

Author(s): Neel Hajra, 2010

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PubPol 671: Policy & Management in the Nonprofit Sector

Lecture 23: Social Enterprise Wrap-Up; Nonprofits & For-profits

Neel Hajra

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- **Arts 4 Youth:** “Arts 4 youth believes that arts education and appreciation is integral to youth development. A4Y will foster arts appreciation within Ann Arbor’s elementary and middle school students through after-school and summer arts programs.”
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- **Input Measures**
 - Student enrollment into A4Y programs
- **Output Measures**
 - Program attrition rate
 - Evaluation by student on satisfaction/effectiveness of program
 - "Arts appreciation test" scores for students
- **Outcome Measures**
 - # or % of students who continue to pursue something in the arts
 - External assessment on child's art appreciation (by parents or teachers)
 - # or % of students who pursue something in the arts in the long-term



Arts4Youth Services

- **AFTER School program**
- 3 programs for elementary, 3 for middle school, Tues – Thursday
- elementary – variety, includes painting, drawing, clay
- group programs – paint murals in community areas
- **middle school**
- group programs – paint murals in community areas
- End of session art show, for murals could be a traveling art show
- **Summer programs**
- 2 elementary school, 2 for middle school month long half-day summer camp
- one individual, one group project. One of these would be an outdoor art experience – take students out of the classroom, inspire them w/ nature
- **Geography**
- Ann Arbor school district, elementary and middle school age
- 200 students per semester, 300 student

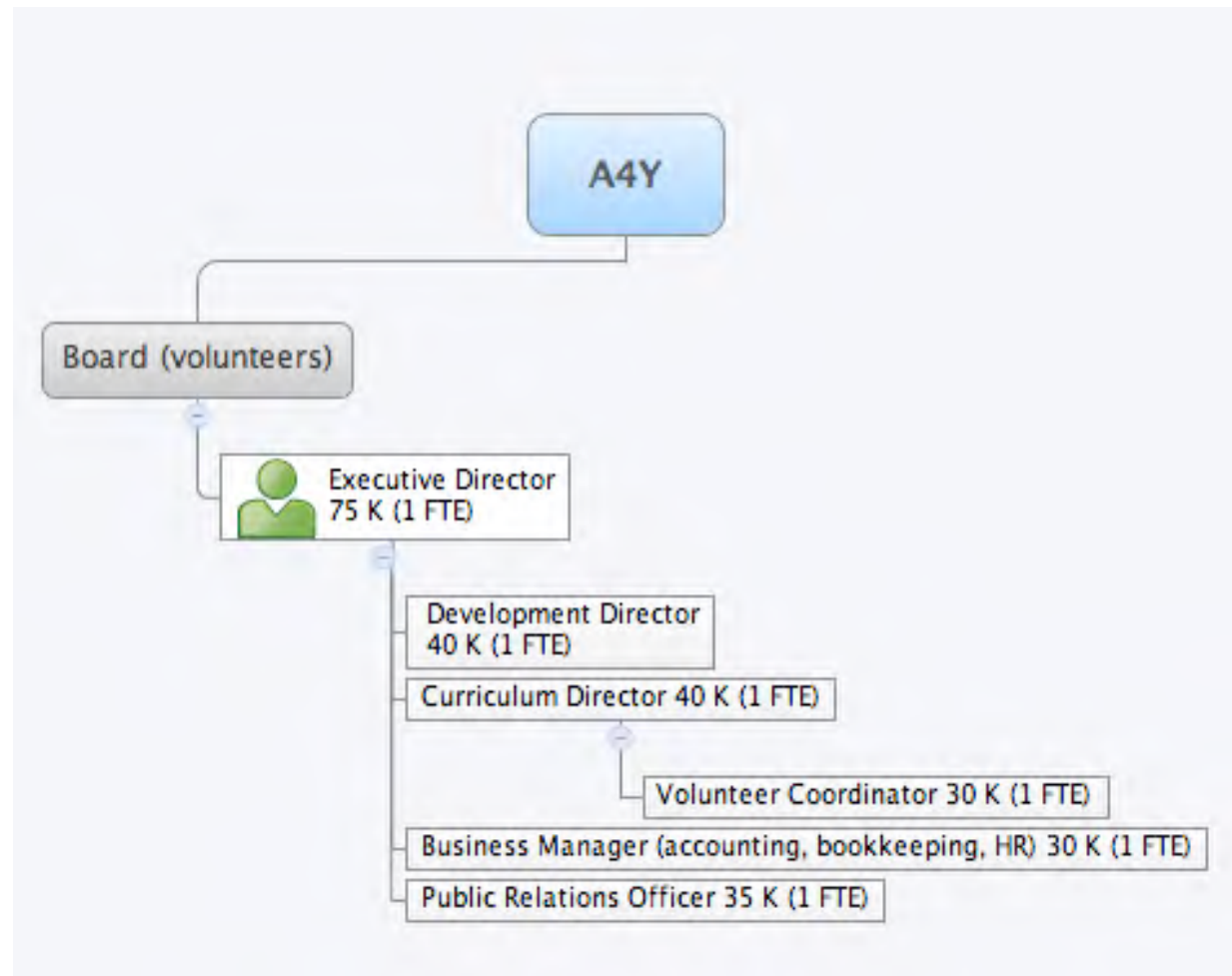
- Volunteers lead classes in semester, hire part-time staff for summer workshops



Arts4Youth Funding

- Local government, 35%,
- Foundations, 35%
- Corporate 10
- Individual 20 %

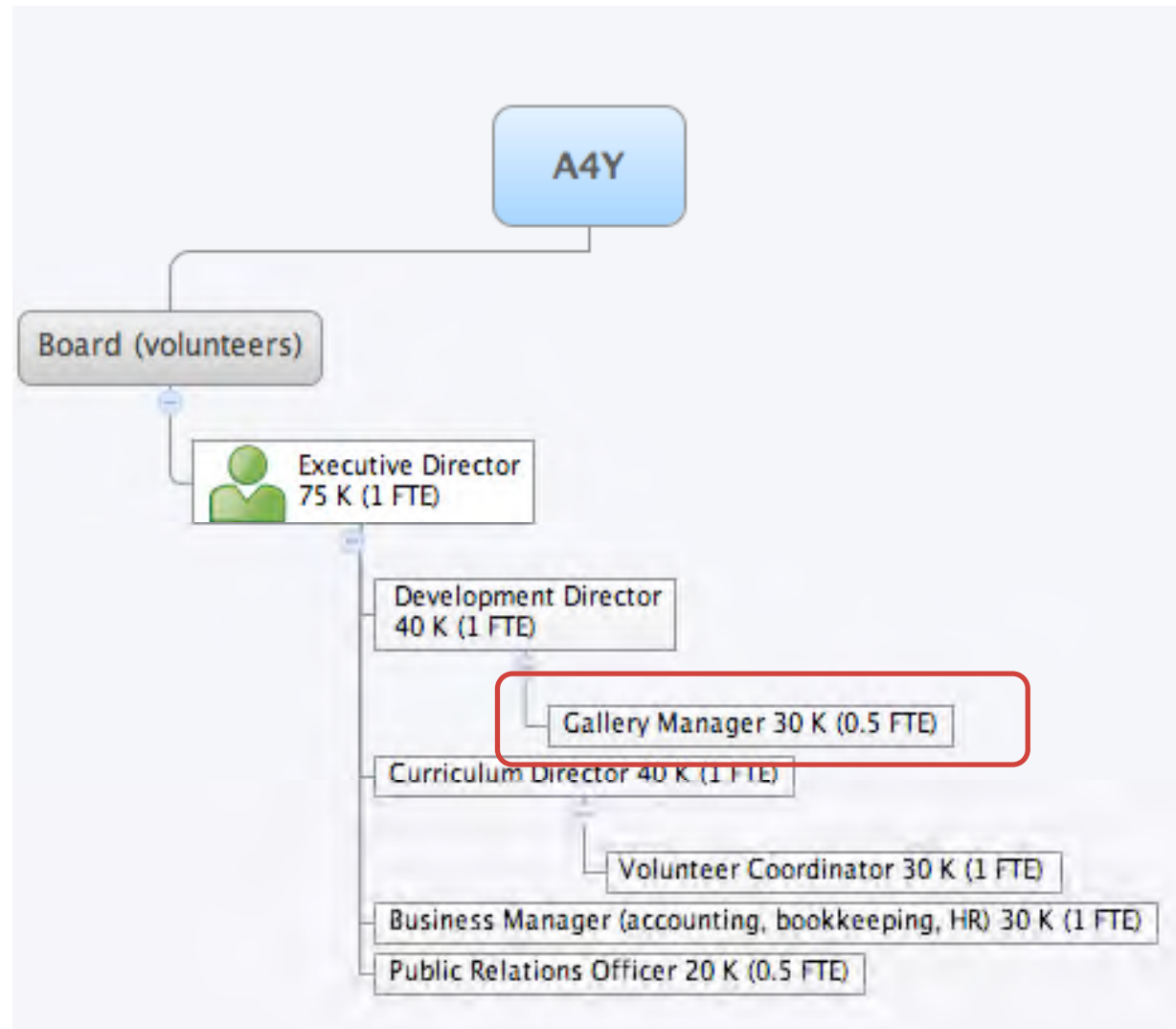
Arts4Youth Org Chart



Arts4Youth Social Enterprise

- **Fees** – semester programs - \$100/semester/class
- **Fees** - summer programs - \$250/semester/class
- **Classes for adults with higher fees** that could subsidize the youth classes (include more high-demand art topics areas like photography, videography, increase art appreciation topics)– shorter series, \$450 class – offer more classes to coincide w/ art fair
- **Solicit donated items (art) which we could auction off - \$50,000**
- **Set up an art gallery** (local professionals), require x % commission on the sale of items \$75,000-\$125,000 – target art fair participants as partners – so that we could have art for sale from local artists as well as guest artists


Arts4Youth Org Chart Changes

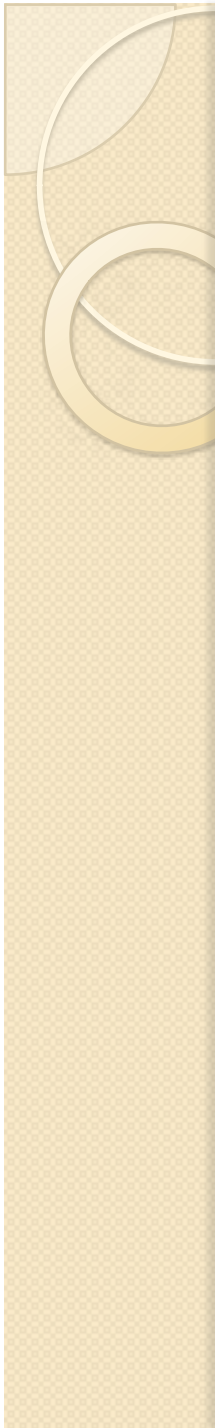





Arts4Youth Infrastructure, Funders

- **Board:** Recruit board with more knowledge of fine art and galleries, Recruit volunteers w/ other skills (e.g. photography, videography, more technical skills, art history)
- **Infrastructure**
 - will need **space for art gallery**, in prime location
 - **different skill set for marketing art gallery** as business than as a charity
 - PR manager will need **a lot of PR experience** around industry, gallery manager should also have this skill
 - Will also introduce **new market audience:** adults
- **Funders**
 - May attract higher percentage of donations from individuals since we would attract individuals with higher income who may not have heard about us before
 - Corporate funding might increase b/c their staff may be students in the classes
 - May lose local government support
 - We don't need different levels of funding

- 
- **Arts 4 Youth:** “Arts 4 youth believes that arts education and appreciation is integral to youth development. A4Y will foster arts appreciation within Ann Arbor’s elementary and middle school students through after-school and summer arts programs.”



 SergioDJT, Flickr

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- **Ann Arbor Stars: “Ann Arbor Stars seeks to engage and inspire art appreciation in Ann Arbor low-income middle school youth through an active theater arts experience”**
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Metrics

- **Alumni involvement in the program and the referral rate of students from alumni.**
- **Former students participation in continuing arts programs (i.e. high school drama, debates, etc.)**
- **High school graduation rates of participants.**
- **Post-secondary education of participants (i.e. college, art school, etc)**
- **Qualitative self testimony of students' excitement of engaging in the programs.**



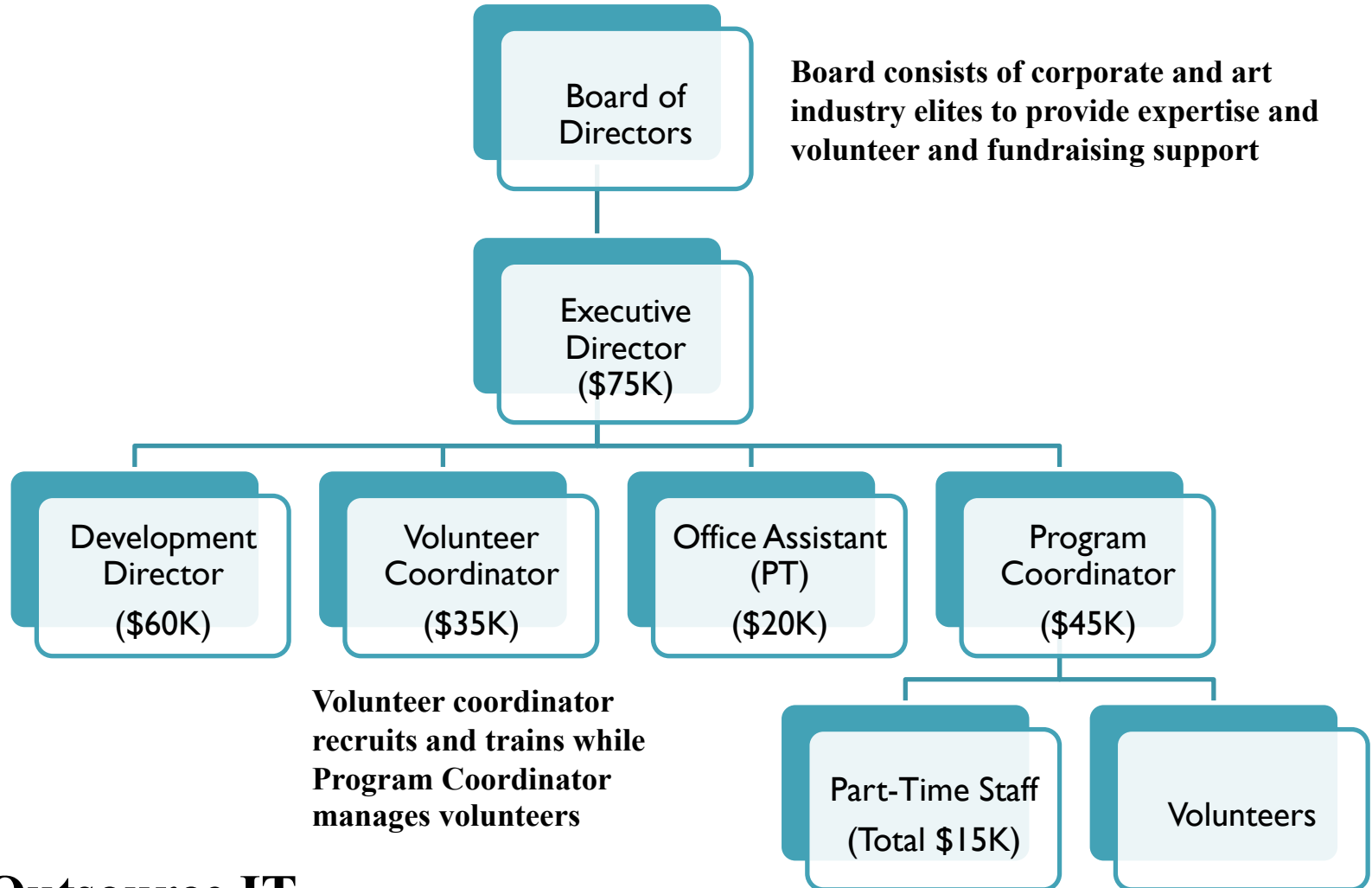
Ann Arbor Stars Services

- **Afterschool, weekend, and summer camp programs** where low income middle school students participate and create shows, develop theater related skills, and experience other theater productions
- **Create 3 shows a year**
- **Scope:** Low-income children recruited throughout the city of Ann Arbor with concentrated efforts in affordable or public housing regions

Ann Arbor Stars Funding

Funder	Percentage
Foundations	20%
Individual Donors	40%
Government	10%
Corporations	30%

Ann Arbor Stars Org Chart



Outsource IT

Ann Arbor Stars Social Enterprise

Sales Assumptions

4 Shows a year

200 attendees per show

Sales Breakdown

% of Sales Season Price

For families of low-income students	10%	\$0.00
Entry level season ticket	40%	\$150.00
Silver level season ticket	20%	\$250.00
Gold level season ticket	10%	\$500.00
Platinum season ticket	5%	\$1,000.00
Individual ticket, annualized	15%	\$260.00
Weighted Average Season Price		\$249.00

Revenue from ticket sales \$49,800.00

of workshops per year 20

Participants per workshop 20

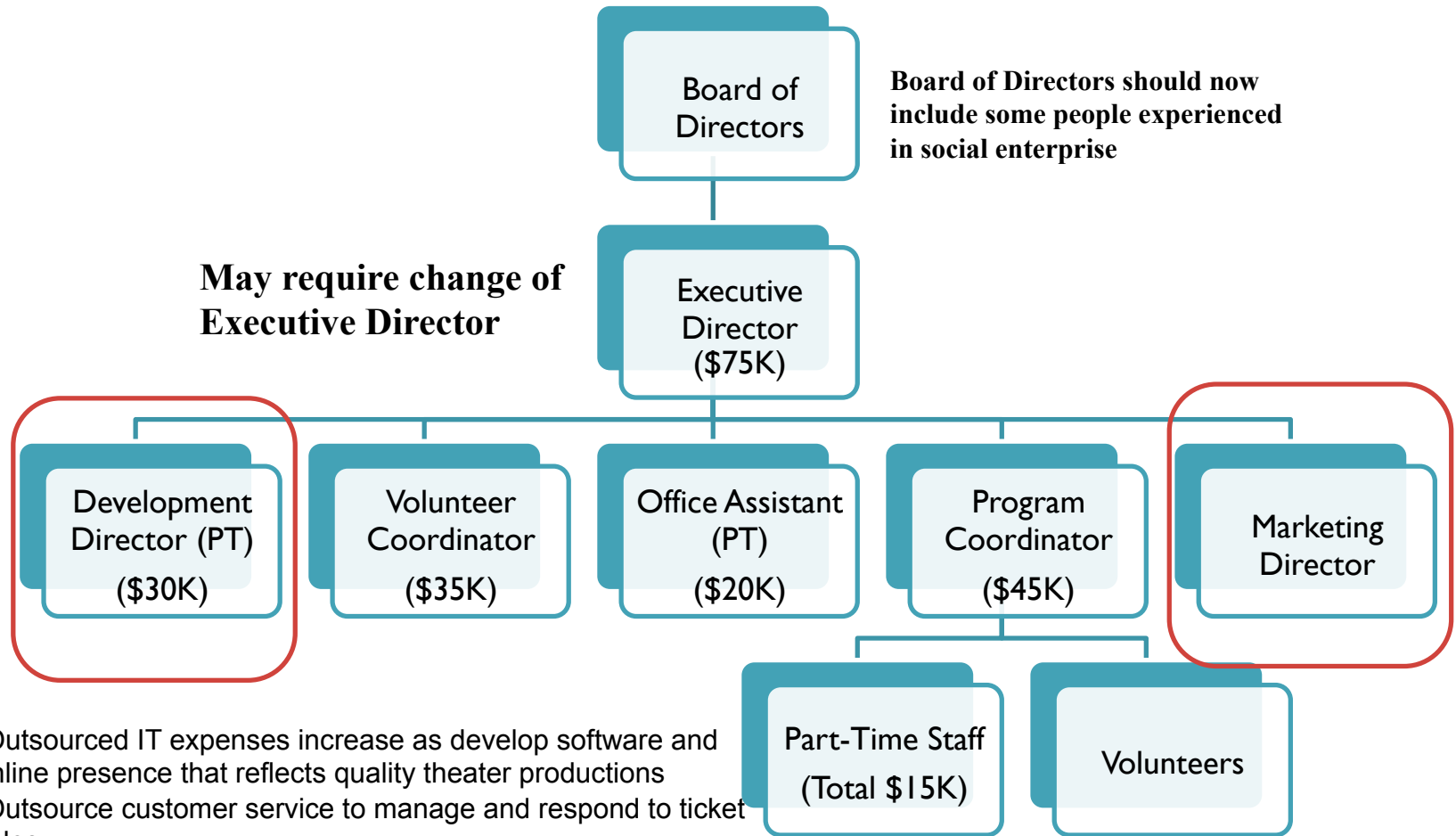
Workshop Price \$150

\$60,000

Online and in person product sales \$5,000.00

Earned Revenue \$114,800.00

Ann Arbor Stars Org Chart Changes




- Outsourced IT expenses increase as develop software and online presence that reflects quality theater productions
- Outsource customer service to manage and respond to ticket sales
- Weekend workshops now used to generate revenue
- Customers pay to participate in workshop with guest teacher/actor



Ann Arbor Stars Infrastructure, Funders

- **Development Director now part-time** (may need to hire new if current DD does not want reduced work)
- **Marketing Director added**
 - Responsible for marketing organization, shows and producing accompanying documents and advertisements
- **Board of Directors** should now include some people experienced in social enterprise
- May require **change of Executive Director** if ED not qualified to run social enterprise
- **Outsourced IT expenses** increase as develop software and online presence that reflects quality theater productions
- **Outsource customer service** to manage and respond to ticket sales
- **Weekend workshops** now used to generate revenue
 - Customers pay to participate in workshop with guest teacher/actor

- 
- **Ann Arbor Stars: “Ann Arbor Stars seeks to engage and inspire art appreciation in Ann Arbor low-income middle school youth through an active theater arts experience”**

**Must...
sell...
tickets...**



- 
- **Spread the Arts: “To provide opportunities for creative artistic expression for local youth to strengthen appreciation of the arts in the community.”**

Source: Public Policy 671 winter 2010 student cohort

Metrics

- **# of programs and # of number of students enrolling and re-enrolling.**
- **How did students became aware of the program, was there lasting impression for students to continue to invest time in artistic endeavors**
- **# of partnerships w/ similar groups in the community (and if there are increased sharing of resources across groups and organizations)**
- **“Buzz” in the community**
- **Increase or decrease in volunteers, teachers and donors coming to the organization to help.**



Spread the Arts Services

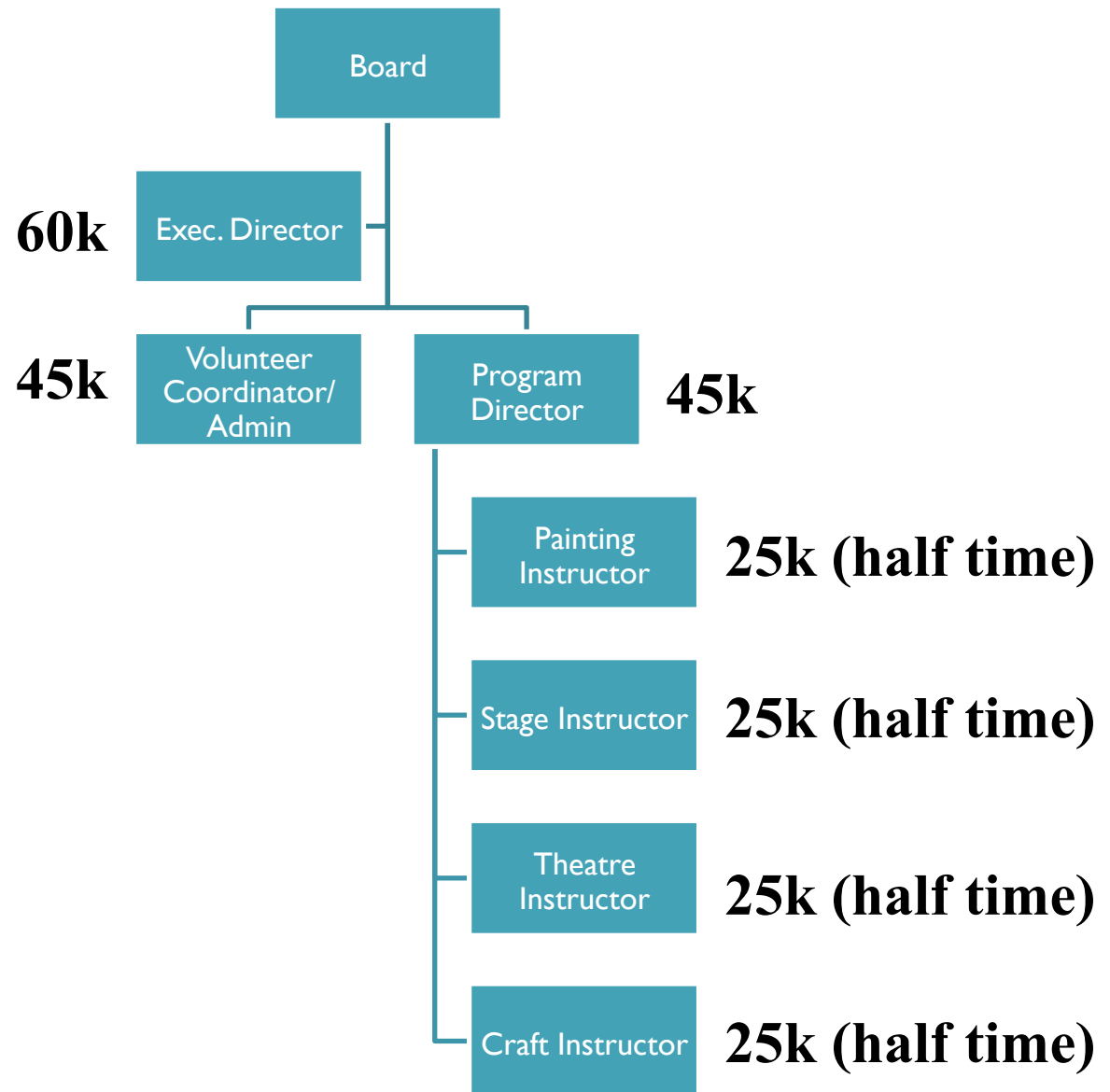
- After school and summer art classes, theatre (Acting class, stagecraft class, painting, jewelry making, puppet-making, paper mache)
- Theatre productions, Gallery
- Once a week for 12 weeks, K-5, 6-8 splits
- Geography: City of Ann Arbor



Spread the Arts Funding

- Individual: 60%
- Corporate: 10%-15% (in-kind donations, supplier discounts)
- Foundation: 10%-15% (local artist endowment, Ford School Charity Auction)
- Local Government: 10-15% (Ann Arbor Arts Fund)

Spread the Arts Org Chart

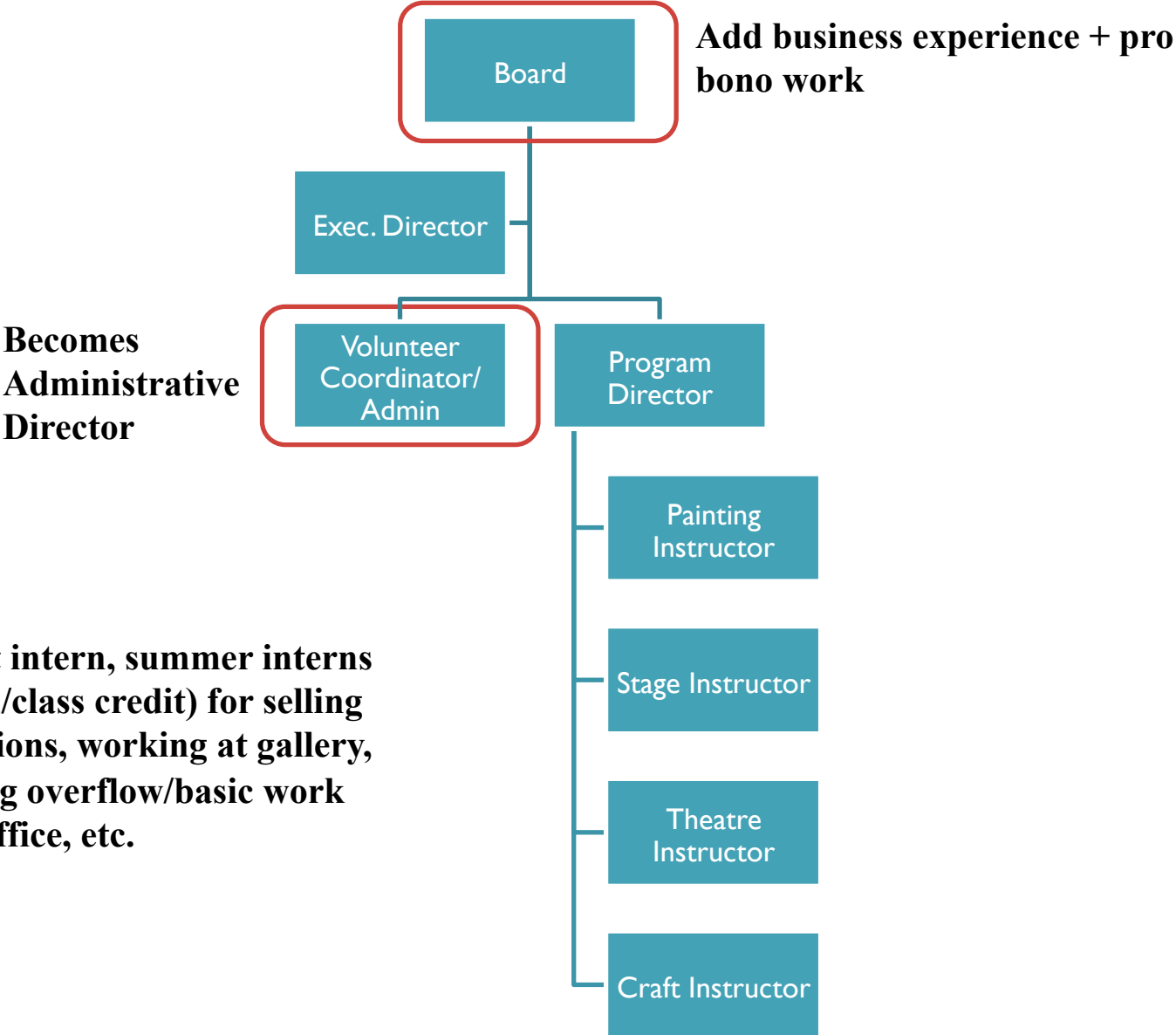




Spread the Arts Social Enterprise

- **Class Fees, Charge Admission, Concessions**
- **Sell artwork** with some proceeds going to program
- **Ad space** in programs
- **Membership fee** (discounted class fees for programs for members)
- Customers; Parents, kids, businesses, community members
- **Fee structures:**
 - \$30 membership fee
 - \$150/12-class for members, \$175 for non-members
 - Summer 1-week class/camp: \$200 for members, (\$225 for non-members)
 - Ads: \$250
 - Concessions: \$2 each pop, lemonade, coffee, popcorn, cookies
 - Admission: \$5 per show
- **Cover 50% of expenses through these fees**

Spread the Arts Org Chart Changes





Spread the Arts Infrastructure, Funders

- **Communications:**
 - Business sponsor relationships, advertising to recruit students and interns
 - Internal transparency and public accountability reporting to assure stakeholders of revenue-generating activities alignment with mission. Use a web site to minimize costs.
- **IT systems and software:** Ensure financial management software tracks revenue-generating activities, i.e. create a category in the financial statement.
- **Funders:**
 - Soliciting more corporate support. Individuals using the service are assuming the financial burden.
 - Local business support, public support of performance, gallery. Vendor to offer in-kind donations for concessions.
 - Can lose parents who object to the fees (moral indignation or inability to pay). Would need to effectively communicate the role of the revenue-generating activities to support the arts program.
 - May lose some annual donors who assume these activities reduce the need for their donation.

- 
- **Spread the Arts: “To provide opportunities for creative artistic expression for local youth to strengthen appreciation of the arts in the community.”**

Spread the Arts Executive Director

“Rest in Peace”



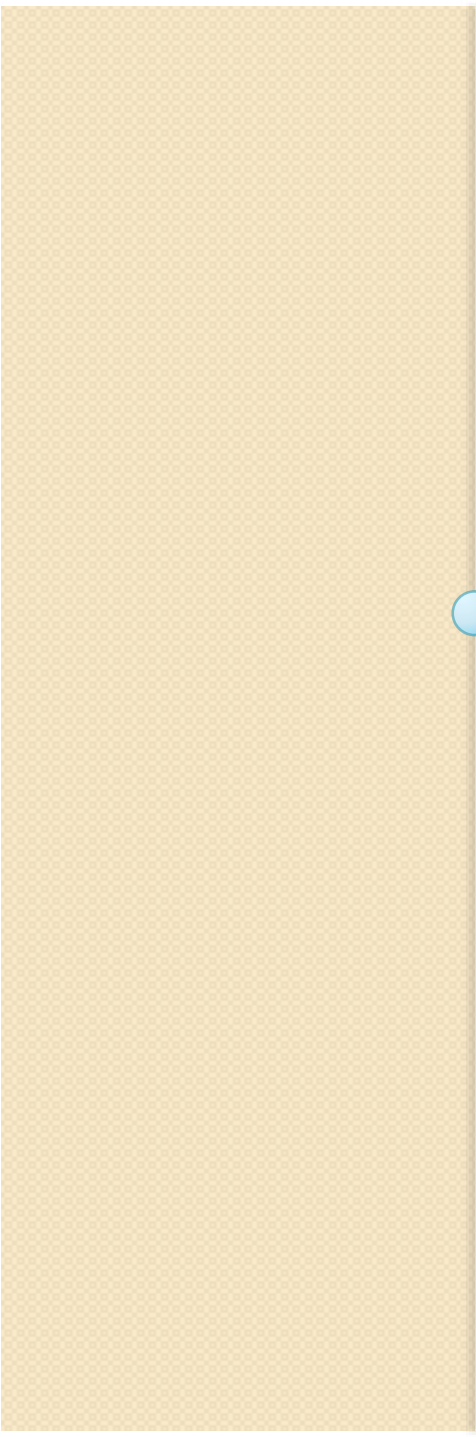
Ssolbergj, Wikimedia Commons



**HOW OFTEN DID YOU
GO BACK TO THE
MISSION?**



**TO WHAT EXTENT
WERE YOUR CLIENTS
COMMUNICATED?**



**WOULD YOU HAVE
DESIGNED ORG
DIFFERENTLY IF SOCIAL
ENTERPRISE WERE PART
OF ORIGINAL INTENT?**

NOTE: COMPARTAMOS

There is something unseemly about profit-maximizing investors backing an MFI that charges the world's poorest people 100 percent interest.

Microfinance institutions must reconcile the power of markets to reduce poverty with the power of markets to exploit the poor.



Social Enterprise Wrap-Up

- Many benefits (classes 19 and 20)
- Many challenges (classes 20 and 21)
- Management issues illuminate pressures on the sector as a whole



Management Lessons

- It's all easier said than done!
- Need sufficient **growth capital**
 - Consider impact on staff
- Should stick with **core expertise**
- Need to invest in **planning**
- **Know your market!**
- Don't compromise **quality** of service in name of mission
- **Focus** is very important
- Running and growing a business takes **business experience/staff**
- Need great service staff AND great **sales staff**
- Accept that double bottom line will yield **compromises on mission side**
- Very **hard to keep sight of mission** when building a business
- **Growth** is often necessary path to sustainability
- Must **pair vision with sound management and governance**
- Enterprise presents **new regulatory challenges**



Sector Implications

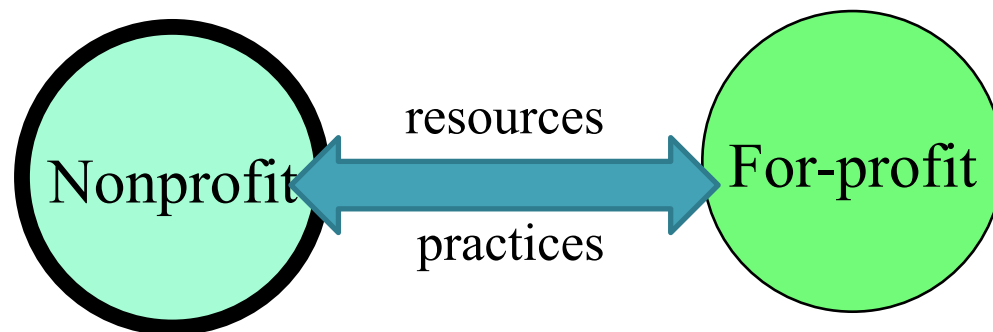
- **Legal and regulatory:** social enterprise pushes the boundaries of business income and mission achievement rules
- **Double Bottom Line:**
 - Combine the two through “blended value generation”?
 - Danger of emphasizing financial bottom line to detriment of mission
 - Death of the nonprofit soul?????
- **Performance measurement / accountability:** Introduce income or profit as a standard, clear performance measure
- **Governance:** Social enterprise puts even more pressure on governance body to provide oversight; just as with staff, a need for broader business skills
- **Collaboration and Merger:** Opens up new thinking on collaborations with FOR-PROFIT entities
- **Scaling Up:** Business income sometimes makes it easier to scale up due to access to for-profit capital
- **Policy Making:** Giving up the ‘shield’ of charity with policy makers is risky business; OTOH, government can help in several ways (tax breaks, tax credits, loan guarantees, etc.)
- **Philanthropy:** Win some, lose some. Maybe philanthropic capital is more efficiently allocated in a social enterprise model?



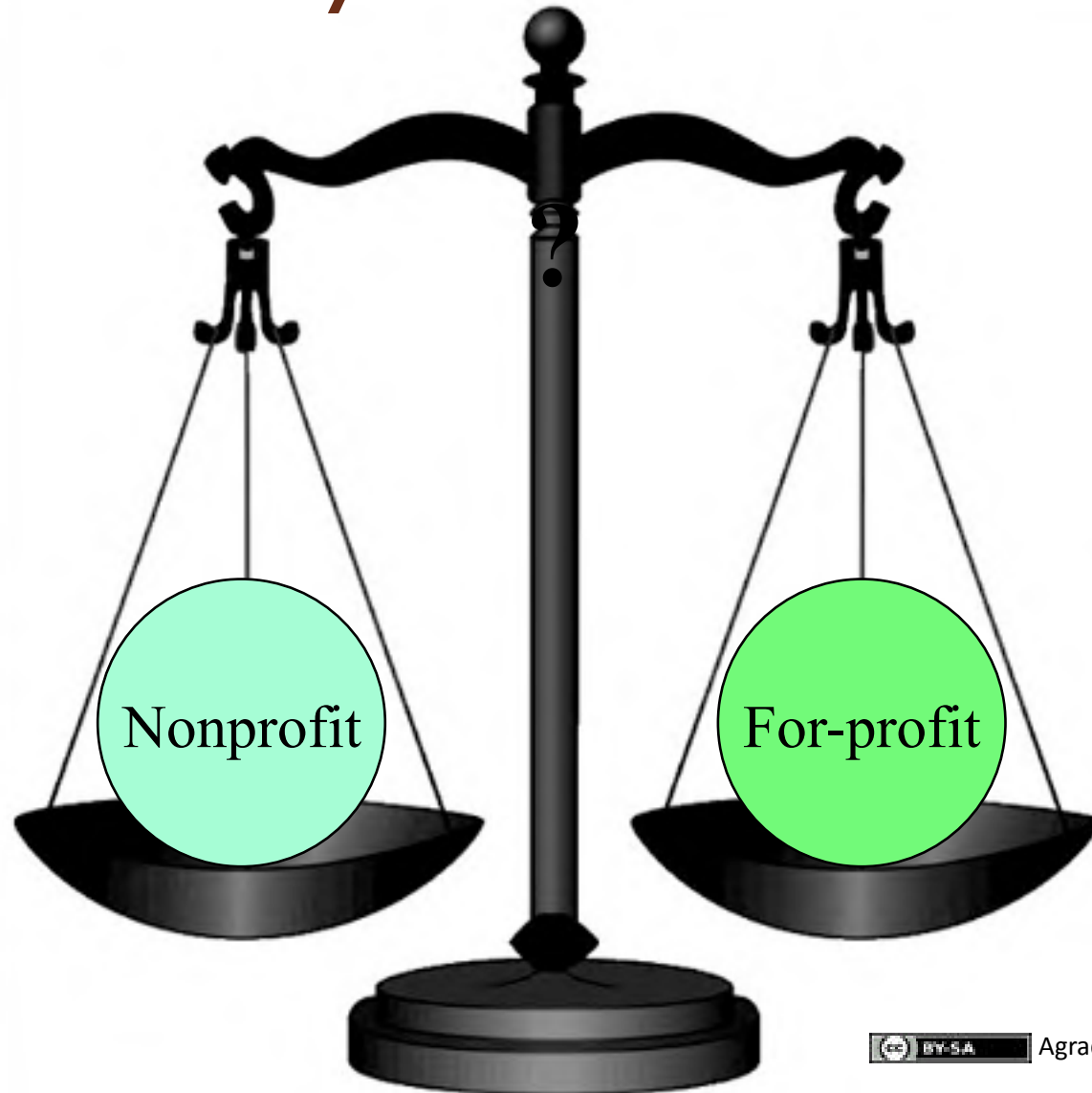
Nonprofits and For-Profits

Recap

- Classes 1-3: Distinguishing nonprofit sector from other sectors
- Class 16: Corporate philanthropy
 - Risks and rewards
- Class 18: Venture Philanthropy
- Classes 20-22: Social Enterprise
 - Spectrum
 - Blending

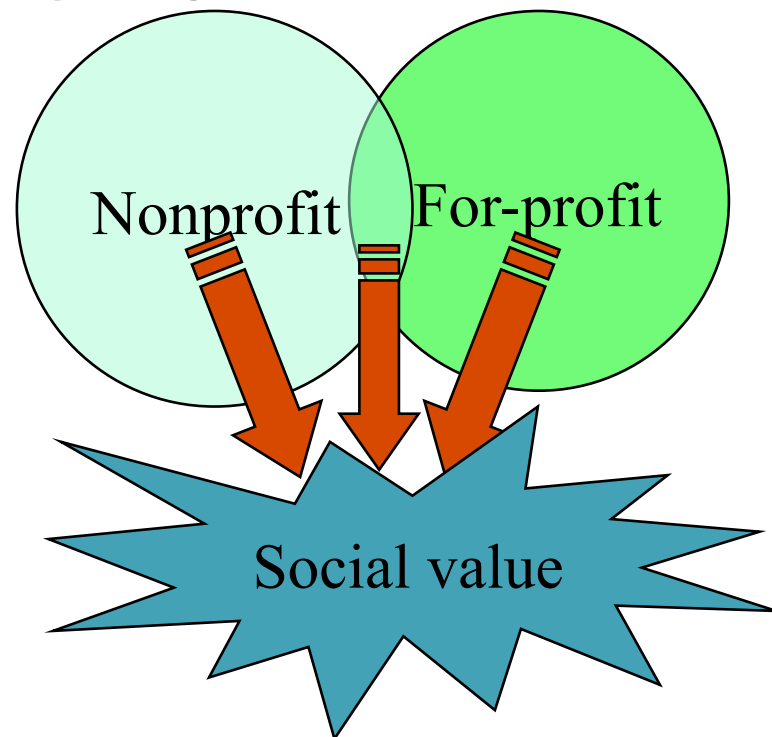


Power Dynamic In U.S.



Current Stage

- Age of experimentation to search for more cost-effective and sustainable ways to address social problems





Four Current “Blurs”

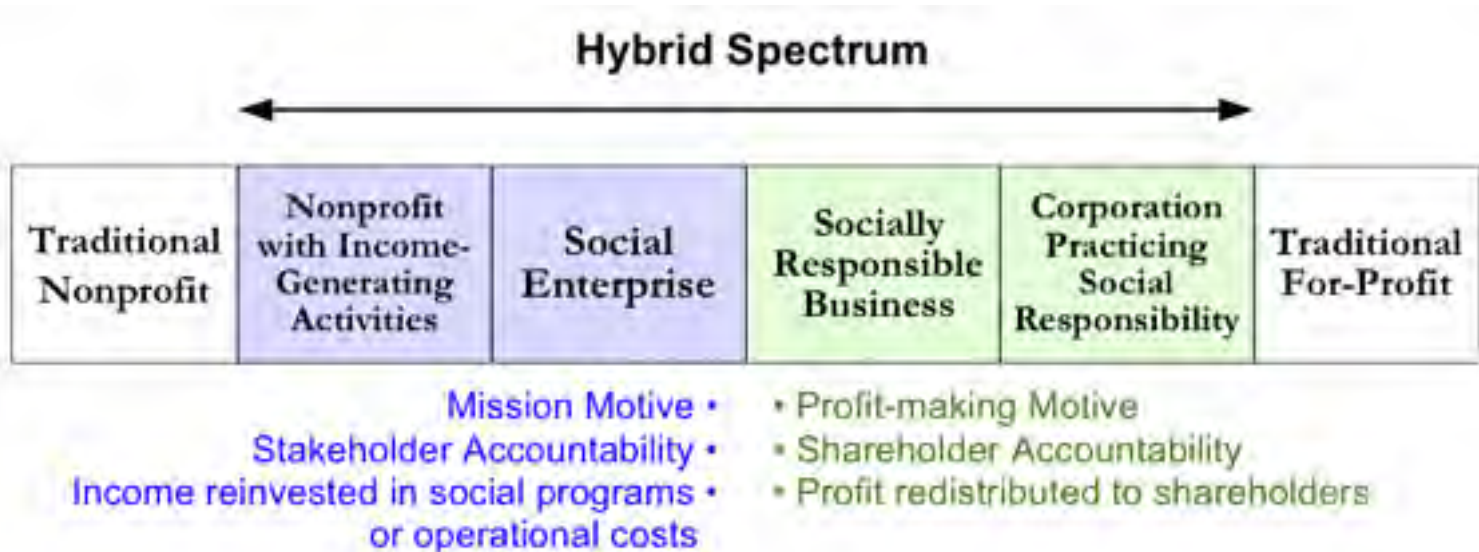
- Imitation and conversion
- Interaction
- Intermingling
- Industry creation

(Dees and Anderson)



Corporate Social Responsibility

The Spectrum



Kramer & Kania

- “Many of the companies that donated cash so generously to these well meaning nonprofits might actually have been able to deliver assistance more efficiently themselves.”



Doane

- “Institution of the corporation may be at the heart of the problem”

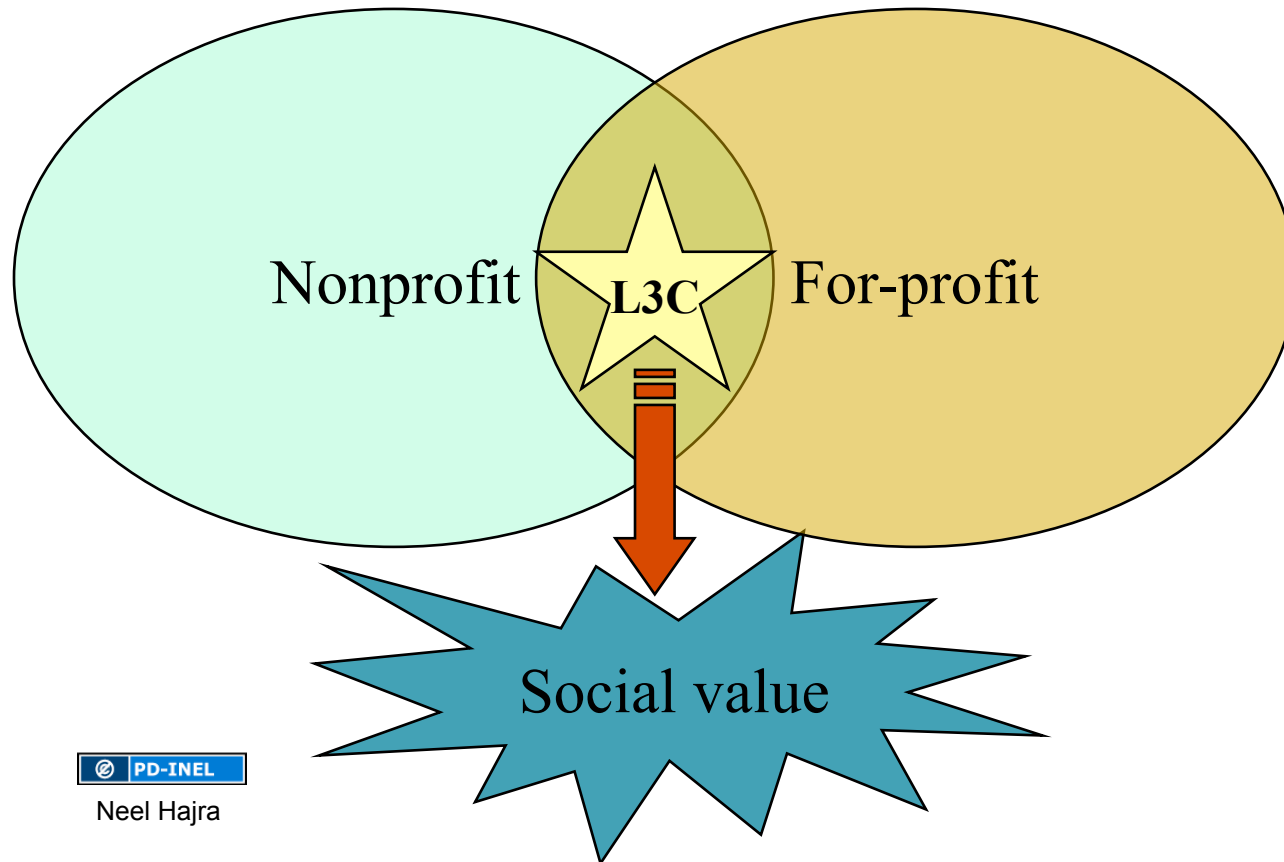


Is CSR Good or Bad?

- Remember market failure theory
 - Under-provision
 - Overexclusion
 - Contract failure

New Model: L3C

- “Low Profit Limited Liability Company”





L3C Overview

- Typical Minimum Market Return:
+5% or more
- Typical Nonprofit Return:
0 to –100%
- L3Cs leverage the 0 – 5% returns that fall
between the two



Background: LLC

- “Limited Liability Company”
 - Limited liability
 - Simple tax structure
 - Operating agreement among partner owners

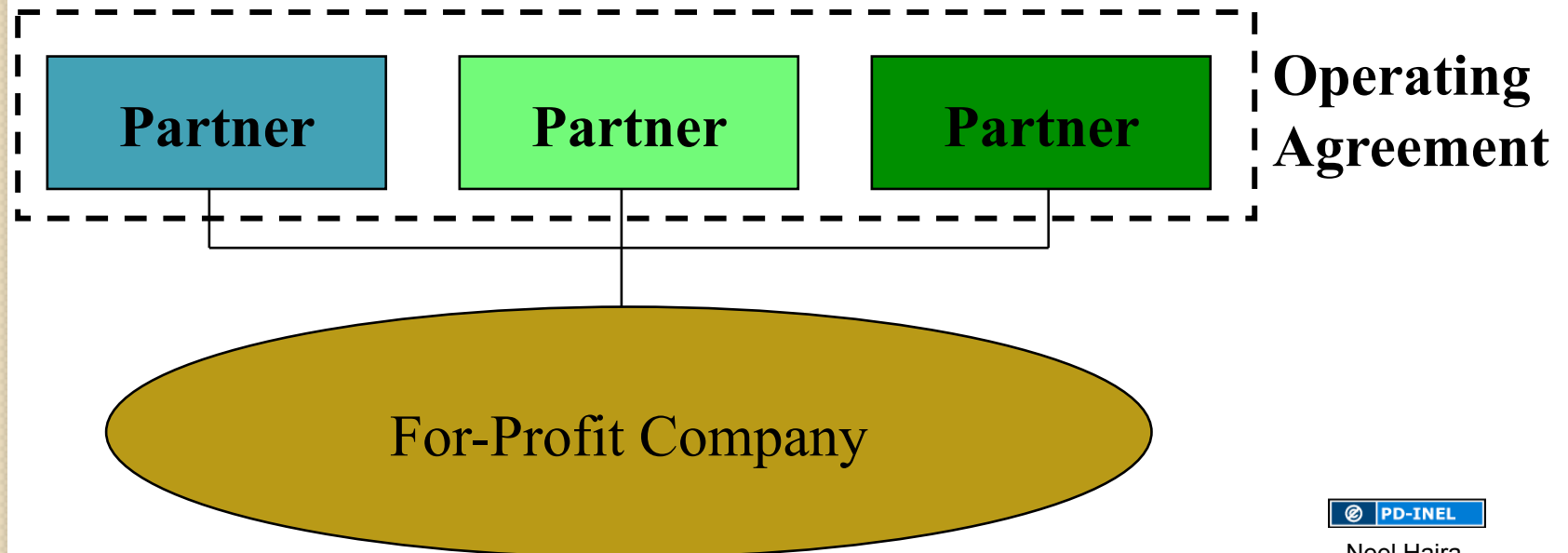


Background: Foundations

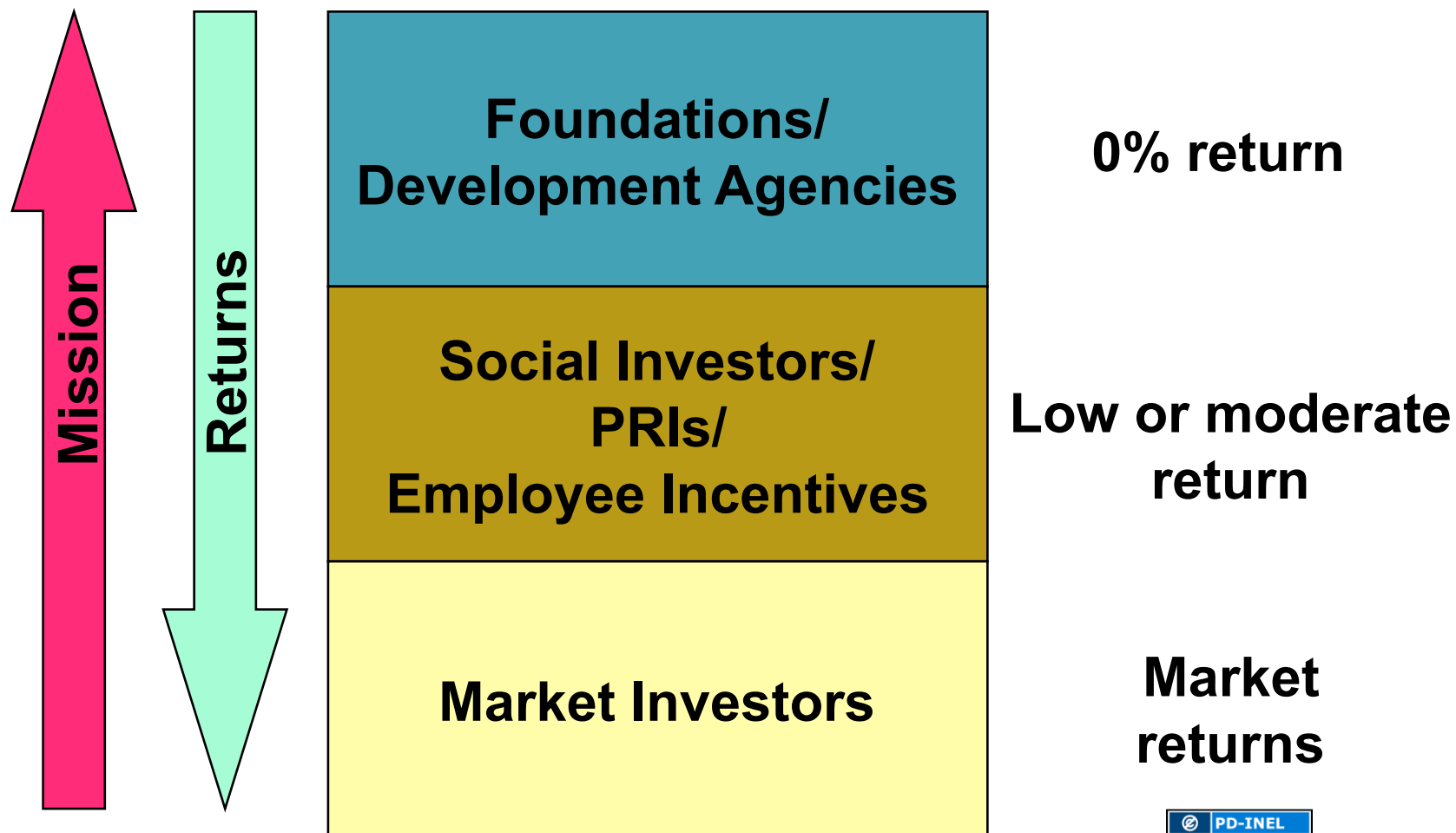
- PRI allows for direct investment in for-profit ventures
- PRI toward 5% minimum payout
- Must have social benefit / mission alignment
- e.g., high risk low income housing projects, direct investment in distressed neighborhoods, job creation, etc.

L3C

- Operating agreement outlines mission/PRI purpose
- Partners are range of stakeholders



Layered Returns Drive Blended Investment





L3C Benefits

- **Nonprofit**
 - PRIs (foundations)
 - Encourage investment
 - Leverage dollars
 - Expert partners
- **For-profit**
 - New market opportunities
 - Social investment w/ market returns



Current Legislation

- Passed in 6 states (including MI)
- Pending in several others states
- Federal legislation needed to “close the loop”



Benefits of Sector Blur (L3C model via Dees/Anderson)

- Effective resource allocation
 - Maximize social value creation
 - Maximize responsiveness
 - Leverage income
- More sustainable solutions
- Greater capacity/growth
 - Better business practices
 - Access to capital
 - Free up philanthropic capital
- Increased accountability



Risks of Sector Blur (L3C model via Dees/Anderson)

- Potential decline in social value
 - Mission drift
 - Lower quality service
 - Decline in advocacy/watchdogs
- Undermine indirect social benefit
 - Social capital creation
 - Charitable character of sector
- Further separation of the Have's and Have Not's