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SECTION 1. INTRODUCTION TO SOCIAL ENTREPRENEURSHIP

1.1 Introduction and Definitions

The European Economic and Social Committee (EESC) thus defines the Social Economy as "the set of businesses formally constituted with independent decision-making designed to meet the needs of their members through the production of goods and provision of services (including insurance and financial ones), where the decision-making process and the distribution of profits is not directly linked to a capital share paid by each member".

Historically, the Social Economy organizations are grouped into four broad categories whose legal form varies according to the country: cooperatives, mutual societies, foundations and associations. In addition, there also are social enterprises, which only recently appeared on the European scene. Social enterprises, as defined by the European Commission, can be of any recognised legal status. However, because of their characteristics, most of the European social enterprises are constituted as cooperatives.

Recently, in the framework of the World and European Social Economy social enterprises have appeared. Although there is not a common definition of the term “social enterprise” yet, in Europe the concept is spreading to identify a "different way of doing business" in which companies are created to pursue a social objective. The European Commission defines them as: "Social economy actors whose primary goal is not to generate profits for their owners and shareholders but exert social impact. A social enterprise operates in the market by producing goods and services in an entrepreneurial and innovative way, and by allocating its profits primarily to the achievement of social goals. It is managed in an accountable and transparent way, in particular by involving workers, customers and other stakeholders interested by its commercial activities".

The concept of social enterprise is therefore overlapping with that of the traditional social economy organisation and it overcomes the constraints imposed by the legal form, as an organisation that chooses to operate according to the principles of social enterprise can be constituted according to the form that best suits its founders. What distinguishes social enterprises from an association is the source of income: in a social enterprise at least 50% of the company revenue comes from commercial activities, thus reducing the dependence on institutional funding and donations.

In the definition of "social enterprise", the European Commission therefore intends to include the companies:

- for which the social objective or socio-cultural common interest is the raison d'être of the commercial action, which often results in a high level of social innovation;
- whose profits are mainly reinvested in achieving that social goal;
- whose methods of organisation or ownership system reflect the mission, as they are based on democratic and participatory principles and they aim to social justice.

Therefore, they can be:

• companies that provide social services and / or goods and services for a vulnerable public (access to accommodation and care, assistance for elderly or disabled persons, inclusion of vulnerable groups, child care, access to employment and training, tackling addictions...);

and / or

• companies whose ways of producing goods or services pursue an objective of social nature (social and professional integration via access to employment for disadvantaged people, in particular because of a lack of qualifications or social or professional problems that determine exclusion and marginalization), but whose activities may relate to goods or services which have no social nature.

As stated in Wikipedia, sometimes profit-making social enterprises may be established to support the social or cultural goals of the organisation but not as an end in itself. For example, an organization that aims to provide housing and employment to the homeless may operate a restaurant, both to raise money and to provide employment for the homeless.

Accordingly, a social entrepreneur is someone who recognises a social problem and uses entrepreneurial principles to organise, create, and manage a venture to make social change (a social venture). On the contrary, a business entrepreneur typically measures performance in profit and return. Social entrepreneurship is a kind of entrepreneurship initiative that aims at taking up a social problem for bringing about a transformation in the same society where the problem is detected. The person who takes up the challenge is called a social entrepreneur and he / she uses principle of entrepreneurship with the intent of creating social capital and not being essentially profit-centred.

1.2 History and Origins

Social entrepreneurship is relatively a new term. It came in to notice just a few decades ago, but its usage can be found throughout the history. In fact, there were several entrepreneurs who established social enterprises to eliminate social problems or bring positive change in the society. Vinoba Bhave, the founder of India's Land Gift Movement, Robert Owen, the founder of cooperative movement and Florence Nightingale, founder of first nursing school and developer of modern nursing practices might be included in this category. They had established such foundations and organizations in 19th century that is much before the concept of Social Entrepreneurship used in management.

There were entrepreneurs during Nineteenth and Twentieth centuries who made efforts to eradicate social evils. Apart from this, there are many societies and organisations that work for child rights, women empowerment, save environment, save trees, treatment of waste products, etc.. Apart from addressing the social issues, social entrepreneurship also includes recognition and addressing the environmental problems and financial issues for rural and urban poor.

These days, the concept of social entrepreneurship has been widely used in different forms. The establishment of Grameen Bank by Muhammad Yunus, Ashoka: The Innovators for the Public by Bill Drayton, Youth United by Jyotindra Nath, Rand De by Ramakrishna and Smita

Ram, SKS Microfinance by Vikram Akula and Roozi.com by Nick Reder, Brent Freeman and Norma La Rosa has popularised the term.

In fact, all big brands and companies are adopting the concept of social entrepreneurship and trying to address the issues in our society by opening schools in far flung areas, educating women for family planning, making it possible for farmers and poor individuals to access low interest credits, establishing plants for waste treatment, planting trees and going green.

The concept of Social Entrepreneurship has also been included as a separate branch of management courses. Even youth is also looking forward to volunteering their services and brilliant ideas to bring a social change through social entrepreneurship.

The concept and term social entrepreneurship has been tossed around since the 1960s. It was even popular in the ‘80s and ‘90s when some of the greatest social entrepreneurs of all time were working on their social ventures to address timely issues such as a lack of financial self-sufficiency in Bangladesh and reducing environmental impact of cleaning products in the United States. The twenty-first century also saw the rise of great social entrepreneurs aiming to encourage literacy, put shoes on the feet of millions of children, and give sight to those in need.

Nobel Peace Prize winner Muhammad Yunus catapulted the concept of social entrepreneurship into the spotlight in 2006. Founder of Grameen Bank, an institution that provides microcredit loans to encourage economic growth at the grassroots level in Bangladesh in order to help the disadvantaged develop financial self-sufficiency, Yunus’ Nobel Prize brought social ventures into contemporary consciousness. Since its founding in 1983, the bank has brought in a net income of more than $10 million.

1.3 Size of Industry

In general terms, the majority of social enterprises in Europe has been developed using the legal form of cooperative and association. Social enterprises are predominantly formed as an association in countries where the associative model allows a certain degree of freedom with respect to the sale of goods and services under market conditions. Conversely, in countries where associations are more limited in developing commercial activities (it is the case of the Nordic countries), social enterprises refer to the cooperative legal form (Borzaga, Galera, 2009). In addition to this first general partition, you can detect two other important aspects in the social enterprise legislation.

The first concerns the distinction between regulatory systems that have defined a specific legal form modifying and adapting to existing figures and plants that instead have called a "graft" applicable to various legal figures. The definition of a specific legal form has especially characterised the nascent stage of legislation, whereas the application to a broader range of legal concepts is the prerogative of the most recent legislation.

It is estimated that in Europe Social Economy (measured as the aggregate of social enterprises, cooperatives, mutual societies, associations and foundations) employees more than 14.5 million people, about 6.5% of the workforce in the EU-27 and around 7.4% in the EU-15 (“Social Economy and Social Entrepreneurship”, EU Social Europe Guide, Volume 4).

A 2009 study (Terjesen, S., Lepoutre, J., Justo, R. e Bosma) estimated that the proportion of the working population concerned by social entrepreneurship is equal to 4.1% in Belgium, 7.5% in Finland, 3.1% in France, 3.3% in Italy, to 5.4% in Slovenia and 5.7% in the UK. Among the companies created in Europe, approximately one out of four would be a social enterprise. This figure rises to one out of three in Belgium, Finland and France. These companies are often more productive and competitive than one might think thanks to the strong personal commitment of the employees and to the better working conditions they offer.

Area of activity	**%**
Social services	16.7%
Employment and training	14.88%
Environment	14.52%
Education	14.52%
Economic, social and community development	14.34%
Culture, arts and recreational activities	14.34%
Health	6.9%
Housing	2.72%
Business associations	2%
Advocacy, politics and law	1.63%
Others	4.72%
Total	**100%**

Table 1.1. Map of the activity areas of social enterprises in Europe
Source: Data from SELUSI www.selusi.eu

To figure out the importance of social enterprises in Europe, it is sufficient to mention data from the cooperative world in Europe. Cooperatives Europe, the organisation that gathers 83 associations representing coops from 34 European countries, has made a report on co-operation in Europe. A number of interesting facts have emerged. In Europe there are 176.461 cooperatives and 141.502.512 members. This means that more than 17% of European citizens is a coop partner. The spread of the cooperative model seems to be of the highest level. This corresponds to an excellent performance in terms of total turnover that is € 1.004,83 billion, higher than the GDP of Finland, Denmark, Norway and Sweden all together. The mentioned numbers assume a higher specific weight if we also analyse the trends in recent years. As reported by Cooperatives Europe, in fact, since 2009 the number of cooperative enterprises increased by 12% and the number of members registered a positive variation of 14%. These data are yet another demonstration of how coops are resilient to the crisis. From 2008 onwards, in fact, they have managed to maintain almost unchanged employment levels, saving in some cases (see workers buyouts) several jobs. Italy is the first country in Europe by number of cooperatives, with 39.600 social enterprises, ahead of Turkey (33,857), France (22,517) and Spain (20,050). Instead, the nation with the largest cooperative density is Holland, where even every citizen is a coop partner. It is France, however, to possess the greatest number of people employed in the coop, with 1.217.466 workers, then there are Italy (1.150.200) and Germany (860.000).

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SECTION 2. STEP-BY-STEP GUIDE ON HOW TO GET STARTED

2.1. Decide On a Revenue Opportunity: Business Venture or Business Partnership?

Types of joint venture

How you set up a joint venture depends on what you are trying to achieve. One option is to agree to **co-operate with another business in a limited and specific way**. For example, a small business with an exciting new product might want to sell it through a larger company's distribution network. The two partners could agree to a contract setting out the terms and conditions of how this would work.

Alternatively, you might want to set up a **separate joint venture business**, possibly a new company, to handle a particular contract. A joint venture company like this can be a very flexible option. The partners each own shares in the company and agree on how it should be managed.

In some circumstances, other options may work better than a business corporation. For example, you could form a **business partnership**. You might even decide to completely merge your two businesses.

To help you decide what form of joint venture is best for you, you should consider whether you want to be involved in managing it. You should also think about what might happen if the venture goes wrong and how much risk you are prepared to accept.

It's worth taking **legal advice** to help identify your best option. The way you set up your joint venture affects how you run it and how any profits are shared and taxed. It also affects your liability if the venture goes wrong. You need a clear legal agreement setting out how the joint venture will work and how any income will be shared. See the page in this guide on how to create a joint venture agreement.

JOINT VENTURE - BENEFITS AND RISKS

Businesses of any size can use joint ventures to strengthen long-term relationships or to collaborate on short-term projects.
A successful joint venture can offer:

- access to new markets and distribution networks
- increased capacity
- sharing of risks and costs with a partner
- access to greater resources, including specialised staff, technology and finance

A joint venture can also be very flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting the commitment for both parties and the business' exposure.

Joint ventures are especially popular with businesses in the transport and travel industries that operate in different countries.

The risks of joint ventures

Partnering with another business can be complex. It takes time and effort to build the right relationship. Problems are likely to arise if:

- the objectives of the venture are not 100 per cent clear and communicated to everyone involved
- the partners have different objectives for the joint venture
- there is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners
- different cultures and management styles result in poor integration and cooperation
- the partners don't provide sufficient leadership and support in the early stages

Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.

Assess your readiness for a joint venture

Setting up a joint venture can represent a major change to your business. However beneficial it may be to your potential for growth, it needs to fit with your overall business strategy.
It's important to review your **business strategy** before committing to a joint venture. This should help you define what you can realistically expect. In fact, you might decide that there are better ways to achieve your business aims. See our guide on how to assess your options for growth.

You may also want to look at what other businesses are doing, particularly those that operate in similar markets to yours. Seeing how they use joint ventures could help you choose the best approach for your business. At the same time, you could try to identify the skills they apply to partner successfully.

You can benefit from examining your own business. Be realistic about your strengths and weaknesses - consider performing a SWOT (strengths, weaknesses, opportunities and threats) analysis to discover whether the two businesses are a good fit. You will almost certainly want to find a joint venture partner that complements your own business' strengths and weaknesses.

You should take into account your employees' attitudes and bear in mind that people can feel threatened by a joint venture. It can also be difficult to build effective working relationships if your partner has a different way of doing things.

If you do decide to form a joint venture, it may well help your business to grow faster, increase productivity and generate greater profits. Joint ventures often enable growth without having to borrow funds or look for outside investors. You may also be able to use your joint venture partner's customer database to market your product, or offer your partner's services and products to your existing customers. Joint venture partners also benefit from being able to join forces in purchasing, research and development.

2.2 Plan your joint venture relationship

Before starting a joint venture, the parties involved need to understand what they each want from the relationship.
Smaller businesses often want to access a larger partner's resources, such as a strong distribution network, specialist employees and financial resources. The larger business might benefit from working with a more flexible, innovative partner, or simply from access to new products or intellectual property.
Similarly, you might decide to build a stronger relationship with a supplier. You might benefit from their knowledge of new technologies and get a better quality of service. The supplier's aim might be to strengthen their business from a guaranteed volume of sales to you.

Whatever your aims, the arrangement needs to be fair to both parties. Any deal should:

- recognise what you each contribute
- ensure that you both understand what the agreement is expected to achieve
- set realistic expectations and allow success to be measured

The objectives on which you agree should be turned into a working relationship that encourages teamwork and trust. See the page in this guide on how to make your joint venture relationship work.

Choosing the right joint venture partner

The ideal partner in a joint venture is one that has resources, skills and assets that complement your own. The joint venture has to work contractually, but there should also be a good fit between the cultures of the two organisations.
A good starting place is to assess the suitability of **existing customers and suppliers** with whom you already have a long-term relationship. You could also think about your competitors or other professional associates. Broadly, you need to consider the following:

- How well do they perform?
- What is their attitude to collaboration and do they share your level of commitment?
- Do you share the same business objectives?
- Can you trust them?
- Do their brand values complement yours?
- What kind of reputation do they have?

If you opt to **assess a new potential partner**, you need to carry out some basic checks:

- Are they financially secure?
- Do they have any credit problems?
- Do they already have joint venture partnerships with other businesses?
- What kind of management team do they have in place?
- How are they performing in terms of production, marketing and personnel?
- What do their customers and suppliers say about their trustworthiness and reputation?

Before you consider signing up to a joint venture, it's important to **protect your own interests**. This should include drawing up legal documents to protect your own trade secrets and finding out whether your potential partner holds intellectual property rights agreements. Also, it's worth checking to see whether they have other agreements in place, either with their employees or consultants.

Create a joint venture agreement

When you decide to create a joint venture, you should set out the terms and conditions in a **written agreement**. This will help prevent any misunderstandings once the joint venture is up and running.

A written agreement should cover:

- the **structure** of the joint venture, e.g. whether it will be a separate business in its own right
- the **objectives** of the joint venture
- the **financial contributions** you will each make
- whether you will transfer any assets or employees to the joint venture
- ownership of **intellectual property** created by the joint venture
- **management and control**, e.g. respective responsibilities and processes to be followed
- how liabilities, profits and losses are shared
- how any **disputes** between the partners will be resolved
- an exit strategy - see the page in this guide on ending a joint venture

You may also need other agreements, such as a confidentiality agreement to protect any commercial secrets you disclose.
It is essential to get independent expert advice before any final decisions are taken.

2.3. Make your joint venture relationship work

A clear agreement is an essential part of building a good relationship. Consider these ideas:

- Get your relationship off to a good start. For example, you might include a project that you know will be a success so that the team working on the joint venture can start well, even if you could have completed it on your own.
- **Communication** is a key part of building the relationship. It's usually a good idea to arrange regular, face-to-face meetings for all the key people involved in the joint venture.
- Sharing information openly, particularly on financial matters, also helps avoid partners becoming suspicious of each other. The more trust there is, the better the chances that your relationship will work.
- It's essential that everyone knows what you are trying to achieve and works towards the same goals. Establishing clear **performance indicators** lets you measure performance and can give you early warning of potential problems.
- At the same time, you should aim for a **flexible relationship**. Regularly review how you could improve the way things work and whether you should change your objectives.
- Even in the best relationship, you'll almost certainly have problems from time to time. Approach any disagreement positively, looking for "win-win" solutions rather than trying to score points off each other. Your original joint venture agreement should set out agreed dispute resolution procedures in case you are unable to resolve your differences yourselves.

For more information, see the page in this guide on how to create a joint venture agreement.

Partnership

If your business will be owned and operated by several individuals, you'll want to take a look at structuring your business as a partnership. Partnerships come in two varieties: general partnerships and limited partnerships. In a general partnership, the partners manage the company and assume responsibility for the partnership's debts and other obligations. A limited partnership has both general and limited partners. The general partners own and operate the business and assume liability for the partnership, while the limited partners serve as investors only; they have no control over the company and are not subject to the same liabilities as the general partners.

Unless you expect to have many passive investors, limited partnerships are generally not the best choice for a new business because of all the required filings and administrative complexities. If you have two or more partners who want to be actively involved, a general partnership would be much easier to form.

One of the major advantages of a partnership is the tax treatment it enjoys. A partnership doesn't pay tax on its income but "passes through" any profits or losses to the individual partners. At tax time, each partner files a specific form, which indicates his or her share of partnership income, deductions and tax credits. In addition, each partner is required to report profits from the partnership on his or her individual tax return. Even though the partnership pays no income tax, it must compute its income and report it on a separate informational return, Form Personal liability is a major concern if you use a general partnership to structure your business. Similar to a sole proprietorship, general partners are personally liable for the partnership's obligations and debt.

In addition, each general partner can act on behalf of the partnership, take out loans and make business decisions that will affect and be binding on all the partners (if the general partnership agreement permits). Keep in mind that partnerships are more expensive to establish than sole proprietorships because they require more extensive legal and accounting services.

Protect yourself and your business with a partnership agreement.

Starting a business with a partner It may be difficult to talk about problems during your honeymoon stage, but that's exactly when you should. A written partnership agreement helps guide you when questions arise. A partnership agreement should answer the following questions:

- *What is each partner's investment?* Is one investing cash and the other energy? Do any of the partners own equipment that you'll use in the business, and does that fact deserve consideration as part of the start-up investment?
- *What are the responsibilities and duties of each partner?* Be specific about each partner's role in the day-to-day operations of the company.
- *If a partner becomes disabled, how long will he or she get a share of the profits?* If a partner dies, what happens to that share? A good way to deal with this issue: life insurance on all partners.
- *Can the partners have other outside partnership interests?* In particular, can interest be in similar or competitive businesses?
- *What will you do if one partner wants to withdraw?* Typically, you'll set up a buyout agreement, but it's a very good idea to decide on the terms before the situation arises. You'll also want to include a noncompete covenant.
- *How will you restrict partnership-interest transfers?* Can a partner transfer his or her ownership to anyone, or can you limit that transfer? This means the remaining partners won't find themselves in partnership with someone they object to. This is frequently used to protect the business in the event that one of the partners gets a divorce and his interest becomes a part of the divorce settlement.
- *Can a partner pledge his or her interest as collateral for a loan?*
- *Are additional contributions mandatory?* If the business needs capital in the future, are partners required to make capital contributions?

- *How will conflicts be resolved?* Most often, an arbitrator is used.

Tax Treatment of Partnership versus Joint Venture

One of the main reasons business owners should be concerned about the election between a partnership and a joint venture is taxes. Partnerships are considered “pass through” tax entities, meaning all of the profits and losses of the partnership pass through the business to the partners. The partners then each pay taxes on their share of the profits (or deduct their share of the losses) on their individual income tax returns. Depending on the circumstances, joint ventures may be taxed as a corporation or partnership. Entities that are taxed as corporations are subject to tax at both the corporate and shareholder levels, commonly referred to as double taxation.

There are positives and negatives to each form of taxation. One benefit of partnerships is that they offer greater flexibility with regard to the allocation of gains and losses. For example, you might be able to structure your partnership so that one partner receives 50% of the gains generated by the business and 99% of the losses, something that might benefit the individuals in your group. However, you or others in your group might not want to report income on your personal returns and would therefore corporate tax treatment might be better.

Liability Issues for Partners versus Co-Joint Venturers

Another issue to consider in deciding between a joint venture and partnership is liability. Generally, partners in a partnership are jointly and severally liable for the partnership’s obligations. This means that every partner is liable for his or her own actions, the actions of the other partners, and the actions of employees of the business. In general, the members of a joint venture that is set up as a separate corporation or limited liability company (LLC) will only be liable to the extent of their investment in the corporation’s stock or their interest in the LLC. If the joint venture is established by contract (as opposed to a separate legal entity), then the parties are personally exposed to liabilities incurred pursuant to the venture, similar to a partnership.

Fiduciary Duties of Partners versus Co-Joint Venturers

A partner in a general partnership owes a fiduciary duty to the partnership and the other partners. This includes duties of loyalty, care, and good faith to the other partners and the partnership. The fiduciary duties of co-venturers are similar to those owed by a partner in a partnership, although joint ventures are not treated in all respects as identical with a partnership. For instance, the fiduciary duties of a member of a joint venture are often deemed finite and tailored to the business and activities of the venture, while partnership fiduciary duties are more broadly construed.

How to Tell If You Have a Partnership or a Joint Venture

Whether you have established a partnership or joint venture will depend on a number of factors including:

- your entity's legal structure
- your profit structure
- the extent of shared resources and staff
- your goals and objectives
- the length of time for goals and objectives
- and the intent of the parties.

Business owners should be careful to understand which type of arrangement they are entering and the consequences of that choice

2.4 Decide On a Program Structure: For-Profit, Not-For-Profit, or Something in Between?

Traditionally, the divide between a for-profit or nonprofit organization was clear: for-profit businesses would engage in revenue generation and nonprofits would engage in charitable work to solve social issues and would largely stay away from revenue generation. The rise of social enterprises in recent years, however, has made that distinction less and less clear. Social entrepreneurs are finding innovative ways to challenge the traditional thinking about nonprofit organizations (by focusing on economically sustainable models) and for-profit businesses (by focusing on solving social issues). As you set out on your mission to change the world, you will have to decide if you want to form your venture as a for-profit or nonprofit–or perhaps some hybrid of the two. The answer will largely depend on your best guess as to source of funding and your activities.

Here are the advantages, disadvantages, and the process for forming each.

Option 1: Only For-Profit Company

A for-profit can be structured as a regular C-Corporation, an S-Corporation, a Limited Liability Company, a Benefit Corporation, or Social Purpose Corporation

Advantages:

<u>Ability to Take in Investments</u>. Unlike a nonprofit, a for-profit company can have private owners. The ownership of the company, or its equity, can be divided and allocated among different individuals. For this reason, one advantage of a for-profit company is that it could allow you to bring in investors ranging from friends and family to angel investors and venture capitalists. The best legal structure for receiving investments is a C-Corporation. S-Corps have certain restrictions on who can own the company's stock. It is unclear how being structured as a Benefit Corporation may impact your ability to raise funding from VCs and angels. While some investors are quite unfamiliar with this new entity type and have questions about the

exposure to risk due to the company's social obligation, there are impact investors who are drawn to triple-bottom-line businesses because of their emphasis on social impact.

No Limits on Revenue Generation. Unlike a nonprofit, there is no limit on a for-profit company's ability to generate revenue through providing goods and services. This may be an important factor for enterprises that have a substantial expected source of revenue, as too much revenue can actually jeopordize your nonprofit status
Disadvantages:

No Ability to Receive Grants or Offer Tax Deduction to Donors. One big drawback with a for-profit company is that, unlike a nonprofit, it is not generally eligible to receive foundation and government grants (one exception is Program Related Investments). Similarly, a for-profit company cannot offer tax deduction to donors. While some individuals may donate regardless of the tax deduction, this effectively eliminates large donors since they almost always require a tax deduction as a condition for donation.

Taxes. Another drawback with for-profit businesses is that they pay taxes (see Fees/Costs below). This factor, while somewhat relevant, should not be an overriding factor in deciding your entity type, as the costs could be small relative to the loss of certain opportunities by selecting a nonprofit organization.

Option 2: Only Nonprofit Corporation

A nonprofit is generally still a corporation (a nonprofit corporation), although it can take the form of other types of entities as well. However, it is very different from a regular for-profit corporation. There are a great variety of nonprofits, and each can do different things.

Advantages:

Ability to Receive Grants and Offer Tax Deduction to Donors. A nonprofit allows you maybe to get government and foundation grants and to offer tax deduction to any donors. Other types of nonprofits (such as a social welfare organization are technically tax exempt but they do not have this capacity. This may be an especially important factor for businesses that operate in a field where there are a lot of opportunities for receiving grants (such as education) and questions as to the enterprise's ability to generate enough revenue to sustain itself without grants.

Disadvantages:

Limit on Revenue Generation. Perhaps the biggest drawback with a nonprofit for social enterprises is its limitations on revenue generation. Here is our earlier article discussing how a nonprofit can sell goods and services. To summarize, a nonprofit can sell products or services. However, if those sales are unrelated to itsexempt purposes, those parts of the organization's activities will be subject to tax.

If possible, the best way to avoid the problem with generating substantial revenue is to craft your tax-exempt application in a way that anticipates the activity as part of your exempt purpose.

No Ability to Take Investments. Because a nonprofit does not have owners, there is no equity to give out. This means you would not be able to bring on equity investors such as angels and VCs (although loans are still available).

Typically, if an entity is unsure if it should go with a nonprofit or for-profit, one option is to start with the nonprofit entity (as outlined in option 2 above), and wait to form the for-profit entity (as described in option 1 above) when it becomes possible/necessary to generate substantial unrelated income or take on investors.

2.5 What Staff Do You Need? What Role Does Your Board/Business Advisory Committee Play?

Finding the right partners

Increasingly, partnerships (from formal partnerships and joint ventures to looser collaborations) are a feature of the way the world works. When it comes to sectors like software, many of the key players collaborate as well as compete – something that's occurring more in the social sector too. However, it's very important to understand what you are getting into and to get into the right partnerships at the right time and on the right terms.

Some of the reasons why you might want to partner with another organisation are:

- To achieve major ambitions: If you have a big vision, often it won't be possible to achieve it alone – you're going to have to work with others to make it happen.
- To grow your organisation's capacity: sometimes collaborating can help you build capacity quickly – you can buy or borrow another company's resources to enable you to meet larger challenges than you are equipped for alone.
- To share risks: Sometimes a project can be desirable but could also bring you down if it fails. Sharing this risk with another organisation can be a way to achieve the task yet reduce the chances of damage to your enterprise.
- To bring skills on board: Our goals often require skills and knowhow we don't have in-house. A partnership can secure the key elements and enable you to gain a deeper understanding of those skills yourself.
- To raise money or win contracts: A coalition of organisations can present a much sought after holistic approach

Building a board of trustees and directors

Unless you own your social enterprise company outright, you'll share decision-making power with other people – your board. If you're the one who has founded and set up your venture that can be a challenge because it's the board of directors – not you – who are responsible for the organisation's overall strategy and direction.

A really good board is critical to the success of your business in a number of ways:

The six vital ingredients of a good partnership

1. Clear and unambiguous benefits for all members of the partnership.
2. Efficient decision-making methods and processes.
3. Clearly agreed roles and deliverables – agreed upfront and written down – for each partner.
4. A fair spread of both benefit and risk between every member of the partnership.
5. A sensible and manageable amount of administration, meetings and paperwork for all involved. There must be trust and mutual respect. In an ideal world the partners should have shared values.
6. Building a board of trustees and directors

• Individual board members may have expertise in a number of areas useful to the venture and can be called on to advice when needed.
• Some board members will have superb contacts and networks that can help.
• The board can provide you with important support for what you're seeking to achieve, as well as feedback on ideas and proposals.
• The chair of a board is an ideal strategic partner for you as chief executive.
Remember that suitable board needs to have a balance of skills and expertise. Here are some of the ones you may like to prioritise:
• Finance skills: Ideally, your treasurer will be somebody who comes from a finance background and can read and understand audited accounts.
• User experience: The people who live the kind of life that is typical of your user group, stakeholders or beneficiaries on the social side need to be represented.
•Human resources skills: It is useful to have a board member with a background in HR to advise and support you on staff problems.
• Public relations skills: It is very useful to have someone on board to advise you on attracting the right kind of public attention.
• Senior management skills: It is important to have one person on your board who can oversee the development of the organisation in terms of the way it is managed and run.
• Entrepreneurial skills: You need to have likeminded people on the board; somebody who forces the board to be enthusiastic about new ideas and encourages them to take risks.

SECTION 3. PLANNING YOUR VENTURE

3.1 How to Go About Doing Your Market Research

Definition: The process of gathering, analyzing and interpreting information about a market, about a product or service to be offered for sale in that market, and about the past, present and potential customers for the product or service; research into the characteristics, spending habits, location and needs of your business's target market, the industry as a whole, and the particular competitors you face[1].

What Am I Researching?

In order to turn your idea into reality and to begin defining your business model canvas you have to make market research.
We can't underestimate the importance of market research, especially for a social enterprise. The reason is, *there may be a social need,* but we have to find out *is there market demand?*

Identifying a social need is the first step for a social enterprise but, without a *social* need, it wouldn't be a *social* enterprise.

The question: What is your customers' and beneficiary's needs are?

Steps in marketing research process:
-Listening to your customers to understand past present and potential important social problems to solve, understand your target consumers.
-Hold a meeting and ask people about your idea, do a survey with your target market-free survey software is easily available on the web, ask your potential beneficiaries what they think about your idea) Demographics, geographic location, profile, how needs are or are not being met

-Watching competitors It is important to decide what market you are in. Direct and indirect competitor profiles, including what they do well and poorly. Do not forget ask your customers who else they buy from. What do they offer? How do they price their products? Who are their customers? What are their competitive advantages and disadvantages? What might their reaction be to you entering the market?

-Gathering information in the market to evaluate market conditions.

-Look and investigate in web supporting your idea, government reports, charities study reports, think tank or ngo journals published.

- Try to estimate the size of the market - and how much of it you can realistically take. You've identified a social need, and worked out that there may be some market demand for your service or product. But what is the size of that demand - and will it be big enough to keep you in business?

- Identify how will you make Money, meeting that social need? Will the people who buy your product or service pay for it - or will another organisation (eg a regeneration initiative or a Local Authority) pay you to meet a need on their behalf?

[1] https://www.entrepreneur.com/encyclopedia/market-research

Market research provides relevant data to help solve marketing challenges that a business will most likely face-an integral part of the business planning process[2].

Market research involves two types of data:

Primary information. This is the information you can gather personally or with someone's help.

- A group survey: Used mostly by big business, group interviews or focus groups are useful brainstorming tools for getting information on product ideas, buying preferences, and purchasing decisions among certain populations.
- The in-depth interview: These one-on-one interviews are either focused or nondirective. Focused interviews are based on questions selected ahead of time, while nondirective interviews encourage respondents to address certain topics with minimal questioning[3].

Secondary information. This type of research is already compiled and organized for you. Examples of secondary information include reports and studies by government agencies, trade associations or other businesses within your industry. Most of the research you gather will most likely be secondary[4].

This kind of information consists of outside sources coming from institutions, unions, associations, government agencies, journals, magazines, books, media etc. Secondary sources include the following:

- **Public sources.** These are usually free, often offer a lot of good information, and include government departments, business departments of public libraries, and so on.
- **Commercial sources.** These are valuable, but usually involve cost factors such as subscription and association fees. Commercial sources include research and trade associations, such as Dun & Bradstreet and Robert Morris & Associates, banks and other financial institutions, and publicly traded corporations.
- **Educational institutions.** These are frequently overlooked as valuable information sources even though more research is conducted in colleges, universities, and technical institutes than virtually any sector of the business community[5].

3.2 Working with a Business Plan

Social ventures seek social solutions to social problems; hence, they apply business solutions to social issues. The aim, at the end of the day, is to ensure sustainability through enabling non-profits to generate income to support themselves rather than relying on grants and donations. If we assume that a nonprofit organization does not have shareholders, we can see that the profits from the social business are hundred per cent re-deposited in the services of

[2]https://www.entrepreneur.com/encyclopedia/market-research
[3] https://www.entrepreneur.com/encyclopedia/market-research
[4] https://www.entrepreneur.com/encyclopedia/market-research
[5] https://www.entrepreneur.com/encyclopedia/market-research

the social organization. In the last few decades, non-profits have become fond of revenue-generating activities and as a result of a new operating model has come out where business principles and public sector values do not conflict but serve the public interest. If a social enterprise has to survive it has to have a thorough business model.

A business model is comprised of two major components or strategies:

1) Operations strategy which deals with the organizational structure and external partnerships to make the organization's intended impact;
2) Resources strategy which enables the organization to clarify the terms and conditions to acquire financial and human resources that it needs to do its work.

In short, the business model for a social enterprise is the formula that all the efforts are generated into the social impact with revenues to keep the business going on[6].
Without a business model a business would most probably go into trouble even if it is innovative enough. In the example of businesses with innovative products, everything should be taken into consideration from scratch because their innovative products often break the value chain in the industry but also bring new opportunities through an alternative way of doing business.

Basically, a business model is how you make money but not limited to revenue generation. Social entrepreneurs are expected to turn a value proposition into a successful business. To make such an assessment, a business model must include operations, customer acquisition and retention, supply chain management, and the aforementioned cost and revenue aspects[7].
In other words, the business model is the big picture of your organization which unites the social model, strategy and operation plans on a platform[8].

Also, there is a strong correspondence between an (business) idea and value, which is that you develop the idea to generate the value what others want to take. This is a matter of exchange of what you and others value. In social enterprise sector, you find an idea to serve a social purpose and trade it and get the revenues and finally reinvest your profits to continue to serve the social purpose. To sustain your social enterprise, you need a successful business model. The following are some ways business of a social enterprise can be defined in several ways with regards to the non-profit organization[9]:

Mission centric: The enterprise runs a social program in which the business is created to serve clients.

Mission related: The enterprise conducts its business activities at a point where the social program has common actions. The business of the enterprise supports financially the mission of the organization.

Unrelated to mission: The enterprise and the social program are unrelated independent entities though they might have some relations. The business of the enterprise runs to support the social program financially.

[6] https://www.marsdd.com/mars-library/social-enterprise-business-models/
[7] https://www.marsdd.com/wp-content/uploads/2012/12/Business-Model-Design-WorkbookGuide.pdf
[8] http://www.setoolbelt.org/resources/1779
[9] http://www.virtueventures.com/setypology/index.php?id=MODELS&lm=1

The below table is a magnificent summary of the certain types of social business models developed by Virtue Ventures[10]. As you can see from the table, these business models are applicable to related entities and programs. Depending on the factors and the conditions of the social enterprise such as financial and social objectives, mission, marketplace dynamics, client needs or capabilities and legal environment you can customize the business model.

Business model	**How it works**	**Examples**	**Key success factors**
Entrepreneur support	Sells business support to its target population.	Microfinance organizations, consulting, or tech support	Appropriate training for the entrepreneur
Market intermediary	Provide services to clients to help them access markets.	Supply cooperatives like fair trade, agriculture, and handicraft organizations	Low start-up costs, allows clients to stay and work in their community
Employment	Provide employment opportunity and job training to clients and then sells its products or services on the open market.	Disabilities or youth organizations providing work opportunities in landscape, cafes, printing, or other business	Job training appropriateness and commercial viability
Free-for-service	Selling social services directly to clients or a third-party payer.	Membership organizations, museums, and clinics	Establishing the appropriate fee structure vis a vis the benefits
Low-income client	Similar to fee-for-service in terms of offering services to clients but focuses on providing access to those who couldn't otherwise afford it.	Healthcare (prescriptions, eyeglasses), utility programs	Creative distribution systems, lower production and marketing costs, high operating efficiencies
Cooperative	Provides members with benefits through collective services.	Bulk purchasing, collective bargaining (union), agricultural coops, credit unions	Members have common interests/needs, are key stakeholders, and investors
Market linkage	Facilitates trade relationships between clients and the external market.	Import-export, market research, and broker services	Does not sell clients' products but connects clients to markets
Service subsidization	Sells products or services to an external market to help fund other social programs. This model is integrated with the non-profit organization; the business activities and social programs overlap.	Consulting, counseling, employment training, leasing, printing services, and so forth	Can leverage tangible assets (buildings, land, employees) or intangible (expertise, methodologies, or relationships)
Organizational support	Similar to service subsidization, but applying the external model; business activities are separate from social programs	Similar to service subsidization– implement any type of business that leverages its assets	Similar to service subsidization.

Source: https://www.marsdd.com/mars-library/social-enterprise-business-models/

[10] http://www.4lenses.org/setypology/integration

Picking the right model which will serve your social purpose for the enterprise would be your starting point; however, from a diagnostic point of view there stand some questions for you to answer to launch your business successfully. For example, is the business viable for the expectations of the funding institution? Did you research the industry? Did you make sure that yours is not a social program but a business?[11]

Social Business Model Canvas

Market Research have to aim Understanding your target consumers or social groups and defining your value proposition. Having Market Research datas you can start to prepare your social business plan. The social business canvas is the beginning step for your social business plan.

The Social Business Model Canvas is a tool for creating a solid business model around your social enterprise. It's also a collaborative tool that helps you communicate different business models with your stakeholders and brainstorm new ones[12].

Understanding the business model of a social enterprise can have two key benefits:
1. It can help us to understand, design, articulate and discuss the 'nuts and bolts' of our business concept;
2. It can help us to test, and develop prototypes so that we can see if what we passionately believe about our impact and our business actually 'stacks up' in practice[13].

3.3 Evaluating Potential Risks

There are some posible risks in creating a new venture. We will discuss these risks briefly below.

Product risk: deciding what to sell can be a real problem if you are new to business. Your product must adress a problem. You have to explain clearly what your product is to the investors to get funded by them. You have to convince them to invest your product. Market risk: another risk is related to customers. A professional entrpreneur must know the client. Who is the target customers? What are their preferences? What are their incomes? How can reach the product? Research this thoroughly. Identifying these routes to market, and whether you can build them effectively, in a timely fashion and within your budget, could easily determine the success of your business. If the market risk falls in your favor and you get into your market early enough, there's no reason why your business can't succeed[14]. Market risk is a result of many factors, including whether the market is large enough to support your business, whether the market is growing, what trends exist in the industry, how the competition is structured, and how distribution works. If industry trends are moving away from your product or service or if potential customers are already locked up by competitors, it will be difficult to gain customer momentum. The issue of market size is also important in feasibility analysis. For instance, if you are starting a microbrewery, it is important to

[11] http://community-wealth.org/content/doing-well-while-doing-good-how-launch-successful-social-purpose-enterprise
[12] http://www.socialbusinessmodelcanvas.com/
[13] https://mbs.edu/getmedia/91cc0d01-3641-4844-b34c-7aee15c8edaf/Business-Model-for-SE-Design-Burkett.pdf
[14] https://www.entrepreneur.com/article/234094

understand that your market likely is not the nationwide microbrew market, nor the local beer market. It is more than likely the local microbrew market, which is much smaller[15].Financial risk: one of the most important barrier for a new venture is the money. But thanks to technology and communication, there are new ways to find a solution to the financing. There are online funding companies. First-time entrepreneurs can get enough money to make their products are ready to be produced with Kickstarter and Indiegogo.

Financial risk also is the tangible value that you and your investors lose when the business fails. One of the most significant strategies you can take to manage this risk is turning as many fixed costs to variable costs as possible. For instance, rather than investing money in a sales force and manufacturing facility, consider hiring sales representatives and outsourcing production. You also may be able to tie some product development or other initial costs to sales rather than paying for them all upfront. In addition to keeping initial investments lower, turning fixed costs to variable will also lower your breakeven point and reduce the likelihood of failure due to lower-than-anticipated sales. This will help to deal with some of the uncertainty about sales levels early on[16].

Team risk: team work and harmony in the team is the key in path towards the success. There is no way that one person can vanquish every risk. That's why it's important to have a great team and a personal sounding board -- a mentor, confidante or even a startup incubator to help prepare for each challenge[17].

Execution risk: executing a company necessiates a great focus on details. Many entrepreneurs can become so mired in the details that they completely lose sight of the overall company trajectory and strategy. Alternatively, some company founders remain at a high level and overlook crucial details that result in major problems[18].

Dealing with all the problems above can be tough for a new entrepreneur. So professional support is a must. With the training we offer, they will be able to predict possible problems and they will overcome the crisis.

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SECTION 4. FINANCING YOUR VENTURE

4.1 How to Finance Your Venture

1. In our training session we will derive from definition of social firms and their purpose and the theoretical aspects of financing and its importance for social entrepreneurship & social firms. We will identify the differences in financial concepts for non-profit and for-profit firms.

2. After the theoretical introduction and clarification of the meaning of the basic terms involved in financing, we will introduce cases and assign individual tasks to the participants.

3. Participants will have to solve the assignments and to present their results and comment them in order to prove the understanding of the concept.

4. We will prepare theoretical introduction – materials for the workshop

5. We will prepare slides

6. We will prepare individual assignments

Explanation:

1. **Definition of social firms and their purpose**

The answer to the question "How to finance your venture – social firm?" derives from the definition of the social firm:

"A social firm is defined as any business venture created for a **social purpose** - mitigating/ reducing a social problem or a market failure and to enerate **social value** while operating with the financial discipline, innovation and determination of a private sector business".

Social firms use entrepreneurship, innovation and market approaches to create social value and change; they usually share the following characteristics:

1. **Social Purpose** - created to generate social impact and change by solving a social problem or market failure;
2. **Enterprise Approach** – uses business vehicles, entrepreneurship, innovation, market approaches, strategic-orientation, discipline and determination of a for-profit business;
3. **Social Ownership** – with a focus on public good and stewardship, although not necessarily reflected in the legal structure.

Social firms may be structured as a department within an organization or as a separate legal entity, either a subsidiary non-profit or for-profit.

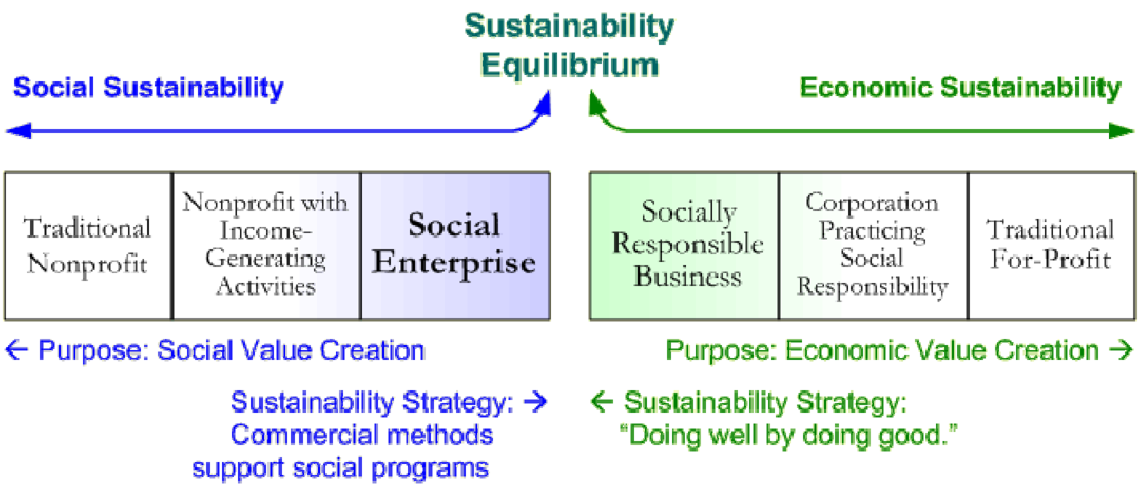
The purpose of the social enterprise may be:

1. an additional funding mechanism for the organization's social programs or operating costs;
2. a sustainable program mechanism in support of the organization's mission; or
3. a leadership development mechanism in support of social innovation.

Used for either purpose, business success and social impact are interdependent. Social firms can be classified based on their mission orientation, as well as the level of integration between social programs and business activities.

2. Difference between social responsible and social firms

We should not misunderstand and mix the meaning of socially responsible firms and social firms (social entrepreneurship firms).



3. Financial objectives/ motives of social firms

Social firm is a means to achieve sustainability through earned income; however, it is important to note that financial objectives differ among organizations. Unlike the microfinance field, the financial objective of a social firm is not by default viability (generating sufficient income to cover all costs).

Social firms don't need to be profitable to be worthwhile. They can improve efficiency and effectiveness of the organization by:

- reducing the need for donated funds;
- providing a more reliable, diversified funding base; or
- enhancing the quality of programs by increasing market discipline. 1

Non-profit firms have varying financial motives for incorporating social firms into their organizations, ranging from income diversification to full financial self-sufficiency:

- **Income Diversification**: For many non-profit firms, social firm serves as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. In these cases, the social firm offers a means to reduce program deficits and employ resources more efficiently. Firms seeking means to diversify income may set modest financial objectives. For example, the costs of a program previously 100 % grant-funded now covered 40 % by earned income is success for many firms.
- **Financial Self-Sufficiency**: Financial self-sufficiency is achieved by increasing non-profit firm's ability to generate sufficient income to cover all or a substantial portion of their costs or fund several social programs without continued reliance on donor funding. Firms seeking to maximize profit will opt for external subsidiaries expressly for the purpose of funneling money back to the parent organization. Experienced non-profits may use complex structures and have multiple mixed frims and income streams.
- **Cost Savings and Resource Maximization:** This financial objective is usually combined with financial self-sufficiency or income diversification and is concerned with optimizing resources and leveraging assets for economic, social, and community development.
    - Cost savings is achieved by sharing back office functions, optimizing systems, and streamlining efficiencies to increase business performance and margins.
    - Resource maximization is achieved through leveraging the non-profit's financial assets, tangible assets (space, equipment, plant, building, etc.), and intangible assets (proprietary content, methodology, relationships, goodwill, name recognition, skills, and expertise).

4. Financial spectrum of social firms

The level of social firm self-sufficiency is based on financial objectives, the type of firm, and its maturity. Social firm methodology does not dictate break-even or profit-making; rather, financial performance is appraised by the ability of the social firm to achieve the financial objectives it has set.

Organizational Structure	Traditional Non-profit	Traditional Non-profit / Social firm	Social firm	Social firm	Social firm
Financial Spectrum	Full Philanthropic Support	Partial Self-Sufficiency	Cash Flow Self-Sufficiency	Operating Self-Sufficiency	Financial Self-Sufficiency
Level of income	No earned income. Relies on subsidies for financial support to sustain operations.	Earned income covers a portion of operating expenses or recovers some program costs.	Earned income covers operating expenses of enterprise at lower than market rates.	Earned income covers all operating expenses without full market-based costs (capital & investments).	Earned income covers all operating and investment expenses at market rate.
Subsidy	100% subsidy.	Firm and/or parent organization mostly subsidized.	Bridges deficit between earned income and expenses, capital investment and growth subsidy.	Cost of capital, partial subsidies for loans, and capital expenditures.	No subsidies.
Viability through earned income	Not viable. Requires continued external financing (grants). Cost recovery is often seen as a side benefit rather than an expectation of the program.	Not viable. Organization is dependent on grants and donations for survival; may self-fund isolated services or activities.	Approaching viability. Covers direct costs; cost structure and growth subsidized; revenue covers daily operations until breakeven.	Viability expected. Operational breakeven; no surplus revenue, subsidies diminish; revenues cover all operating costs.	Viable to profitable. Revenues cover all operating and financial costs; retained earnings finance growth. Nonprofit may change its legal status to that of a for-profit entity.
Type of subsidies	Philanthropic donations Grants In-kind support Volunteer labor	Philanthropic donations Grants In-kind support Volunteer labor Parent organization support	Grants to fund deficit Discounts and tax advantages Volunteer or below market labor (interns) Below market interest rates Parent organization support Preferential contracts	Discounts and tax advantages Below market interest rates Parent organization support Bridge/gap funds; grants for specific cost costs Preferential contracts	Tax benefits allowable by law if organization maintains nonprofit status Preferential contracts

Source: Expansion on spectrum idea presented by Gregory Dees, Enterprising Nonprofits, Harvard Business Review, January-February 1998. Adapted from, Alter, Sutia Kim, Managing the Double Bottom Line: A Business Planning Resource Guide for Social Enterprises, Pact Publications, Washington, DC, 2000.

Social firms use a variety of methods to generate commercial income to sustain operations. At any given time, a social enterprise may use one or a combination of methods, based on the type of firms and business strategy.

Method	**Description**	**Examples**
Fee-for-service	Charging constituents or clients for social services in order to recover costs of service provision.	Museums charge entry fees; microfinance institutions sell financial services; rural clinics collect sliding scale fees for doctor visits.
Products	Earned income through manufacturing and product sales, or through mark-up and resale of products.	Horticulture cooperative sells flowers wholesale to suppliers; a fair trade company imports cocoa beans and manufactures them into chocolate products to sell in western markets; a handicraft marketing company sells artisan products through a catalogue and takes a commission on sales; a café employing disabled people sells coffee and snacks to the public.
Services	Commercialization of a skill or expertise to a market willing and able to pay.	Hunger relief organization sells catering services to schools and institutions; children's education organization provides daycare service for a fee; mental health organization sell psychotherapy and counseling services; a national microfinance institution sells management consulting services to other nonprofit organizations interested in starting credit programs.
Membership Dues	Fees collected from members of a group, association, or organization in exchange for services such as a newsletter, discounts, conferences, insurance, etc.	Dairy subsector trade association provides market information and linkages to its paying members; organization of social enterprise practitioners receives newsletter, listserv, industry reports, job listings, and an annual conference in exchange for an annual fee.
Tangible Assets	Generating income by renting or leasing a tangible asset such as office space, building, land, vehicles, or equipment.	Human services organization leases its idle office space to another nonprofit organization; a community development organization rents its trucks to a moving company on the weekends; an environmental conservation organization leases its land to an eco-touring organization.
Intangible Assets	Generating income by leveraging an intangible asset such as proprietary content, methodology, brand, reputation, relationships, goodwill, etc.	International Children's organization licenses its logo and brand name to a clothing line; a university obtains research contracts for scientific study from technology companies; a membership organization sells its mailing list; a youth news agency sells its print content to an online educational service targeting young people.
Investment Dividends	Passive income earned from investments.	Interest income and dividends from bonds, stocks, savings deposits, and other investments.
Unrelated Business Activities	Revenues from a business unrelated to the organization's mission and created for the purpose of funding specific social activities or the organization at-large.	Museum shop or retail store of an environmental organization; Girl Scout cookies; a catalogue trinket business supporting a public radio station; nonprofit real estate holdings.

5. Access to capital

Social firms, like any other business - micro or corporation, need capital to grow. It's not only a question of financing, but also of the right kind; capital must correspond to social firm's financial needs, business cycles, and maturity. Furthermore, like any other business, the best make good use of borrowed capital and their own risk capital.

Access to capital, however, is a constraint social firms continue to face. The reasons are fourfold:

- Non-profit capital markets are immature and underdeveloped, and there is little availability of financial instruments appropriate for capitalizing non-profit businesses.
- Ownership and regulatory issues bar non-profits from access to financing - they can not issue equity or distribute profits.
- Non-profit managers are financially risk adverse and hence often steer clear of options to leverage or borrow funds in order to capitalize their firms.
- For the non-profit manager willing to borrow, the lack of collateral, credit history, or financial competence are other factors that prohibit access.

6. Financial instruments for non-profit, social firms and for-profit firms

Type of Organization	Traditional Non-profitfirms	**Social firms**	Socially Responsible firms	For-Profit firms
Capital	Grants and donations	**Mix of grants and below market capital No interest or low- interest loans**	Market rate capital (including social responsible investments)	Market rate capital
Sources of Capital and Investors	Foundations and government grant programs Multilaterals Bilaterals Individuals	**Foundations** **Local government** **Community Development Financial Institutions** **Program related investments (PRIs)** **Bilateral and multilateral lenders** **Non-profit social investors** **Individuals**	Socially screened funds Shareholder activism Socially screened and traditional venture capitalists Investment banks Individual investors	Traditional venture capitalists Investment banks Other investment assets Individual investors Stock
Investment Objective	High social return- no expected financial return	**High social return with below market or no financial return**	Market rate of financial return and some social return	Full market rate of financial return and no expected social return

Source: Etchart, Nicole and Lee Davis, Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries, NESsT, 2003.

One of the consequences of the financial crisis is that more financial institutions and private investors are interested in financing and investing in social economy firms. However, often this happens without a clear understanding of the nature, the objectives and the financial needs of social economy firms, as well as of the large variety of organisational forms that belong to this sector. When social economy firms are entirely or mainly funded by public sources is because they provide a service of general interest or fulfil a public policy task (being it in the social, health, education, transport, cultural, and environmental domains). Getting and implementing contracts with the public administration is an economic activity which entails financial risks, too.

4.2 Evaluating Your Break-Even Point

Break-even point in social firms

1. In our training session we will derive from the theoretical aspect of defining the break-even point and its importance for social entrepreneurship & social firms.

2. After the theoretical introduction and clarification of the meaning of the basic terms involved in calculation of a break-even point, we will introduce cases and assign individual tasks to the participants.

3. Participants will have to solve the assignments and to present their results and comment them in order to prove the understanding of the concept.

4. We will prepare theoretical introduction – materials for the workshop

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6. We will prepare individual assignments

Explanation – special attention will be given:

Social firms as non-profit organizations can be or become financially sustainable on a long-run. They can develop products or services that change people's lives in the same way some for-profit firms do. There are well known cases of companies that influenced people's lives with their innovative solutions, new products and services (Microsoft and personal computers, Yahoo and Google with internet search engines, Apple with iPod, iTunes, iPhone and many more). There are many excellent examples of successful social firms which relate to fair-trade firms that open markets to disadvantaged farmers, or the Grameen Bank in Bangladesh that provides socio-economic opportunities to help people lift themselves out of poverty through their own trade activities. By offering transformative products or services, a social firm will continue to prosper and generate income to support the activities related to its social purpose.

A social firm generates unrestricted income as a non-profit organization. With unrestricted funds, non-profit organizations can develop policies within the context of applicable local, state, and federal laws, to design options to use their income in activities that are not supported by grant money, in a contingency fund, or in investments that can bring regular income while the capital remains secure for long-term needs.

Starting a social firm requires capital investment like for any other for-profit firm. The capital investment may automatically contribute to increasing the total assets of a non-profit firm. Increase in total assets will in turn positively influence the solvency of a non-profit firm. It is important to underline that investment to start a social firm can be funded by a loan. In that case, there will not be the same positive effect on solvency, because the increase in assets will be relatively neutralized by an increase in total liabilities. However, the return on investment in equipment, materials, or information technology infrastructure, as well as the profitability of a social firm, can off-set an increase in liability and provides the positive influence of solvency.

Social entrepreneurs should understand the concept of break-even and how it can empower them and their firms to have even more influence for good.

How to Break-Even

In its simplest form, break-even is the point at which the amount of money coming into the firm is exactly equal to the money going out of the firm within a specific period of time.

How do we calculate a break-even point and why it is so important?

If we want to calculate a break-even point, we have to understand which costs occure with operations of the firm, on the other side we have to know how much revenues do we create. Break-even point helps us understand the necessary mínimum extent of our business as it tells us, when do we sell enough products or services at a certain price to be able to cover all costs with the revenues. The question is –are we able to produce/perform as many products/ services to break-even?

Variable Costs

First we have to understand the concept of fixed and variable costs.

Variable costs arise with the first unit produced or first service performed and they change with each unit of your sales.

Example: you are a producer and distributor of clean water in un-developed country. How much does each additional bottle of water, that you produce (this is so called incremental bottle) cost? This is usually defined as a percentage of the sales price for the bottle of water. If each bottle sells for 0.25 EUR, and it costs you 0.10 EUR (materials, labor, postage, shipping and other direct costs to make and sell it), then your variable costs are 40 % (0.10 EUR divided by 0.25 EUR; variable cost/revenue per unit).

Fixed Costs

Your next step to understanding break-even is to add up all of your (e.g.) monthly fixed costs. It is critical that social entrepreneurs add in their monthly “nut,” or the amount they need to pay their bills and survive personally. If the social firm can not keep the entrepreneur alive, then it is destined to fail.

Fixed costs include fixed wages and salaries, taxes, rent, marketing, interest, ammortization, maintanance of equipment and more. It is recommended that social entrepreneur calculates as well the debt to the bank or other source of financing, although this is treated as expense.

Example: we assume that your fixed costs are 10,000 EUR per month. By dividing your fixed costs by the contribution margin, this tells us we need to sell 16,667 EUR of water bottles per month to break-even (10,000 EUR divided by 60% = 16,667 EUR). At a sales price of 0.25 EUR, you will need to sell almost 67,000 bottles of water per month to break-even.

Contribution margin

If 40 % of your sales pays for your variable costs, that means 60 %, also known as your *contribution margin*, of your sales is left over to cover your fixed costs (contribution margin is the difference between the sales price per unit and variable costs per unit) and profit.

4.3 Balancing Profit and Purpose

1. In our training session we will derive from the theoretical aspect of balancing profit and purpose in social firms.
2. After the theoretical introduction and clarification of the meaning of the basic terms involved in this aspectven point, we will introduce cases and assign individual tasks to the participants.
3. Participants will have to solve the assignments and to present their results and comment them in order to prove the understanding of the concept.
4. We will prepare theoretical introduction – materials for the workshop
5. We will prepare slides
6. We will prepare individual assignments

Explanation

Deriving from the purpose of a social firm we continue with creating profit.

The primary financial goal of a standard business is profitability. A social firm may have profitability as its goal, or it may not. For instance, the goal may be to be financially sustainable so that the sales revenue covers both the standard business costs and the extra costs which incur to pursue the social, environmental and/or cultural mission. (We refer to these as “social costs”). In this case, your goal is to have no funding support, either from a non-profit parent organization or from outside investors. Another goal could be to operate with some outside funding over the long term. As a social firm, it is important to be clear about the financial goals, and to interpret the financial statements accordingly. In summary, these goals could be:

Self-Sufficiency: Business revenues will cover all expenses.

Profitability: Business revenues will exceed expenses. A profit target could be defined.

Contribution: Business revenues will contribute to costs. (e.g. Business revenues may cover business expenses, but not the social costs associated with your mission). The remainder is covered by other revenue sources such as re-occurring grant. A target could be defined for this. Financial goals of the social firm should be realistic and can change as it develops.

SECTION 5. EXAMPLES OF SOCIAL ENTERPRISES IN ACTION

Social enterprises are not a fashion. These types of companies have always existed, led by people with an important commitment to the Community, a need to innovate in the Social and an indispensable use of Creativity. However, in the past years, they sound stronger as a change on the society is arising. The social enterprise is, in effect, a productive strategy, but the place of choice is social, reproduction, assistance, redistribution. The social enterprise is a strategy so that the social (traditionally unproductive, pure cost, sheer waste, or worse) becomes business.

In this last section, we are going to review some successful companies. But before speaking about successful Social Enterprises, we need to define what the indicators to measure this success are. What makes a Social Enterprise to be successful? Research shows that there are some common characteristics that most successful social enterprises share.

1. Passion for Social Change

Employees of successful social enterprises are driven by a deep and genuine desire for change, rather than the promise of recognition or income. They have a strong set of values that are reflected in their personal lives as well as their work.

2. Dedicated and Inclusionary Leadership

Leaders emerge from all backgrounds, experiences, contexts, genders, economic statuses, ethnicities and occupations. A study found that successful social enterprise initiatives were often founded by leaders with the capacity to work with and build bridges among very diverse stakeholders. Dedication, passion and commitment are imperative.

3. Use of Data to Drive Decision-making

It is becoming increasingly important for social enterprises to demonstrate their impact - and having accurate data available is critical for decision-making. Successful social enterprises have a “dashboard” to provide key stakeholders with the right data to inform their decision making. Once that information is in hand, it’s important that it actually gets put to use; organizations must be willing to self-correct if the data point in a new direction.

1. Culture of Innovation

The organization as a whole must be willing to try new things and think outside of the box. A positive attitude toward potentially useful ideas is extremely beneficial, and a commitment to ongoing innovation is imperative. A study of seven successful social enterprise models across sectors found that a common trait was an emphasis on innovation, both internally and in the larger sector. This innovation was evident in not only the services provided, but in its collaboration with partners.

2. Ability to Adapt to Change

The culture of a startup is constantly shifting as the organization grows. Furthermore, even established social enterprises must continuously change to adapt to the broader market. Learning how to manage organizational change is a key to longevity.

3. Specialized Niche/Competitive Advantage

Market demand is a major determinant to the success of any enterprise. If the product or service created is not meeting a need, the enterprise will not be financially profitable. The product or service must have a unique quality that separates it from competitors, as well as a strong identity that allows it to stand out in the marketplace.

4. Active and Fluid Business Plan

Having a "road map" to follow is essential to the success of an enterprise. Starting with a business model canvas helps you develop your hypothesis surrounding the main areas of your business. Once you have tested that hypothesis, a business plan is useful - as long as it is ACTIVE and constantly updated as your begin piloting your project. Successful social enterprises are able to strike a healthy balance between planning and practice.

5. Effective Networking / Community Engagement

No one person or organization can advance the common good on his or her own. Creating strategic partnerships with other organizations and community stakeholders is crucial to sustaining and growing your social enterprise. To expand your impact, reach out to those who can help you achieve your organizational goals or others on similar paths.

6. Ability to Scale

Your business should have growth potential, but everyone starts somewhere. While the tendency is to scale quickly, be thoughtful with expansion capabilities and to ensure organizational health and sustainability for long-term success. Scale can be viewed in terms of number of spin-offs (other business) generated, number of projects taken over by actors outside your organization and impact on larger society. In addition to the other factors on this list, scaling a social enterprise becomes possible through driving efficiency, cultivating large-volume "anchor" customers, increasing collaboration and partnerships, encouraging experimentation.

7. Buy-in from existing organization

If you are starting a social enterprise as part of an existing nonprofit, the board, executive director and other management must agree that operating a social enterprise would be beneficial to the organization. In addition, there needs to be a ringleader/champion responsible for the coordination, support and expertise in the social enterprise. This person should possess both the skills necessary to run an enterprise and the passion to carry the idea through to reality.

8. Mission match

Alignment with your existing mission will not only enhance community, constituents and staff support; it will ensure the organization continues to operate according to the needs of the community. If the enterprise operated by a nonprofit is not directly related to the organization's mission, then the enterprise's profit may be subject to an unrelated business tax.

Measuring the social impact: The "Theory of Change"

A theory of change (ToC) is the product of a series of critical-thinking exercises that provides a comprehensive picture of the early- and intermediate-term changes in a given community that are needed to reach a long-term goal articulated by the community.

ToC is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or "filling in" what has been described as the "missing middle" between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these related to one another causally) for the goals to occur. These are all mapped out in an Outcomes Framework.[19]

Setting up a ToC is like making a roadmap that outlines the steps by which you plan to achieve your goal. It helps you define whether your work is contributing towards achieving the impact you envision, and if there is another way that you need to consider as well. The ToC tool not only helps to clearly articulate and connect your work to your bigger goal, it also allows you to spot potential risks in your plan by sharing the underlying assumptions in each step. In large organisations, when there may be several projects running simultaneously, the ToC helps to map these different projects first and then consider how they link and relate to each other. This tool can also aid in aligning team members to the larger end goal, and help them understand their role in achieving it.[20]

[19] http://www.theoryofchange.org/what-is-theory-of-change/
[20] http://diytoolkit.org/tools/theory-of-change/

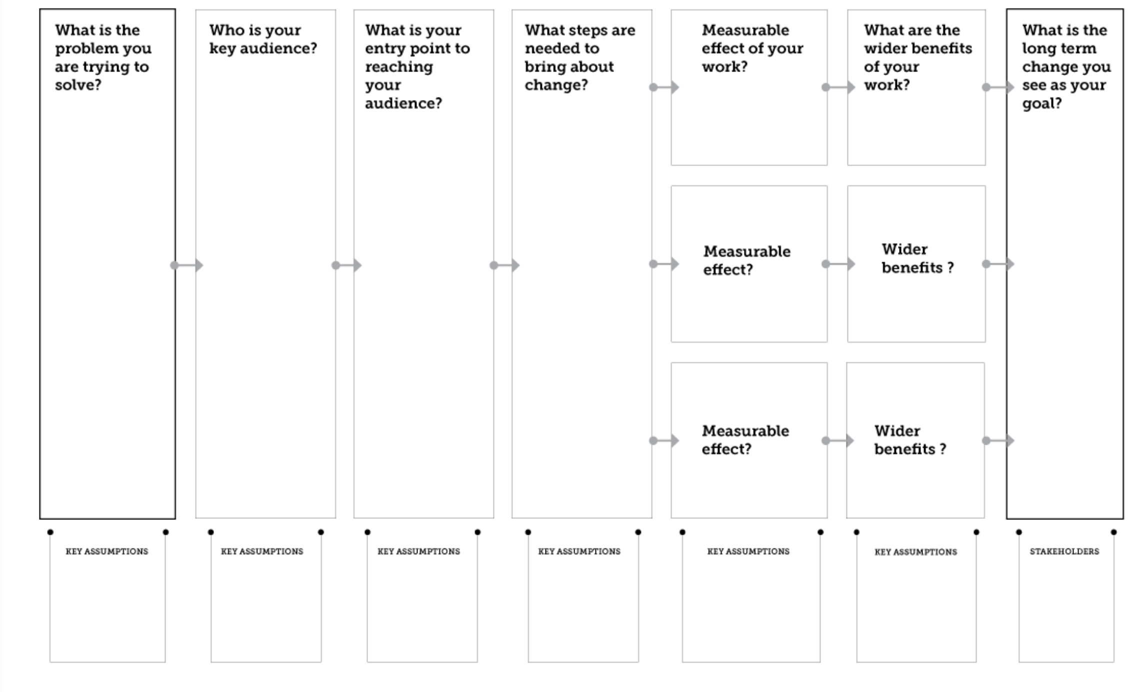


Diagram 1: Model Diagram for developing ToC

Steps to Create a Theory of Change

1. Identify a long-term goal.
2. Conduct "backwards mapping" to identify the preconditions necessary to achieve that goal.
3. Identify the interventions that your initiative will perform to create these preconditions.
4. Develop indicators for each precondition that will be used to assess the performance of the interventions.
5. Write a narrative that can be used to summarize the various moving parts in your theory.

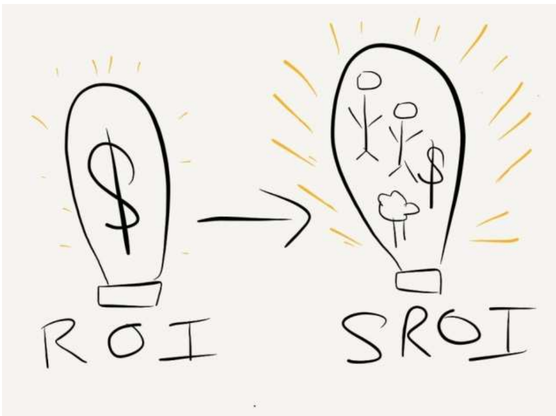
The Outcomes Framework then provides the basis for identifying what type of activity or intervention will lead to the outcomes identified as preconditions for achieving the long-term goal. Through this approach the precise link between activities and the achievement of the long-term goals are more fully understood. This leads to better planning, in that activities are linked to a detailed understanding of how change actually happens. It also leads to better evaluation, as it is possible to measure progress towards the achievement of longer-term goals that goes beyond the identification of program outputs.

Measuring the success: The "Social Return on Investment" (SROI)

There is a growing acceptance that we need better ways to quantify the social, economic and environmental value resulting from the activities. Language varies - 'impact', 'returns', 'benefit', 'value' - but the questions are the same around what kind of change and how much of that change we are making.

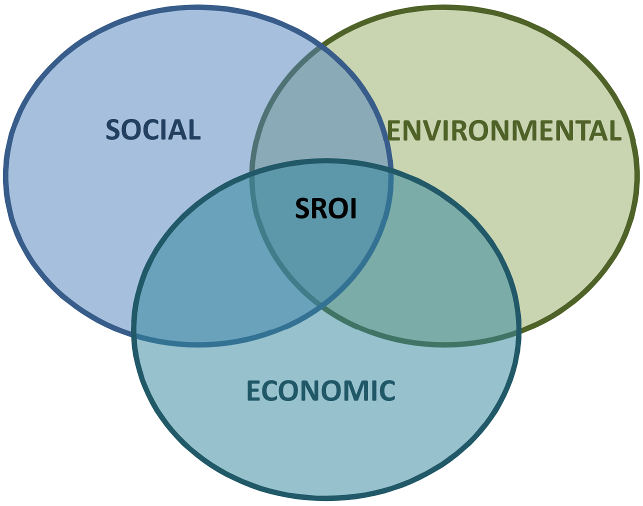
Understand and manage this more general value is becoming increasingly important both for the public sector as well as the private sector. This is true while speaking about organizations working to create value, governments that invest and start activities to create value, investors seeking to ensure that their investments make a change or private entrepreneurs who recognize the risk and the opportunity in the most relevant effects of their operations. All this means that it is very important, in addition, that we have a certain consistency, and a common language, when we speak of value.

The "Social Return on Investment" (SROI) combines economic, social and environmental indicators to estimate the benefits of an action. The SROI is a framework for measuring and quantifying this much wider concept of value; Seeks to reduce inequality and environmental degradation, and improve welfare by incorporating social, environmental and economic costs and benefits.



SROI measures change in ways that are relevant to people or organizations that experience or contribute to it. It tells how change is generated by measuring social, environmental, and economic outcomes, and uses monetary terms to represent those outcomes. This allows us to calculate the cost-benefit ratio. For example, a ratio of 3:1 indicates that an investment of 1€ generates 3€ of social value.

Therefore, SROI deals with value rather than money. Money is simply a common unit and, as such is the most useful and commonly accepted way of expressing value.



The basis for applying the SROI are:

- Involve stakeholders.
- Understand what changes.
- Value important things.
- Include only the essentials.
- Do not over claim.
- Be transparent.
- Check the result.

Like any research methodology, the SROI requires personal opinions, which will be used during the analysis. This methodology will help you as:

- Facilitates the strategic discussions and help you understand and maximize the social value of a general activity;
- Helps you focus the appropriate resources and handle unexpected outcomes, both positive and negative;
- Demonstrates the importance of working with other organizations and individuals who have a contribution to make change;
- Identifies a common basis between what an organization wants to achieve and what its stakeholders want to achieve, helping to maximize social value;
- Creates a formal dialogue between stakeholders that allows them to maintain service in consideration and involve them significantly in the design of the service.

It is not the aim of this guide to develop how to use this SROI, but we consider of importance that the student can have an overview of a tool for measuring the success of a Social Enterprise.

SOME EXAMPLES AT THE PARTNERSHIP COUNTRIES

HelpUP One of the horizons of social entrepreneurship is to awaken and cultivate in the community in general a mentality and attitude that are more committed and solidary. It is not a simple mission, since it is about modifying and even breaking with an instrumentalist business tradition that has understood the obtaining of economic benefits as an end in itself. The Spanish HelpUP is a volunteer-oriented social network in which any person or organization can share and seek solidarity projects, interact with other people or groups with the same interests or that pursue the same goals and actively collaborate. In this sense, it uses collective financing (like Goteo) and a social searcher (like HacesFalta). Participating in this space for exchange requires transparency, so that all social organizations that want to intervene must demonstrate their effective existence and the record that their accounts are clear. HelpUP already has more than 4.000 people registered in the service and about 200 NGOs from twenty countries since 2014.

The exceptional company of yogurts and dairy products La Fageda who, occupying mentally deficient has reached the level of exemplary and profitable entity, is one of the greates examples in Spain. The president and founder, Mr Christopher Columbus, is more than a psychologist, he is more than an entrepreneur, he is a kind of guru and his exemplary model of company is closely linked to his indisputable personality. It started as a business with the goal of inserting occupationally and socially people with mental disabilities or severe mental disorders. Nowadays 180 out of the 280 staff are disabled, invoicing 17 million Euro in 2015. One of the success key is the reinvestment in the other business. The company is engaged in livestock farming, urban maintenance and handicrafts.

Founded in 2004, Specialisterne works to enable one million jobs for people with auti sm through social entrepreneurship, corporate sector engagement and a global change in mindset. They work with stakeholders around the world to bring about our vision of a world where people are given equal opportunities in the labour market. Specialisterne, which translates from Danish as “The Specialists”, provides assessment, training, education and IT consultancy services, where most of the employees are people with autism.

Specialisterne has received several awards, and it's used as a case study at the Harvard Business School. They dream to build a world free of unnecessary barriers, stereotypes and discrimination. In 2015 Specialisterne Foundation was approved as NGO Associated with the United Nations Department of Public Information. The foundation owns the Specialisterne concept and trademark, having enterprises in Australia, Austria, Brazil, Canada, Denmark, Germany, Iceland, Ireland, Norway, Spain, Switzerland, United Kingdom and USA.

Dennis Daloukas, a photographer by profession, is the initiator of a novel concept for a restaurant business that employs only disabled. «La petite cantine» is located in Volos, Grece, in the old area of the town. The foundator analyzed everything that makes the concept unique across Greece, worked out his dreams for the future, so to achieve the plan implemented in order to send a strong message to every direction for the position of people with disabilities in modern society. "We want to overcome and we wish to achieve". But the starting was not easy, although crowfounded allowed paying the first employees, the owner decided create a Social Cooperative Company. They start to spread their message through Social Media, but the great impact arise after an interview to the Athens News Agency. Currentl, it is not only a restaurant, but a store, with aims to create a multiplex, where many activities will take place, eg a place for psychotherapy and psychologists, to share culture, art and other events.

Le Mat Association was founded in Italy in 2005 by a handful of individuals and cooperatives with experience in running small hotels and shelters that offered jobs to people affected by social exclusion and disability. Next, Le Mat created a consortium with other cooperatives with the aim of raising the quality and sustainability of those working in the field of tourism. Step by step the brand Le Mat developed its manuals and its own social franchise system. Italian and Swedish social cooperatives together created Le Mat Europe, a cooperative society legally based in Sweden. The aim is for Le Mat Europe to push this system in other European or extra-European countries.

Le Mat is a social brand for social entrepreneurs of tourism: a tourism capable of opening the mind to those who are different, a tourism where you can meet people who are curious to discover the environment; Where through travel you can hear thousands of stories and experiences from different cultures and local communities willing to exchange and welcome those who come from outside. Le Mat has been developed by an association and a consortium of social cooperatives that own the brand. It was created for the development and diffusion of the social cooperatives that develop their activity in hotels and hostels, as well as other tourist accommodation services while providing the best cultural, social, vocational and occupational values for people who suffer mainly of disability, diseases Mental or addiction to drugs. Le Mat manages training for inclusive entrepreneurship, the start-up and development of cooperative services, training and advice on business plans and fundraising; Advice and guidance in the tourism sector and in the hotel/hostel/B&B business and the promotion of participation associations for access to programs and projects funded by the European Social Fund and other sources, with a view to Achievement of the group's objectives.

Oomph! Wellness started in 2011when Mr Ben Allen, aged 26, returned to the UK after working in Spain and Australia as a senior lecturer at the European and Australian Institutes of Fitness, specialising in exercise for older adults. Ben knocks on the doors of local care homes in his home town of Scarborough. He sees first hand the poor quality of life so many care home residents still sadly endure today and realises the dire need for a better way to deliver adult social care. Today, it is an award winning social enterprise backed by the Big Lottery Fund, Deloitte and Nuffield Health.

Specialising in delivering fun, energising and inclusive exercise and activity sessions, Oomph! (which stands for Our Organisation Makes People Happy!) is the UK's largest provider of exercise to older people and this simple statement is instilled in everything they do. Oomph! already works with over 900 nursing and residential care homes, as well as day care services across the country, delivering a range of exercise programmes to over 25,000 participants per month.

The National Union of Worker Producers Cooperatives (NUWPC) has 311 member cooperatives (private SMEs), including 29 specialized cooperatives of people with disabilities. The efforts of NUWPC in that direction are aimed at amending the laws and specific statutory regulations, training, qualification and re-qualification of the personnel of Worker Producers Cooperatives of People with Disabilities (WPCPD), as well as providing healthy and safety labour conditions.

The basic activities of WPCPD comprise the production of consumer goods and the rendering of services for thepopulation: textile clothing and knitwear, workwear, bed linen, metalware, furniture, window frames, wooden articles, footwear, children’s toys, chemical household products and plastic articles, bakery and confectionery products, etc.

Center ponovne uporabe is a company specialising in reusable goods from Slovenia.

Their business model consists of renovating abandoned not used spaces (rented for symbolic price) and turning them into collection centres for donations of old goods and thrift stores. The products are refurbished and sold. They currently operate in 13 cities across Slovenia. The company was funded by the European Social Fund and the Ministry of Labour, Family and Social Affairs as a result of the project RREUSE.

RREUSE represents social enterprises active in re-use, repair and recycling. They aim the EU and national governments to move from promoting just recycling and waste management to putting second hand first. Approximately 77,000 employees and over 60,000 volunteers and trainees work within the 30 member networks across 17 EU countries and one in the USA.

KADIN EMEĞİNİ DEĞERLENDİRME VAKFI

The Foundation for the Support of Women's Work – FSWW – was founded as a nonprofit civil society organization in 1986 to support improving the quality of life and economic situation of low-income women and strengthen their leadership in local development. Believing in the expertise of low-income women to combat poverty and their power to advance their families and societies, FSWW works with them in a spirit of partnership, develops all of their projects in synergy with them and their surroundings and cooperates with other actors in the community and local government.

The foundation works in low-income neighborhoods of Istanbul, regions affected by the earthquakes, as well as in various cities in all around Turkey as mainly Aegean and Southeastern Anatolia. Additionally, to extend its reach, FSWW provides training, consultancy and monitoring upon request to municipalities, civil society institutions, development projects and women's groups all over Turkey that want to add these programs to their services.

SECTION 6. TIPS AND RESOURCES

Applications :

- National Report for Bulgaria
- National Report for Italy
- National Report for Spain
- National Report for Greece
- National Report for Turkey
- National Report for Slovenia