

## SOCIAL ENTREPRENEURSHIP IN THE PACIFIC NORTHWEST

Mark Pomerantz, *AICP*

Contact: [marklp2@comcast.net](mailto:marklp2@comcast.net) (206) 270-9344

Principal Consultant, Seattle Social Enterprise Consultants  
1233 Olympic Way W. Seattle, WA 98119

### ABSTRACT

Social entrepreneurship can be defined as the development of innovative, mission-supporting, ventures involving earned income, licensing, and/or job creation undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for profits. Social entrepreneurship is both an approach to assisting “hard to serve” disadvantaged populations and financially sustaining the individuals and organizations that support them. Needs of social entrepreneurs in the Pacific Northwest include: generalized technical assistance for nonprofit enterprises to help them get started; institutional mechanisms to provide basic enterprise development assistance to start-up ventures; access to a venture capital fund; development of working relationships with government agencies; and development of local peer support networks.

### INTRODUCTION TO SOCIAL ENTREPRENEURSHIP

Social entrepreneurship can be defined as the development of innovative, mission supporting, earned income, licensing, or job creating ventures undertaken by individual social entrepreneurs, nonprofit organizations, or nonprofits in association with for profits. Social entrepreneurship involves taking a business-like, innovative approach to the mission of delivering charitable and or community services (Dees 2001). Developing new social enterprise business ventures is only one facet of social entrepreneurship. Another facet is maximizing revenue generation from existing programs by applying principles from for profit business without neglecting the core mission (Boschee 2000). Cause related marketing by “lending” or licensing the good name of a nonprofit organization to for a profit partner is another element. The nonprofit will generally get a licensing fee or percentage of sales from this arrangement (Boschee 2000).

There are basically two kinds of social enterprises. There are social enterprises that live on their own earned income and generate a profit, or yield a profit to a parent corporation. Then there are the bulk of social enterprises; whose earned income is just a portion of their or a parent agency’s diversified income stream, along with grants and other donations. Social enterprises can be further categorized as: Affirmative (primarily designed to generate client employment); Mission Driven (related to core capacities and/or directly serving client needs such as housing and food service for residential clients); Unrelated Income Generating (unrelated to mission but designed to generate revenue for a parent corporation and thus indirectly supporting the mission) (Boschee 2000).

One of the primary roots of social entrepreneurship is the sheltered workshops started by organizations providing employment for the disabled. As long as 50 years ago the Boeing Company began to facilitate the development of this kind of social entrepreneurship in the Northwest through their Philanthropic Work Program, an early example of cause related purchasing. Pioneer Human Services, The Seattle Lighthouse for the Blind, Atwork, Northwest Center and other nonprofit organizations providing employment for the disabled manufacture sheet metal and other parts for Boeing and this has been the spur for these organizations to develop other employment and revenue generating businesses. The Federal Government and some state governments such as Oregon and Maryland require that officials give priority to purchasing certain products and services from social enterprises that employ the disabled. Several nonprofit intermediary organizations work with Federal and State purchasing officials to expedite these mandated purchasing programs. These organizations include National Industries for the Severely Handicapped (known as NISH), National Industries for the Blind (NIB), and Oregon Rehabilitation Association (ORA). These programs create employment for an estimated 36,000 disabled people on the federal government purchasing program (NISH website), and 41,000 disabled workers producing \$500,000,000 of annual goods and services for state purchasing agencies (ORA figures).

Social enterprises are not restricted to organizations serving the disabled or even the social services. Many organizations involved in stewarding the environment are social enterprises. On the national level they include the Nature Conservancy, which endorses and licenses their name for product sales, an example of cause related marketing. On the local level, One Northwest provides discounted technology assessments to nonprofit organizations involved in the environmental movement.

Arts organizations are often social enterprises by definition since they rely heavily on ticket sales. One arts organization of note in the Northwest is Urban ArtWorks. This organization trains young juvenile offenders in fine arts and related work including mural painting, framing, and running the organizations own art gallery. Urban ArtWorks, therefore, has a dual arts and social services related mission. The King County Arts Commission has morphed into the Cultural Development Authority of Kings County, a public development authority with capacity to sell bonds and engage in other entrepreneurial endeavors.

Individuals have started their own social enterprises, the best known on the national level being Newman's Own food products, another example of cause related purchasing. Locally, in the Pacific Northwest World2Market.com (later Viatrue) operated for several years as a for profit social enterprise started by a husband and wife team to sell the products of Third World crafts coops over the Internet.

Some foundations have been particularly supportive of social entrepreneurship. These include the Kauffman and the Kellogg Foundations. The Kauffman Foundation is the primary supporter of the Denali Initiative, which trains nonprofit executive directors to develop business and financing plans for new social enterprises. Five executive directors from the Seattle area participated in the first Denali Initiative training program. Both Kauffman and Kellogg support the Social Enterprise Alliance, an intermediary organization that sponsors annual conferences on best practices and case studies of successful social entrepreneurs.

Individual venture philanthropists have been particular supporters of social entrepreneurship. Paul Brainerd of the Aldus Corporation and the Brainerd Foundation has been a catalyst of this approach involving wealthy individuals providing capital and expertise to environmental and social service organizations promising substantive outcomes and an approach to reaching organizational sustainability. Brainerd founded the Seattle Social Venture Partners, a model that is being replicated in twenty cities internationally.

Government agencies on the local level have not generally participated in the social entrepreneurship movement. The exception was the City of Seattle, which helped found the Seattle Social Investors Forum. Seattle has also been a leader along with the State of Washington in developing Housing Trust Funds, which help subsidize the development of low and moderate income housing. Some of these housing providers are now exploring the development of social enterprise businesses within their housing buildings. The quasi-public Federal Home Loan Bank also assists in the development of subsidized housing by making grants through its member banks.

Academic institutions in the Northwest are beginning to recognize the importance of social entrepreneurship. Portland State University was a partner for several years with the Communitas Group in providing social entrepreneurship seminars marketed to nonprofit organization staff. Seattle University worked with the Institute for Social Entrepreneurs and several nonprofit organizations to develop an executive training program in social entrepreneurship for senior nonprofit staff.

Community development agencies, lenders to disadvantaged populations, and nonprofit housing providers and housing authorities can function in an adjunct manner as social entrepreneurs by helping disadvantaged populations develop businesses and become self employed.

There are social enterprises that survive on earned income exclusively or almost exclusively. Then there are the bulk of social enterprises, whose earned income activities are part of a parent agency's diversified fundraising plan, along with grants and other donations.

Social entrepreneurship principles are asset-based and involve assessment of individual and organizational strengths and weaknesses in order to develop new ventures or guide existing ventures in new and more fruitful directions.

Social entrepreneurs need to form supportive networks and develop rating and ranking systems to help their investors better assess the potential returns, both financial and social. The future of social entrepreneurship lies in making common cause with all of its wings of supporters and close relations: venture philanthropists, intermediaries, local economy initiatives, housing advocates, technology initiatives, nonprofit capacity building initiatives, micro finance organizations, academic entrepreneurship programs and etc. These agencies working together with social entrepreneurs in advocacy for supportive legislation and increased funding from foundations, individuals, and government agencies will drive social entrepreneurship forward.

## **SIGNIFICANCE OF SOCIAL ENTREPRENEURSHIP**

Social entrepreneurship serves multiple functions. As noted above it helps diversify the funding base of nonprofit organizations with increased program fees, licensing fees, and earned income. This is particularly important at a time when government funding for social services and the arts has been cut and foundation funds are limited and hotly competed for. By helping diversify the funding base of an organization, social entrepreneurship helps build a more sustainable organization.

Diversification does not necessarily mean focusing on developing a new revenue-generating venture. It can also mean retooling an existing program towards a new market that can afford to pay fee for services. An example would be mental health programs that develop a subsidiary providing fee generating corporate employee assistance programs. It can also mean developing a cause related marketing program where the nonprofit licenses its name to a for profit corporation and is the beneficiary of a percentage of sales of the corporate product. There can also be a positive reinforcement between social entrepreneurship and traditional fundraising. Funding from fees or other business revenue can be used to hire a dedicated development officer if the organization does not already have one. This person can increase the fundraising returns by expanding traditional fundraising efforts or developing new programs concentrating on major gifts, endowments, individual donors, or fundraising events.

Social entrepreneurship also helps the nonprofit organization clarify its core functions and concentrate on those it can best and most economically deliver. This can lead to substantial savings through eliminating less essential money losing programs and/or investigating the potential for fee for services. The nonprofit must, however, be careful to guard its core mission by retaining core programs even if they are revenue negative.

Social entrepreneurship provides employment for hard to serve, lower skilled employees through “affirmative” social enterprises. “Supported employment” another term for a type of social enterprise, allows lower skilled employees the opportunity to develop both job-related and daily life skills. Supported employment requires greater patience and a greater level of counseling and supervision than found in “market economy “ jobs. However, supported employment enterprises under the mission and 501c3 umbrella of the parent organization benefit from the parent organizations tax exemption to defray these costs. In a down economy these low skilled and/or disabled individuals would be the first to be laid off by market employers. In a social enterprise, they hopefully, will be the last to be let go. Note that unemployment among the disabled is estimated by NISH at 70% and ballpark estimates from the Safer Foundation of the unemployment rate for the previously incarcerated are 40-50%.

Social entrepreneurship helps unbankable disadvantaged people become self-employed through small loans and training. Social enterprises, which utilize the peer-lending model of the Grameen Bank, and Small Business Development Centers keying on women and minorities, are two mechanisms, which expedite this.

Social entrepreneurship economically strengthens the local community. It is locally based enterprise employing local people, encouraging self-employment, and forming economic

alliances with local organizations both for profit and nonprofit. An example is One Northwest, which performs Technology Assessments for environmental nonprofits and then works with for profit consultants who develop the networks and websites for these groups.

Social entrepreneurship benefits from and serves the desire of local business people who want to assist their community both as, individuals using their own expertise and resources, and as leaders of public spirited organizations funding and/or developing joint ventures, such as cause related purchasing and marketing, with social entrepreneurs.

Social entrepreneurship as well practiced is the antithesis of the militaristic principles that have been introduced into commerce resulting in “leveraged buy-outs”, “corporate takeovers”, “poison pills”, “greenmail” etc., and have resulted in the crippling and/or destruction of some local economies (Jacobs 1992). Successful entrepreneurship is founded on innovation, cooperation, collaboration, fair-trading, good customer service, honest and ethical dealings, and reliability. Social entrepreneurship adds to these concerns social change and community social equity. Social entrepreneurship therefore serves as a model for socially responsible business.

The future of social entrepreneurship lies in making common cause with all of its wings of supporters and close relations: venture philanthropists, intermediaries, local economy initiatives, housing advocates, technology initiatives, nonprofit capacity building initiatives, micro finance organizations, academic entrepreneurship programs and etc. These agencies working together with social entrepreneurs in advocacy for supportive legislation and increased funding from foundations, individuals, and government agencies will drive the social entrepreneurship movement forward.

## **SOCIAL ENTREPRENEURSHIP PROPOSITIONS**

Based on the success of social entrepreneurship ventures in creating employment, revenue, and organizational sustainability, we put forward the following propositions (Boschee 2000), (WA CASH website), (Larson 2002).

- P1 Social entrepreneurship approaches assist in the diversification of the funding base of nonprofit organizations and decrease reliance on grants.
- P2 Social entrepreneurship asset-based principles can assist in retooling an existing revenue negative program towards a new market that can afford to pay fee for services.
- P3 Social entrepreneurship principles can be used to develop a cause related marketing program where the nonprofit licenses its name to a for-profit corporation and is the beneficiary of a percentage of sales of the corporate product.
- P4 Social entrepreneurship adds social change and community social equity to the fundamentals of entrepreneurship (innovation, cooperation, collaboration, fair-trading, good customer service, honest and ethical dealings, and reliability) and is a model for corporate social responsibility.
- P5 Social entrepreneurship principles help the nonprofit organization clarify its core functions and concentrate on those it can best and most economically deliver.
- P6 Social entrepreneurship provides employment for hard to serve, lower skilled employees.

- P7 Social entrepreneurship helps unbankable disadvantaged people become self-employed through small loans and training.
- P8 Social entrepreneurship economically strengthens the local community. It is locally based enterprise employing local people and forming economic alliances with local organizations both for profit and nonprofit.
- P9 Social entrepreneurship benefits from and serves the desire of local business people who want to assist their community both as, individuals using their own expertise and resources, and as representatives of public spirited organizations funding and/or developing joint ventures such as cause related purchasing and marketing with social entrepreneurs.
- P10 Social entrepreneurs can be role models for other nonprofit organizations and convey their expertise in venture development

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Table 1 about here

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### **A TOOL FOR SOCIAL ENTREPRENEURS**

A simple tool for helping social entrepreneurs determine the entrepreneurial capacity of their organization is the entrepreneurial audit. The entrepreneurial audit was originally developed by the National Center for Social Entrepreneurs in Minneapolis. The audit balances the current financial position of the organization against the exigencies of the mission to help determine whether a venture should be started.

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Table 2 about here

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### **NEEDS AND NEXT STEPS TO MOVE SOCIAL ENTREPRENEURSHIP FORWARD**

The following List of Needs is derived from networking meetings with social entrepreneurs in the Northwest (20 monthly meeting in 1998-2000), informal conversations with social entrepreneurs, and search of the available literature (Stanton 2001), (Social Enterprise Magazine-Online website), (Dees 2001).

- N1 Generalized technical assistance for nonprofit enterprises to help them get started
- N2 Institutional networks to provide basic enterprise development assistance to start-up ventures
- N3 Rating and accrediting of social enterprises in order to attract capital
- N4 Access to a venture capital fund(s)
- N5 Development of working relationships with government agencies
- N6 Development of local peer support network(s) that will provide the following services:
  - Networking with government agencies and other related networks;
  - Informational exchange about social enterprise locally and nationally;
  - Forum for brokering business collaborations between members;

- Brokering of collaborations between for-profit corporations and non-profits;
- Providing entrepreneurial products or services currently unavailable from other regional non-profit organizations;
- Providing technical expertise to other non-profits that may need it;
- Networking with funders and venture philanthropists on behalf of its non-profit members

## IMPLICATIONS OF SOCIAL ENTREPRENEURSHIP FOR RESEARCHERS

Researchers have many potential social entrepreneurship related topics. These suggested topics include: studies on correlation of increased earned income revenues with increased sustainability of nonprofit organizations; impacts of contributions of individual venture philanthropists on organizational sustainability; impacts of supported employment on welfare and other community support systems for disadvantaged populations; developing other indicators of social return on investment, and etc.

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## WEBSITES

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 Roberts Enterprise Development Fund [www.redf.org/](http://www.redf.org/)  
 Institute for Social Entrepreneurs [www.socialent.org/](http://www.socialent.org/)  
 Pioneer Human Services [www.pioneerhumanserv.com/](http://www.pioneerhumanserv.com/)

Northwest Center [www.nwcenter.org/](http://www.nwcenter.org/)  
 Social Enterprise Alliance [www.se-alliance.org](http://www.se-alliance.org)  
 NISH <http://www.nish.org/>  
 Oregon Rehabilitation Association <http://www.oregonrehabilitation.org/>  
 National Industries for the Blind (NIB) <http://www.nib.org/>  
 Seattle Lighthouse for the Blind <http://www.seattlelighthouse.org/>  
 State Use Programs Association <http://www.supra.cc/>  
 FareStart <http://www.farestart.org/>  
 Washington CASH <http://washingtoncash.org>

**Table 1. Social Entrepreneurship Propositions and Organizational Functions**

| Proposition # | Mission Related | Funding Related | Technical Assistance Related | Organizational Development Related |
|---------------|-----------------|-----------------|------------------------------|------------------------------------|
| P1            |                 | X               |                              | X                                  |
| P2            | X               | X               |                              | X                                  |
| P3            |                 | X               |                              |                                    |
| P4            | X               |                 |                              |                                    |
| P5            | X               |                 |                              | X                                  |
| P6            | X               | X               |                              |                                    |
| P7            | X               |                 | X                            |                                    |
| P8            | X               |                 |                              |                                    |
| P9            |                 | X               | X                            | X                                  |
| P10           |                 | X               | X                            |                                    |

**Table 2. Entrepreneurial Self-Audit**

*Adapted from the “Mission/Money Matrix” TM The National Center for Social Entrepreneurs*

| Revenue vs. Mission        | Critical Need | Substantial Need | Some Need | Minimal Need | No Need |
|----------------------------|---------------|------------------|-----------|--------------|---------|
| <b>Substantial Profit</b>  | Yes           | Yes              | Yes       | Maybe        | No      |
| <b>Small Profit</b>        | Yes           | Yes              | Maybe     | No           | No      |
| <b>Break-even</b>          | Yes           | Yes              | Maybe     | No           | No      |
| <b>Small Deficit</b>       | Maybe         | Maybe            | Maybe     | No           | No      |
| <b>Substantial Deficit</b> | Maybe         | Maybe            | No        | No           | No      |