Weighing Options, Confronting Obstacles

Before determining how your organization can generate revenue with an earned-income enterprise, board members should discuss the following questions to determine whether a new business venture would be worthwhile for the organization:

What is your current economic situation? Entrepreneurship is not a get-rich-quick scheme for nonprofits. It often takes two to three years for a small business to break even, let alone generate a profit. Organizations launching business ventures need to be financially stable and able to afford the investment required.

Is there a need to diversify funding? If your organization gets most of its funding from one source, social entrepreneurship may be an option worth considering. Organizations that are getting sufficient funding from a broad variety of sources may not have as great a need for alternative sources of revenue.

How good is your organization at traditional development? If you know your organization could hire development staff that could bring in more money than a business could, your organization should probably stick with traditional fundraising. If, however, your organization has a hard time finding funding from traditional funders or existing funding relationships are reaching a mature level, it may be time to try a business venture.

Have you effectively tapped your development opportunities? Is your list of potential funders continuously growing, or has the funding well run dry for your organization? Organizations that have only touched the tip of the iceberg when it comes to development opportunities may not need to consider business ventures.

How stable is your management situation? An organization that launches a business venture must be secure. Times of high staff turnover or executive transitions are not the times to start a new business venture.

Are you an entrepreneurial organization? Is your organization flexible and open to new ideas, or do staff and board members tend so stick to the traditional, more conservative ways of doing business? If your organization has a history of being innovative and resourceful, it will be more likely to have success with entrepreneurship.

What are the opportunity costs? In other words, are there other ways the money might be spent more productively? For example, if a nonprofit invested in a small business activity when is could have used that money to hire a fundraiser who could bring in more money than the business activity, the opportunity cost is the money invested in the business that is lost because hiring a fundraiser would have been more effective.

What are the risks? The board and staff must assess the potential risks before deciding whether the organization is ready to try a new business venture. It is worth noting that the risks can be multiple and not limited to economic factors.

What is your risk profile? Staff members, board members, and constituents also need to be willing to change and to take risks, even if that means going against institutional culture. In order to make the organization more comfortable with taking risks, there should be a clear connection between the venture and how it will support the organization's mission. If staff and board members can see that the earned-income strategy does indeed relate to the organization's mission and could possibly make the nonprofit more effective, they will be more likely to be supportive.

Do you have the capacity to support a social enterprise? In addition to money, an organization needs time, people, and energy to support an enterprise. Few nonprofits have the resources to spend the vast majority of their time on a new business, so they may have to spend a year or more planning and saving for a venture.

How will external stakeholders (funders, clients, constituents, or the general public) respond to a social enterprise strategy? Their reaction to a venture or partnership strategy is important, especially if an uneducated impression could pose problems. For example, some funders may decide to cut funding because they think the organization is becoming self-sustaining and no longer needs outside support. Board and staff members should identify all external stakeholders before launching a venture to ensure that the organization maintains proper communication with these stakeholders throughout the planning process and at strategic intervals thereafter.

Is your staff ready to embrace entrepreneurship? If you don't have support and commitment from the staff, daily demands could end up taking priority over the earned-income strategy. Staff members must understand the extra effort that a business venture takes.

There are many potential roadblocks that could derail your organization's success with a social enterprise strategy. The board can play a critical role in helping the nonprofit avoid these obstacles or at least identify them as they begin to occur:

Accountability: Unlike nonprofit accountability, business accountability is fairly straightforward. You either hit your revenue and profitability targets or you don't. Don't try to explain away bad results; instead deal with them.

Analysis paralysis: No business was ever started with a perfect understanding of the business opportunity. Over-analyzing the options can lead to confusion and uncertainty.

Lack of Buy-In: Getting everyone on the same page, especially key staff and board members, is essential to long-term success. Without the requisite organizational support, your business can quickly become subject to shifting priorities.

Lack of communication: You can never over-communicate, especially at the beginning of the business planning and roll-out process. Make it a priority to keep relevant stakeholders in the loop. To build their trust, regularly inform them of both your successes and failures.

Lack of customer satisfaction: In business, the customer is always right. Lose sight of this fact and you will be out of business. Nonprofit business ventures will probably have even less margin for error than for-profits in this regard.

Unclear expectations: Make sure the board and staff have a clear definition and understanding of success for the venture strategy. It is easy to get off track and spend time and energy on things that don't really fit with your initial expectations.

Funder misperceptions: Not all funders view nonprofit ventures as a good thing. Audit your existing funding relationships and be sure to educate key funders as to why this is a positive development for your nonprofit.

Lack of knowledge or talent: Don't assume you have the talent in-house to effectively assess, implement, and manage the opportunity. Moreover, the venture will require ongoing support that will probably not fit with existing capabilities.

Poor implementation: Most ventures break down during implementation. It's one thing to conceptualize and plan a venture strategy. It's quite another to execute your plan. Plan your work and work your plan.

Legal or tax complications: There are multiple legal and tax issues that need to be addressed as part of a venture strategy. Consult legal and accounting professionals to make sure you are proceeding as you should.

Lack of momentum: Organizational fatigue will inevitably set in as you work through the planning and implementation process. Build in timelines and milestones to keep yourselves on track and celebrate short-term wins as they occur.

Insufficient capital: Many businesses end up failing because they were undercapitalized or didn't think through different business scenarios. Carefully and regularly assess your cash-flow needs and don't try and take financial shortcuts to success.

Politics: Don't assume that success with your venture will be enough to satisfy all stakeholders. Continue to validate the mission impact. And keep in mind that your for-profit competition may cry foul if you are too successful, so be ready to respond.

Lack of preparation or due diligence: Analysis paralysis is one potential roadblock, but so is the opposite--failing to do your homework on the feasibility of the opportunity. You don't necessarily have to be an expert, but you must understand what you're getting into. Be careful with expenses and conservative with revenue projections.

Inappropriate systems or organization: Businesses often require a different organizational structure than nonprofits, and the relationship between the nonprofit parent and the business should be carefully structured, evaluated, and monitored.