

# Rethinking Profit In Non-Profit Organizations: Social Enterprise And Entrepreneurialism



Historically, organizations whose purpose was of a “charitable” nature have existed in the United States since the mid-eighteenth century. These organizations began to provide association, education, and services to both citizen and non-citizens alike to promote the American values of pluralism, liberty, community and a shared vision of the common good. Alexis De Tocqueville, the famous French writer of the 1800s, toured the US and wrote about our system of philanthropy. He said of the American system, “The American’s make associations to give entertainment, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons and schools.” At the time of his writing, this was a new concept to Europeans whose governments had evolved to take upon much of the role of the purveyor of the public good. Individual altruism is not a uniquely American idea; however, the growth and contribution of nonprofit organizations in our country is comparatively unique within the world.

The distinction between nonprofits and for profit entities is in the definition of ownership. Nonprofits are organizations chartered to promote the common good and pursuant to that goal, the profits of the corporation are not shared with its “owners” or board members but remain within the organization to further the common good. The true “owner” of the nonprofit organization is the larger community as a whole. In exchange for this commitment to the public welfare, nonprofit organizations are exempt from (certain types of) income and property taxation. The Internal Revenue Service designates these organizations under tax code 501(C). The nonprofit sector in America has seen steady growth over the past few decades. IRS data from 2008 indicates that there were 1.7 million organizations in our country classified as 501(C) organizations. Within this designation falls a range of organizations including charitable service providers, trade unions, educational institutions, churches, and fraternal associations.

*Please note...profit or moreover the ability to make a profit, is not the distinction between nonprofit and for profit organizations!*

According to the Midwest Center for Nonprofit Leadership at the University of Missouri in Kansas City, in 2009 the nonprofit sector in Missouri generated upwards of \$29.03 billion in revenue and makes up 12.65% of the Gross State Product. Not only are nonprofits providing valuable services within our communities, they are a vital and essential part of our overall economic engine. We create jobs, we

train work forces, and we supply the societal safety net. If our sector fails to perform, the impact to this state would be devastating to say the least. Sadly, these facts often gets lost among those of us who day in and day out struggle to meet the financial needs of our organizations through our traditional fundraising strategies.

Our galas, annual fund drives and capital campaigns have served us well as a platform for revenue generation through good times. However, with an ever growing number of nonprofit organizations, a stagnant economy, and a growing need for our services, many of us now realize that this model alone is not sustainable. This means it is time for a new way of thinking about funding strategies that combine mission and relationships within the larger capitalistic framework of our economy. The term used to describe this model is called social enterprise, or the use of market-based strategies to fulfill a social mission. When done to its fullest it is called social entrepreneurship, which is a transformative process which begins to use these enterprises to create longer term social change. When combined with our traditional donor engagement methods it becomes an extremely powerful way to fulfill our social contracts.

This is not a new idea. Some of the most recognizable organizations in our community and nationally have been doing this for years. Organizations such as the YMCA and our communities' many world renowned arts and cultural organizations use this as the foundation of revenue generation model. They provide a service for the public good and they get people to pay for it, while also encouraging people to donate to continue its operations. And they do it very, very, well. However, now we are seeing new social enterprises joining our community such as RUNG, a nonprofit resale store whose proceeds go to support charitable causes for women through the Greater St. Louis Women's Foundation (I should disclose that I am on the Board of Directors of this organization). While each organization is a separate entity, the synergy creates a sustainable model for meeting the growing needs of women and girls in our community. What all of the organizations do effectively is engage donor participation at multiple levels.

It sounds like a daunting task. However, the possibilities are endless and ultimately the long term return is greater financial stability for your organization. Here are some questions to think about in beginning to reevaluate how to create "profit" within your nonprofit organization:

- 1. Are there any programs that we provide for free which could be provided for a small fee or co-payment?** Small co-payments spread over many clients can not only help generate revenue, can also help create a sense of co-ownership with your clients.
- 2. Do our clients create end products that could be sold to support our work?** Revenue to support the program is generated through the sale of products and services from the participants of your program.
- 3. Have we created a unique program that other organizations might pay to offer in another area?** Programs that have been evaluated and proven effective can be copyrighted and have a true marketable value.
- 4. Is there a potential need that our donors or clients have that we could meet that they are finding from another source?** For example, if you provide services for individuals with physical

disabilities, could your organization develop a retail entity that sells lightly used assistance tools for this population and their caregivers?

**5. Are there businesses in our communities that share our social values?** If so, how can we help each other to increase awareness of our cause while opening doors to new donors and new customers for both?

These are just a few ways to begin thinking about social enterprise as a potential funding strategy. There are hundreds of other ways to be uniquely positioned to integrate market driven funding sources with our missions. Make no mistake; this is not an easy task. It requires skills and efforts not often associated with our sector; therefore we have to reach out of our comfort zone. It may require a change in our current organizational model or board. It may also require us to leverage the economic system which may have caused the social and financial needs of our clients in the first place. However, just because we leverage doesn't mean we have to embrace without caution. We can work toward improving our economic system for our clients while we are expanding our own marketability. And we have an obligation to maintain our own values in the process. However, it is becoming increasingly obvious that this approach is the next logical step the sector needs to make for long term organizational stability and philanthropic inclusion. ***Are you ready to become a social entrepreneur?***

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