Social Enterprise

Writing a social enterprise business plan

Sally Little, ACSW, MBA
Entrepreneurial Solutions, LLC
www.enterpreneurialsolutions.biz
slittle@hawaii.rr.com

Tips for Writing a Business Plan

- Judges are volunteers
- Don’t overwhelm the judges with rhetoric
- Keep it simple
- Clarify, clarify, clarify
- Judges may not be experts in social enterprise
- Have someone else proofread your business plan for clarity

Social Enterprise Definition

Social enterprises are nonprofit or for-profit business ventures that strive to achieve a quantifiable double bottom line of financial and social returns. These ventures are financially self-sufficient.

Double Bottom Line

Mission Driven – social impact

Profitability—financial impact

Balance

Quantified

Business plan for a social enterprise

will not differ significantly

from a traditional business plan!

Common elements with traditional plan

- Overall appeal of the plan
- Operational and technological viability
- SE-Feasibility of business model = Trad-Attractiveness of the market opportunity
- SE-Marketability = Trad-Value created by the new product or service, Competitive advantage of the proposed venture

Capability of the management team

- Judging criteria is the same as the traditional category
- With the addition of board of directors for a nonprofit

For a tax-exempt nonprofit corporation (nonprofit) both the IRS and the State of Hawaii require at least three members on your board of directors

Highlight their specific management skills

Financial return on investment

- Where will the investment capital come from?
- What is the proposed ownership structure of the venture?
- Will this venture become financially self-supporting?
- If applicable, what is your investment exit strategy?
- What is your plan for the long-term financial sustainability of the venture?
- How are the social and financial returns on investment aligned?

Ownership structure--Nonprofit

- Definition: State of Hawaii nonprofit corporation that has received 501(c)(3) tax-exempt status from the Internal Revenue Service
- 501(c)(3) must be organized for one or more of the following purposes:
  - Religious
  - Scientific
  - Charitable
  - Educational
  - Testing for public safety
  - Literary
  - To foster national or international amateur sports competition
  - For the prevention of cruelty to children or animals
  - Economic development?

To be viable a tax-exempt nonprofit corporation should and must make a profit!

How does a nonprofit differ from a for-profit? Nonprofit is--

- Owned by the community rather than shareholders
- Governed by a board of directors that generally serve without compensation
- Upon dissolution, all assets must revert to a 501(c)(3) that generally has a similar mission or the government
- Profit in a nonprofit cannot inure for the benefit of the board of directors
- Compensation cannot be excessive
- Donations to a 501(c)(3) are tax deductible.

Investment Capital

- For-profit—traditional methods of capitalization
- Nonprofit
  - Philanthropist/angel
  - Grant
  - Interest from endowed funds
  - Current reserves

Long term financial sustainability

- Financially self-supporting
- Reliance on continued grants
- Reliance on fundraising
- Must have a realistic plan

Exit Strategy

- For profit—traditional exit strategies
- Nonprofit
  - Merger with another nonprofit
  - Dissolution—mission accomplished?
  - No IPO

Alignment with social and financial return on investment

Should be a balance!

Social Return on Investment

Quantified social impact of the venture

Impact—the portion of the total outcome that happened as a result of the activity of the venture, above and beyond what would have happened anyway

How does this enterprise serve a social purpose?

- Health—Does the venture improve the health of your target population? Does it address a serious disease resulting from lack of nutrition, medical care, a low standard of living? Is your venture making the community safer?
- Educational—Is your venture helping improve the standard of living for children? Will participation in your venture open doors of opportunity and what are these doors? By participating in your venture how will someone's life change?
- Environment—As a result of your actions, will a vital natural resource be saved? Why is this natural resource important to our community? How will your venture improve the environment?
- Outcomes—ultimate changes one is trying to make in the world, cognitive, behavioral, gain in skills, knowledge, etc. These are not outputs which measure the number of people served.
- Rule of thumb—a social purpose makes an unhappy person happier, a poor person secure a better financial standard of living, an unhealthy person healthier, etc.

Are socially responsible core values expressed throughout the venture?

Consistency

If your venture is saving the environment, are your operational practices environmentally friendly?

What is the venture's potential to meet its social goals?

- Feasibility!
- Environment—Do you have enough suppliers or resources to develop your environmentally friendly product or service? Will the community value your service enough to support it through donations?
- Education—Do you have buy-in from critical partners?
- Health—Depth of appeal to the community?
- Does the community value the product or service as much as you do?

What is the social impact both monetized and non-monetized of this enterprise?

- Monetized = Quantifiable
- For reporting financial returns we have established generally accepted accounting principles and an international legal infrastructure
- A comparable standard for social impact accounting does not yet exist
- Assessment of a method is determined by how useful it is for stakeholders

In order to measure your outcomes you must clearly define them!

Impact Value Chain

Inputs

(resources required to operate the venture)

⇓

Outputs

(indicators can measure directly –buns in seats)

⇓

Outcomes

(Specific changes--attitudes, behaviors, knowledge, skills)

⇓

Impact

(outcome sample exposed to activity – outcome occurred anyway)

⇓

Goal Alignment

(outcomes/impacts met desired goals)

(balance between social and financial return of investment)

Two possibilities for SROI

Benefit- Cost Analysis

REDF-Social Return on Investment

Must express impact in monetary terms!

Benefit/cost analysis aka cost-benefit analysis

- Costs and social impacts of an investment are expressed in monetary terms and then assessed according to one or more of three measures
  - Net present value—the aggregate value of all costs, revenues, and social impacts discounted to reflect the same accounting period
  - Benefit-cost ratio—the discounted value of revenues and positive impacts divided by discounted value of costs and negative impacts
  - Internal rate of return—the net value of revenues plus impacts expressed as an annual percentage return on the total costs of investment
  - Cannot be conducted until social impacts have been measured. These can be based on informed assumptions about the expected social impacts
  - Used domestic gov. programs, foreign aid programs, other social investments

REDF-social return on investment

- Combines tools of benefit-cost analysis
- Tools of financial analysis used in the private sector
- Method economists use to assess nonprofit projects and programs
- Developed for use by ventures that produce market goods and services and in the process employ disadvantaged individuals
- Review Social return on investment and the REDF methodology on business plan website

Additional resources:

http://ventures.yale.edu/aboutcompetition.asp. Gives you samples of business plans for social enterprises

Go to www.uhbusinessplancompetition.com, click on resources—

Social Return on Investment and the REDF Methodology

Double Bottom Line Methods

Difficulty quantifying your impact?

May need to show impact anecdotally

Should show the impact value chain

Do you have a social enterprise?

Tips on social return on investment

- Make logical connections
- Think through your assumptions
- Review the resources on SROI on the business plan website
- Be creative-develop a system that works for your social enterprise
- Make sure there is balance in your social and financial double bottom lines
- Be specific-how is your plan going to make a specific social impact
- Keep it simple!
- Make sure the judges will understand your logic
- Quantify