Connecting nonprofit boards and managers with individuals who have such expert knowledge is important and critical to the organizations "doing the right thing" when it comes to pursuing both social and financial goals.

As social purpose businesses achieve increasing success in moving from start-up to sustainability, they confront the challenge of moving from the "grants market" to the "customer market." Many social purpose businesses find that even with competent management and a quality product or service, gaining access to and credibility within the mainstream business community remains a major barrier to long-term success.

Most successful nonprofit managers are well networked for success in the foundation funding and government worlds. Yet, they find as they position themselves and their organizations to become partners with the business community they are often relegated to the office of community relations instead of outsourcing and procurement. Achieving meaningful market penetration means becoming part of traditional business networks and being viewed as a credible business partner. Social purpose business managers are not asking for any special treatment or benefit, but they are asking to compete at appropriate places in the deal stream.

To realize this goal, nonprofit managers must conduct and have access to meaningful market analysis in order to be better informed partners with other businesses they target for sales and general business relationships. Second, they must have the ability to tap the networks of business people who make purchasing and other decisions. This is not simply a question of having the endorsement of a given corporation's CEO, but must involve developing relationships with upper and mid-level managers who are making actual purchase and other operational decisions on a daily basis. Third, managers must be positioned to develop job opportunities for those individuals within the social purpose business looking to move up and out into the mainstream of the labor market. While many corporations have made commitments to participation in welfare-to-work and related initiatives, the full potential of social purpose business has yet to be effectively leveraged in support of the hiring needs of America's business community. Many individuals working in social purpose businesses have the potential to contribute directly to the success of for-profit companies and should be more strategically connected to those employment opportunities.

And, finally, many social purpose business managers would benefit from being connected directly with mentors from within the business community, both those with general business expertise and those with expertise specific to a given industry sector. The potential and opportunities for the creation of more meaningful partnerships between the for-profit and nonprofit sectors are many. Such partnerships can only contribute greater value to partners in both communities of interest.

Implications for Sector-Wide Support of Social Purpose Business Development

In the course of assessing the local capacity and challenges for engaging in social purpose business development, it became clear that all of the cities shared a variety of needs. It is therefore logical that local resources and activities could be most effectively leveraged if certain needs were addressed through a national support network of some sort. Such a network could be housed out of an existing organization and could serve a variety of convening, coordination and brokering roles in support of each city's local efforts. This is not to say, however, that a program grant should just be awarded to some existing player in order to provide this support. Social purpose business development is a fairly focused discipline, and no known national organization could simply step to the plate to meet this need at this time.

This report does not suggest a specific vehicle to address these commonly shared areas of interest, but rather acknowledges that such areas of common interest exist and presents some of the issues that might best be addressed collectively. The intent of such a network might be to support the strategic development of the field of social purpose business as a whole by initially building on the potential represented by the six cities involved in the Venture Fund Initiative.[7]

A national support network might address the following capacity-building needs:

- Sharing/Information Network between and among social purpose business practitioners

The field of social purpose business development is growing rapidly, with many new entrants engaging in a variety of activities. While there are existing and evolving networks that speak to the general needs of emerging "social entrepreneurs," the practitioners in this six-city initiative are involved in a focused effort to grow their ventures and successfully overcome the challenges they face. Direct relationships between the more than 40 nonprofit groups participating in this effort would greatly facilitate information-sharing regarding the most effective strategies for pursuing a "double bottom-line." In addition, those individuals and organizations charged with facilitating the efforts of local practitioners would also benefit from periodic opportunities to meet with their peers to discuss the challenge of providing immediate, real-time support to organizations involved in the ongoing operation of business ventures.

- Technical assistance to regional conveners/ facilitators to support development process

Providing technical assistance to local practitioners is not simply a question of identifying a qualified consultant. Such support requires the brokering of relationships between the business community, academic institutions and other stakeholders. The existence of a national network to provide advice, consultation and support to local facilitators would be of valuable assistance to both practitioners and those involved in the provision and delivery of services to them.

- Research, documentation and dissemination of best practices and resources

In the Appendix, the reader will find a brief list of issues and areas of interest that might be the focus of future research in the field of social purpose business development. At present, the knowledge base concerning this field is relatively limited, consisting of a small number of books and articles on the subject. As increasing numbers of practitioners engage in this work and greater numbers of funders seek to assess the impact of their charitable "investments," it will be imperative that appropriate research and documentation of practitioner efforts be undertaken.

Furthermore, as these and other studies are concluded, assuring adequate and timely dissemination of such information will also be critical. While such a national network would not seek to fund and track all relevant research in this broad field of interest, it could act to identify existing research in need of greater dissemination, as well as to identify and support areas in need of further analysis by appropriate researchers already active in the field.

- Broker training and other resources from existing national organizations to local conveners in areas of board development,financial management, and development of MIS

If nonprofit organizations are to be successful in their efforts to "re-invent" themselves to successfully manage the challenge of operating earned-income ventures, those involved in their guidance and management must receive appropriate training to develop improved business and other skills. Ranging across a wide area of possibilities (including board management, financial management and development of appropriate information management systems), there are a variety of areas to be addressed. A national network could identify existing training programs of value to nonprofits as well as work with expert trainers to develop new programs of use to those involved in social purpose business development.

- Represent local practice at national level to philanthropic, public policy, governmental, regulatory, industry and other sectors presently concerned with the development of the field

Finally, the vision, experience and learnings of those in the field are significant and worthy of promotion. However, there are also many institutions and organizations that are concerned with the possible implications of this field of practice. These range from business to public sector to regulatory organizations that do not accurately understand the field and need information regarding what is actually taking place across the country. A national network would provide an informed voice, to both interpret the work of the field and engage such concerned parties in dialogue regarding how best to work together for the benefit of our nation and various communities of concern.

In addition, such a national support network might address a range of possible capital requirements:

- Loan administration and services

As described in the Capital Resources section above, social purpose businesses require access to capital beyond that of basic grant support and of different structure. Loans ranging from $25,000 to over $250,000 are the logical next step in building the capital structure of many nonprofit enterprises. How to best address this capital requirement is debatable. In some cases, existing community development financing institutions might have adequate capacity to provide lending support to social purpose business. In other cases, that support may not be possible,and a national fund of some type might be more effective. The reality is that many cities may only require a few such transactions annually—which argues against establishing six loan pools and possibly in favor of partnering with existing loan funds to try and accommodate the specific needs of social purpose business organizations. At the same time,a consolidation of loan origination, servicing and general administration could possibly be greatly facilitated through the creation of a single, national fund accessible by all six sites. Indeed,it is interesting to note the number of "equity"funds presently being organized by a number of national initiatives with seemingly very compatible goals, virtually all of which are targeting for-profit business development needs. Greater discussion of the capital requirements of these groups and how they may best be addressed is required before any single solution is embraced.

- Raise grant funds for match with local funds

The pursuit and practice of nonprofit enterprise must be supported first and foremost at the local level. Local practitioners must execute their business development strategies to the benefit of local communities. And, naturally, their work provides significant opportunities for local funders to invest (on both a charitable and loan basis) in supporting these efforts. However, many communities may require additional funds from outside the region and many local funds may provide an excellent partnering opportunity for national funders interested in supporting local efforts.

- Loan/cash guarantees

The ability to access revolving charitable dollars so they may be available to support future work in the field is of key importance. By making available cash guarantees that may in turn secure lines of credit extended to social purpose businesses, funders have an opportunity to pursue the broadest impact of their dollars placed in support of these strategies. Perhaps based on the experience of a national network or association of practitioners, a national fund could make loan/cash guarantees available to local banking institutions to help ensure that, as these funds are repaid, the loan recipient is then positioned to develop independent banking and other lending relationships with mainstream, commercial lending institutions.

- National holding company for buildings/equipment leasing to nonprofit participants at below-market rates

A significant percentage of funds raised to assist the expansion of nonprofit enterprises are used to finance the acquisition of buildings and equipment. Many funders are hesitant to provide such capital support due to reservations regarding the perceived risk such ventures entail and concern that, in the event of failure, those assets would be lost to the larger market. A national body might consolidate those resources into a single fund that would make such purchases and acquisitions itself, leasing the property and equipment back to practitioners at below-market rates. In this way, funders would be assured that even if the venture was not ultimately successful in pursuing its strategy, in the event of a liquidation those resources would not be completely lost but would be sold off with any funds generated returned to the national initiative.

Next Steps and Future Action

The experience of the Venture Fund Initiative participants has led to several clear conclusions:

- The United States is experiencing a virtual explosion in the number of individuals who identify themselves as "social entrepreneurs" and the number of organizations seeking to pursue their social mission through the operation of social purpose businesses.

- The field as it stands today is highly fragmented, with many regions benefiting from the good work of individual organizations and leadership, but with little opportunity to leverage either the collective attributes of those individual players or the larger resources (whether business academic, business community or foundation) in each area.

- The historic approach to supporting the practice of social purpose business development has been for individual funders to provide isolated grants to specific organizations. While that support has been successful in assisting a small number of groups, such grants tend to be made without benefit of a larger business or organizational development strategy. The result of this is that while there have been definite successes in the field, practitioners have been unable to take their work to the next level of success—whether defined in terms of scale or sustainability.

- While many groups have benefited from the contributions of individual consultants or advisors, they remain significantly under capacity and without access to meaningful networking or technical assistance opportunities that speak to their particular needs and potential. What they lack is a holistic approach to their development that addresses organizational capacity-building, technical assistance, market penetration and capitalization in a strategic manner presently not possible given the dominant approaches to consulting and technical assistance.

- There is a unique opportunity for the field to be substantially "moved" to the next level of development. Numerous regional markets have sufficient numbers of nonprofit players, business academic and mainstream business community members who are willing to provide guidance and support. The foundation community has already shown,through its grant making to date, an interest in and willingness to invest in innovative, market-based strategies of assisting nonprofit organizations in achieving their enterprise, community and social goals. The organizations are gathered, the initial investments have been made and the actors are ready for the next act.

What is lacking in this situation is an enunciated investment strategy for growing both individual players and the field as a whole. While the specific funds proposed in this document are not the complete answer to the challenge of market fragmentation, they represent unique and thoughtful opportunities for foundations and other investors to support locally defined strategies for building on the successful grants of the past and the lessons learned from practitioners across the nation. The participants in the Venture Fund Initiative look forward to continuing the collective efforts to refine the vision for these funds, establish them as "lighthouses" for the field and attain the true potential represented by those involved in social purpose businesses employing people on the margin of the labor market and generating new sources of revenue to help sustain U.S. communities.

An Enterprise Audit Outline

By Jerry J. Salama
New York City Venture Fund Initiative

A. Background and Resources

1. Briefly describe the business venture or ventures operated by your organization and the two or three major accomplishments of each business or the businesses collectively. In addition, describe any new business ventures planned by your organization.

2. Describe the organizational mission/culture of the parent non-profit organization and how it relates to the goals of the for-profit business. List issues or concerns to be resolved.

3. Provide an organization chart for each business, showing the key members of the management team, together with salaries, benefits, tenure and comparable compensation in similar businesses. If the parent non-profit organization provides support or administrative staff, identify that staff with the same information. Highlight relevant staff vacancies or needs in either the business or parent organization.

4. List three primary strengths and weaknesses for each key member of the management team.

5. List the business' advisors by name and address [members of the Board of Directors, advisory board (if applicable), accountants, lawyers, consultants]. Identify the contributions and strengths and weaknesses of each key advisor. Highlight advisor needs or opportunities.

6. List any proprietary rights (patents, patents pending, royalty, license, franchise or distribution rights) and contracts which are key to the business as well as the significant terms of these rights and contracts.

7. Describe the physical facilities used by the business and whether they are owned or leased and the terms/value of each. Describe any significant fixtures, furniture and equipment. Highlight any future space and equipment needs. Identify any capacity or other limitations of the current operation.

B. Relation to Market and Business Plan

1. Describe how the product sold or service provided is satisfying the market in a unique way and describe the marketplace that exists for the company. List customer needs and how the product or service satisfies them.

2. List the company's target markets and the expected revenue from each. List the company's product lines and the expected profit margin for each one.

3. Describe any advantage or disadvantage which the business has over the competition.

4. List the company's top ten clients and the percentage of total sales attributable to each. List the company's top ten vendors and the percentage of total purchases attributable to each.

5. Explain the methods for penetration of target markets and the cost of each market penetration strategy as compared to that of competitors and industry standards. Describe product development and marketing efforts of the business.

6. Describe existing corporate partnerships and identify corporations that the business would like to target for contracting or procurement relationships.

C. Financial Assumptions and Budgets

1. Describe the financial accounting systems used by the business. Provide copies of the most recent monthly reports produced by these systems (e.g. balance sheet, statement of operations, cash flow, etc.). Highlight needs and plans for financial system changes.

2. Provide an actual operating budget for 1996 and 1997 and a projected budget for 1998, listing detailed revenues and expenses for the business and identifying break-even production or service levels. Describe the pricing structure.

3. Describe the cash flow situation of the business in the last two years and the expected cash flow in 1998. List sources of working capital.

4. Describe the existing capitalization of the business (its constraints on the business,if any) and the expected capital needs for the next three years, together with the assumptions for these needs. List existing banking relationships and potential sources of additional capital.

5. Describe the company's management and fiscal control procedures and systems. List areas that need to be improved.

6. Compute all the "ratios" for the business: Current Ratio, Quick Ratio, Inventory Turnover Ratio, Debt Ratio, Return on Total Assets, Return on Equity, Profit Margin on Sales (with and without subsidy), Gross Margin, Subsidy to Wage Ratio and Percentage Enterprise Subsidy. List the issues and concerns raised in an analysis of these ratios for the business.

7. Describe how you presently track and quantify a social Return on Investment. List the Social/non-monetary goals and mission of your businesses.

D. Relation to Employees

1. Describe the strategy of the business in relation to employees (job training for a business with the goal of outplacement versus staff training for a business with a preference for internal promotion). Describe job training efforts, if any, and the source of most employees. List challenges and needs for job training.

2. Identify and describe any organizational problems relating to the unreliability of the company's work force and any limitations on the company's ability to make output commitments because of such employee unreliability.

3. Describe job placement efforts and record, if any. List key organizations and types of organizations with commitments for outplacement of trained staff or commitments sought.

4. Describe any strategies for employee empowerment, management control or employee ownership (e.g. ESOP).

E. The Future

1. Identify the opportunities for business expansion and the key obstacles to growth. List potential resources to overcome these obstacles.

2. List the three primary benefits you hope to receive from participation in the Venture Fund Initiative.

3. Describe the replicability of the businesses run by your organization. List the key elements required to successfully replicate these businesses.

Footnotes

1 The "Regional Marketplace" reports were written by the convener in each site. All other sections of this report, unless otherwise noted, were written by Jed Emerson with input and feedback from Venture Fund Initiative participating organizations.

2 The terminology used in this field varies and includes social or nonprofit entrepreneurship, nonprofit business, affirmative business and social purpose business. This report uses the term "social purpose business" because it is a positive term and reduces confusion about the existence or lack of profits.

3 The Foundation's report was distributed nationally in September 1996 and, along with other resources for social entrepreneurs, is now available on-line at the Roberts Enterprise Development Fund web Site: www.redf.org.

4 Complete reports are available from the convening organization in each site.

5 "Enterprising Nonprofits," Gregory Dees, Harvard Business Review, January/ February 1998.

6 Chapter 10, "*The U.S. Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments*" presents this same discussion in greater detail. The following paragraphs are taken from that chapter.

7 While the primary focus is, of course, on these six cities, other sites (such as San Francisco) may also have an appropriate pool of practitioners interested in participating in such a network.