

## Social Enterprise: *Proceed, with Caution*

BY STEVEN L. DAWSON

**I**N A BURST of entrepreneurial spirit, the workforce development field is showing new enthusiasm for an old idea: creating “social enterprises” to employ low-income jobseekers.

The theory is enormously appealing. We can create good jobs for constituents who have a hard time finding work elsewhere and the profits will help fund our nonprofit organizations. The reality, however, is far more complicated.

First, the good news. Employment-based enterprise creation can indeed be a powerful low-income employment strategy. For more than three decades, nonprofits have created highly successful subsidiaries and worker-owned businesses to employ low-income workers. Some are social-mission employment agencies, like Chrysalis Enterprises,<sup>1</sup> which over the past 25 years has provided transitional job opportunities to thousands of low-income workers in Los Angeles. Others are for-profit, worker-owned businesses, like the 30-year-old Cooperative Home Care Associates,<sup>2</sup> which now employs more than 2,000 home care aides in the South Bronx.

Yet the recent rush toward social enterprise investments is often thick with over-promise. After six years and promises of creating 5,000 jobs, the three Evergreen Cooperative enterprises in inner-city Cleveland today employ in total fewer than 150 workers—despite investing more than \$17 million in construction costs alone.<sup>3</sup> Over the past two years, the New York City Council has committed over \$3 million to encourage worker-owned enterprises as “a path to economic self-sufficiency” for New York families,<sup>4</sup> yet so far, most of the resulting jobs are part-time with few benefits—with incomes averaging \$12,000 annually.<sup>5</sup>

This paper strongly encourages workforce practitioners and their funders to consider creating social enterprises to employ low-income constituents, but with eyes wide open. They should do so strategically, in a way that maximizes social impact built upon hard-nosed business practices. They should do so thoughtfully, reaching out early to learn from those with years of hard-fought experience. And they should do so transparently, sharing their lessons openly and honestly with others within the workforce field.

STARTING A LOW-INCOME employment enterprise is a high-gain, high-risk strategy. The benefits are many: We can directly employ our low-income constituents; have more control over job quality; learn from inside the industry what it really takes to develop better jobs; provide a sustainable platform for low-income worker voice; and

in the best of circumstances, promote “best practice” job-quality strategies to leverage systemic change.

Yet do not enter here lightly—mission alone is not a business strategy. The odds of failure for *any* type of small- to medium-sized start-up are high: The most optimistic surveys of enterprise longevity predict that at least half of new U.S. businesses will fail within five years.<sup>12</sup> From a non-

profit’s perspective, shutting down a failed business venture is far more painful, and more public, than simply ending an unsuccessful grant-funded initiative. And for low-income workers, closing a business they themselves helped start will only add salt to the wounds of unemployment.

The hard truth is that most workforce practitioners and their funders have little experience creating and running an enterprise. This lack of business knowledge results in a naiveté about how to select appropriate business opportunities, properly finance and staff them, manage the resulting risks and leverage potential success. Running a business really is different from running a nonprofit workforce program—or managing a grant portfolio—and requires a fundamentally different set of skills, knowledge, resources and relationships.

LESSONS LEARNED — BEATING STEEP ODDS. Workforce enterprise entrepreneurs have learned crucial lessons over the past 35 years—from both success and failure. The most important:

*“Starting a low-income employment enterprise is a high-gain, high-risk strategy.”*

**Be clear of purpose.** Are you creating an enterprise in the hope of generating surplus to fund your nonprofit? Or in the hope of directly employing your low-income constituents? You will most likely have to choose between the two.

If your desire is to help fund your nonprofit to diversify away from philanthropic support, you can look to several enterprise models that are mission-related, yet are *not* designed to directly employ low-income constituents. For example, the *Workers Defense Project* (WDP) in Texas has formed the “Better Builder Program,”<sup>13</sup> which provides certification for construction projects that create safe, high-quality jobs, generating sustainable revenue from developers and government agencies. This and similar initiatives—supported by the national nonprofit *Workers Lab*<sup>14</sup>—serve a worker-based mission, but are not designed as a low-income *employment* strategy.

However, if your primary intent is to employ your low-income constituents, then it is best to curb expectations of surplus revenue. Even if the proposed enterprise were to produce net income after covering all its own operating costs—at best achieved after years of hard effort and good fortune—consider just a few of the many prior calls made upon that surplus: repayment for years of start-up losses and the principle on start-up loans; investment in new equipment; funding of reserves for future years of uncertainty; and of course, improved compensation, training opportunities and working conditions for your constituents.

Only after all these internal requirements have been satisfied would it be responsible to direct a share of the enterprise’s surplus into the sponsoring organization’s coffers. A more realistic expectation, achievable only over time, is for the social enterprise to share certain expenses with your sponsoring organization—office space, accounting and other back-office services, a portion of workforce training costs—providing modest relief to your sponsoring nonprofit’s budget.<sup>15</sup>

**Design for workforce outcomes.** Although many enterprise initiatives are funded under the banner of “job creation,” such initiatives rarely *create* jobs. Often, they simply move jobs from one neighborhood to another.

For example, your nonprofit just convinced a major “anchor” healthcare institution to contract with your new enterprise to provide cleaning services for several of its office buildings. Great news, but certainly those offices are currently being cleaned by another company, likely employing workers who look very much like your own constituents. If your mission is primarily neighborhood-based, then simply taking jobs away from some workers in one neighborhood to employ workers in your own may be a net plus for your organization, but it is a net zero for employment within your region.

Instead, you will have truly advanced a *workforce* mission only if your enterprise creates *net* new jobs—particularly if it hires a workforce more diverse than that which the sector currently employs—or if your jobs are of higher quality

## Documenting Impact

The benefits of employment-based social enterprises are now being carefully documented across the country:

► **REDF** is a nonprofit development organization that deploys capital and technical assistance to social enterprises across the country.<sup>6</sup> In 2015, REDF commissioned a rigorous, five-part *Mathematica Jobs Study*<sup>7</sup> that found the rate of employment for 282 workers in seven REDF-supported organizations *tripled* in comparison to a control group, calculating a return on investment to society of \$2.23 for every dollar invested.

► The **Democracy at Work Institute** (DAWI) is dedicated to building the field of worker cooperative development across the country.<sup>8</sup> DAWI catalogues effective practices of successful worker cooperatives, and tracks the number, type and size of all known U.S. worker cooperatives. They will publish a national *Worker Co-op Census* in 2017.

► **The ICA Group** provides capital and technical assistance to worker- and community-owned businesses.<sup>9</sup> ICA also staffs the *Alternative Staffing Alliance*, a network of more than 50 mission-driven “alternative staffing agencies” across the country, maintaining an extensive benchmarking database of business and mission outcomes.

► **Project Equity**, whose mission is to foster economic resiliency in low-income communities,<sup>10</sup> has published an extensive analysis of the success factors required for employee-based enterprises, in *Worker Cooperatives: Pathways to Scale*.<sup>11</sup>

than the ones you are replacing. Much can be learned from successful employment-based initiatives, across both rural and urban settings: the \$1.2 million *Opportunity Threads* in Morganton, North Carolina (see case study, page 5);<sup>16</sup> the \$2.2 million *Women’s Bean Project* in Denver, Colorado;<sup>17</sup> the \$6.4 million *Homeboy Industries* in Los Angeles, California;<sup>18</sup> and the \$7 million *Cara Program* in Chicago, Illinois.<sup>19</sup>

Also, note that a wide range of employment-based social enterprises successfully target young adults, including several enterprises sponsored by *Worcester Roots* in Worcester, Massachusetts;<sup>20</sup> the many local initiatives sponsored by the public *California Conservation Corps*;<sup>21</sup> and *Lindy & Company*, which employs homeless youth in Dayton, Ohio.<sup>22</sup>

**Select your sector carefully.** The tough choices start here. Your selection of enterprise must match your mission to support stable, decent employment for your low-income constituents. That mission—combined with constrained resources—has typically led nonprofits to choose labor-intensive enterprises such as house cleaning, childcare, eldercare, food service, taxi services, security agencies, low-end manufacturing and sub-contractor construction.

Choosing a more capital-intensive business—perhaps a high-end manufacturing business or a high-tech software company—might indeed result in a more profitable enter-

prise. Yet few workforce nonprofits are well-positioned to pursue that course. By definition, capital-intensive businesses require much more money per job to initiate. They also require far more sophistication to manage, and the resulting jobs require a level of expertise that the nonprofit's low-income jobseekers typically do not possess.

If, as is likely, you focus on labor-intensive industries, avoid defaulting solely to the type of work your constituents are accustomed to performing. Instead, base your selection on a thorough study of a wide range of realistic market demands. And while the temptation—due

*“Unless you succeed as a business ... you will never achieve your social mission.”*

to funding deadlines and stakeholder pressures—may well be to speed through this planning phase, it is wise to take your time. Most importantly, be fully prepared for the possibility that the proper conclusion to your feasibility assessment may be: “not feasible.”

Even if your careful study offers a green light, acknowledge the business challenge that your employment mission inevitably

creates: You are intent on providing better pay, better benefits, better training and better working conditions—all of which make for a more “expensive” worker. Meanwhile, your business competitors are doing everything they can to *minimize* their labor expenses in order to underprice you in the marketplace.

To address this labor-rate disadvantage, you must enter your start-up with a counter advantage of your own. That could be an exceptionally talented manager who thoroughly knows the industry, a “sheltered market” provided by a supportive purchaser, superior technology, or a large financial cushion to fund aggressive marketing and absorb initial losses.

All of the above would be even better. Yet far too often, entrepreneurial hubris leads to the false assumption that the new business will automatically provide a higher-quality service or product. Compared to a race-to-the-bottom pricing strategy, pursuing a high-quality competitive strategy requires ceaseless attention to detail, constant investment and reinvestment, highly accurate information loops, and a large helping of good luck.

Finally, avoid an all-too-common social enterprise fiction: that customers will frequent your business, and perhaps even pay a premium price, simply because yours is a “social purpose enterprise.” Many a failed cooperative cafe and neighborhood construction company have been lured down that path. Social mission can spice a market strategy—if thoughtfully implemented—but should never be relied upon as the main ingredient.

**Do your homework.** Unless you succeed as a business—offering timely service, high-quality products, and

competitive prices—you will never achieve your social mission. Employment-based social enterprises are subject to all the rigors of any business; each must navigate the unforgiving demands of “money, management and market.”

Yet many foundation-funded social enterprises have recently made classic business errors that due diligence could have avoided. To name just three examples from the past few years: One social enterprise failed to secure a non-compete clause from senior management, resulting in a key manager leaving to establish a competing enterprise. Another failed to realize that a public works contract required that an applicant have at least one year of operating experience, contributing to the demise of the start-up. Yet another failed to understand that an anchor institution “partner” had existing contracts that precluded contracting with the new enterprise, severely crippling the start-up.

There are many other critical lessons that were learned long ago, only to be recently ignored: too much debt and too little equity; hiring managers with industry expertise but limited participative management skills; or placing workers in positions of responsibility too quickly, with too little training and support. Fortunately, many seasoned enterprise assistance organizations are excellent sources of these essential “lessons learned,” including: REDF Workshop.org;<sup>23</sup> the Center for Family Life;<sup>24</sup> the Federation of Southern Cooperatives;<sup>25</sup> the Democracy at Work Institute;<sup>26</sup> the ICA Group;<sup>27</sup> Project Equity;<sup>28</sup> the Arizmendi Association;<sup>29</sup> Margaret Lund & Associates;<sup>30</sup> The Working World;<sup>31</sup> Zingermann’s Zingtrain;<sup>32</sup> Rolfe Larson Associates;<sup>33</sup> and the Ohio Employee Ownership Center.<sup>34</sup> Separately, and in many cases together, these organizations are now building local ecosystems to promote and support sustainable social enterprises.

**Give yourself room to stumble.** While business success is the essential long-term goal, you will inevitably make plenty of mistakes along the way. When building a social enterprise, everything takes longer; everything is costlier; everything is harder than you initially assumed.

So, give yourself some running room. From the very outset, articulate *realistic* expectations to your funders, constituents, financiers and stakeholders. In particular, do not hype your enterprise before it has been proven sustainably profitable, and certainly do not promote your enterprise as a “model” until you have demonstrated that it can be replicated successfully elsewhere, at a reasonable cost.

For you, the tragedy of over-promotion will be that others will measure your accomplishments against your promises as a glass half-empty—your very real successes overlooked and undervalued. For others, the tragedy of your over-promotion will be to damage the concept of social enterprise development for future social entrepreneurs. Despite the relentless pressure of fundraising, the secret to a *sustainable* enterprise strategy is as simple as it is difficult: Under-promise and over-perform.

**Leverage your hard work and good fortune.** If you beat the odds and establish a profitable enterprise, what have

you accomplished? For all your precious resources and hard work, perhaps you have employed 20 constituents? 50? The unemployment rate in your neighborhood, let alone your city or region, will take little notice.

Given all you have invested, and risked, you will want to achieve far greater impact. Along the road to achieving profitability—which will likely take more than a single grant cycle’s effort—the leaders of your enterprise will have gained invaluable knowledge, skills and relationships. Those assets can in turn be leveraged in a variety of ways. For example, *First Step*,<sup>35</sup> an alternative staffing organization in Atlanta, has significantly expanded its initial enterprise, now employing 1,000 low-income constituents daily in temporary and permanent assignments. And in partnership with the *Community Housing Partnership’s Solutions SF*,<sup>36</sup> which provides staffing services to property managers in San Francisco, Chrysalis Enterprises is now replicating parallel enterprises in various local markets across California.

Yet scale is not the only path to impact. Even more powerful is a “systems strategy” that leverages change, beyond the walls of the enterprise, into the broader labor market.

For example, PHI (Paraprofessional Healthcare Institute)—one of the first nonprofit “sectoral employment” intermediaries in the U.S.— has for 25 years pursued a national leverage strategy on behalf of low-income, direct-care workers. Over those years, PHI has drawn industry-specific knowledge and relationships from its two affiliated for-profit homecare cooperatives in the Bronx and Philadelphia, which together employ more than 2,500 inner-city staff.

In turn, PHI has maximized labor market impact in three mutually reinforcing ways: providing supervisory training and executive coaching to mainstream healthcare employers; educating key stakeholders (employer trade associations, health consumer organizations and organized labor); and influencing public legislation and regulatory reform. The result has benefitted not hundreds, but hundreds of thousands of direct-care workers and their low-income clients across the country.

This is the power of marrying a sectoral employment strategy with enterprise creation: focusing exclusively on a specific industry, and then becoming an employer within that industry. The combination is mutually beneficial: The legitimacy of being a successful employer leverages influence within both industry and policy arenas, while knowledge of the larger industry and policy environments strengthens the enterprise.



A CALL TO FUNDERS—FOR TRANSPARENCY and humility. As interest in employment-based social enterprise increases, foundations and government agencies should require of their grantees, and themselves, greater transparency about what has and has not worked. Perhaps then we would not witness such frequent, and costly, repetition of past mistakes. Bad enough to reinvent the wheel; far worse to reinvent the flat tire.

Given the fundamental strategic differences that exist between traditional workforce development and social entrepreneurship, funders should look afresh at how they assess, support and measure social enterprise initiatives:

**Acknowledge the necessity for an entirely different skill set.** When considering support for an enterprise strategy, recognize that workforce nonprofits typically have limited business expertise on their staffs. This lack of

experience not only hampers the ability of nonprofit leaders to assess and build successful enterprises, it may even limit their understanding of how an enterprise initiative will impact their own organization’s broader strategy.

Insist that a potential grantee reach out to competent, experienced social enterprise expertise—as early as possible in the process—to fully assess market potential, business leadership, and financing needs. Most importantly, when considering con-

sultants, a grantee should not automatically defer to conventional business advisors and academics who may have impressive mainstream credentials, but limited community-based enterprise experience. Instead, they should consider organizations with decades of experience creating social enterprises, including those named on page 3, that have focused explicitly on balancing business savvy with *workforce* mission.

**Hold fast to explicit employment expectations.**

When starting an enterprise, nothing goes exactly according to plan, and funders must be patient. Yet it is essential to remember that the fundamental purpose of an employment-based social enterprise is to provide stable jobs for low-income people. Other important benefits may well accrue, including worker voice, pride and education, yet those are all secondary to the primary purpose of securing stable employment. The funder should always hold fast to the core *employment* definition of enterprise success, and—should the business fail to meet its employment goals—not fall prey to a grantee emphasizing only ancillary, non-economic benefits.

**Craft a “minimum data set.”** As demands increase within philanthropy for “evidence-based” practices, it is difficult to heed those calls when evidence is not shared. The place to start is to forge consensus on a “minimum data set” required of all employment-based social enterprises—both in the planning and then in the assessing of any publicly-or

*(continued on page 6)*

# CASE STUDY

## *Opportunity Threads and the Carolina Textile District*

Six years ago, **Opportunity Threads** (OT)<sup>37</sup> took root in the mountains of western North Carolina. Today, OT is a profitable textile cooperative employing more than 20 workers—most all of whom are Mayan immigrants, initially drawn from their Guatemalan homeland to work in the region’s hard-labor poultry-processing industry.

Textiles is a “heritage industry,” tightly woven into the history of the North Carolina hills. Once employing 150,000 workers across the state, the textile industry suffered abrupt disruption from trade policy and automation, deeply wounding the region’s economy. Still, 30,000 skilled textile workers remain employed across North Carolina, and “re-shoring” of higher-end textiles is now stirring a renewed entrepreneurial spirit.

Opportunity Threads was sparked by Molly Hemstreet, born locally in Morganton, North Carolina, who organized OT as a democratically-owned worker cooperative. Today, OT is a \$1.2 million operation and a proud example of the “maker” movement of small- to mid-sized “craft production” manufacturing enterprises.

Though OT is a cut-and-sew operation—typically crouched at the bottom of the supply chain, with razor-thin margins and minimum-wage labor—Molly instead positioned the cooperative as a direct-to-consumer producer of high-end textiles, eliminating several middlemen and generating more profitable revenues. OT now pays its workers \$15/hour plus benefits, offering full-time work, cross-training, financial literacy and opportunity for ownership.

**Leverage.** Opportunity Threads would be a remarkable story even if it were told solely as a courageous initiative employing an enclave of war-weary Guatemalan immigrants. Yet far from

***“Opportunity Threads has become the prime catalyst of a ‘value chain’ network of textile enterprises...”***

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being an isolated enterprise in white, working-class hill country, OT has become the prime catalyst of a “value chain” network of textile enterprises throughout the region. All the businesses in this network are small- to mid-sized, locally-owned operations that for decades fulfilled various textile manufacturing roles—and until recently, treated each other primarily as competitors.

This is true leverage. As OT grew successful over the years, it faced a choice. It could hoard its growing list of production orders—constantly expanding and contracting its workforce to accommodate order flow. Instead, it offered to cooperate with some of its competitors, building flexible partnerships to take on larger orders, yet with each partner remaining independent, able to cluster together and then break apart depending on demand.

Soon, OT’s orders began requiring ever more specialized links in production—designers, pattern makers, fabric manufacturers, packaging companies, dye houses, printers and other cut-and-sew manufacturers. Forging this increasingly complex value chain in turn allowed the emerging network to bid on more sophisticated, and more profitable, client orders.

**The Carolina Textile District.** To formalize this value chain, Molly turned

to Sara Chester, project manager at Burke Development, Inc. (BDI, a regional economic development organization)<sup>38</sup> and Dan St. Louis, founder of the Manufacturing Solutions Center (MSC, a type of manufacturing extension service).<sup>39</sup> Together they formed the Carolina Textile District (CTD).<sup>40</sup> Organized as an LLC, the CTD catalogues each participant’s products, services, capabilities, and pricing structures. The CTD then analyzes potential clients’ production needs, pairing them with appropriate members in the value chain. Today, 21 key CTD enterprises within the network employ more than 1,100 production workers.

The primary motivating factor for CTD participation is access to larger and more profitable markets—of the 21 CTD partners, 75 percent expanded their workforce within the past year. Yet these enterprises also share fundamental values, all grounded in a profound sense of place, pursuing: environmental sustainability; collaboration over competition; local ownership; and self-determination. And in North Carolina, which has the second lowest rate of unionization in the U.S., the CTD’s commitment to high-quality labor practices provides crucial stability to the region’s working class families—both native and non-native born.

**The vision.** The three entrepreneurs have now formed a new nonprofit, The Industrial Commons, to provide CTD educational, worker advocacy, and infrastructure services. The Commons is currently assisting several retiring owners to sell their businesses to their employees. The legacy of textiles as an extractive industry is fading, replaced by a labor-based vision of high-quality production, cooperative ownership and local control.

(continued from page 4)

philanthropically-supported initiative. Minimum metrics should include:

- ▶ Who is employed—a demographic profile of the targeted workforce
- ▶ Where the enterprise is based—a demographic profile of the targeted neighborhood
- ▶ How many are hired
- ▶ How many remain employed\*
- ▶ Average hours worked\*
- ▶ Average annual income\*
- ▶ Cost per job retained† (grant dollars / investment dollars)
- ▶ Total funding and financing†
- ▶ Cumulative profit or loss†
- ▶ Ways in which the initiative has leveraged change beyond the enterprise

\* At one-year since hire, and annually thereafter.

† Annually, since start-up

These data emphasize *workforce* outcomes, which will prove useful when comparing across other workforce employment models. Whichever specifics are eventually embraced, most important is a commitment by both practitioners and funders to share openly their lessons learned—conserving precious workforce dollars, and encouraging a genuine learning community.

**Acknowledge the funder’s own limitations.** Just as most nonprofit workforce organizations do not employ experienced business leadership, the same is generally true for the staffs of many foundations and public agencies. When entering this new territory, a measure of humility is appropriate. Even before considering a specific initiative, funders should invest time and effort in understanding what has been learned by others in this social enterprise field over the past 30 years. Reaching out—early—to experienced organizations such as those named on page 3 will avoid significant frustration and misdirected resources.

CREATING A NEW SOCIAL ENTERPRISE is an extraordinarily exciting endeavor. For a workforce entrepreneur, there is nothing quite like succeeding simultaneously in the “straight” world of business and the “mission” world of social service. The depth of knowledge achieved by working inside an enterprise—facing daily business challenges and directly shaping job design—can help workforce practitioners become more confident and credible advocates for their low-income constituents.

Yet success is far from guaranteed. And failure falls unevenly: When a social enterprise closes, the developers and funders may take a hit to their reputations, but they will likely still keep their jobs. Those economically vulnerable workers whom we have asked to risk their live-

lihoods—and their hopes and aspirations—are likely to lose much more.

Workforce practitioners and funders should enter this field with great passion and creativity—while taking full advantage of the hard-won lessons of those who have gone before. With thoughtful caution and rigorous transparency, the workforce community can invest in a wide range of social enterprises, leveraging true systems change for our nation’s low-wage workers.

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This opinion brief is the fourth in a series on job-quality issues for *The Pinkerton Papers*. For reactions, disagreements, questions and competing strategies, go to the “Pinkerton Papers” tab at [www.thepinkertonfoundation.org](http://www.thepinkertonfoundation.org), or directly to the author at: [StevenLDawson@outlook.com](mailto:StevenLDawson@outlook.com).

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