



## What Nonprofits Can Learn From Social Entrepreneurs

### *A Social Velocity Whitepaper*

Along with the burgeoning social entrepreneurship movement comes a bit of hubris that social entrepreneurs know better how to create social change than do the nonprofits that have been working toward it for years. Some social entrepreneurs argue that nonprofits are too set in their ways to embrace a new way of creating solutions. We disagree.

We can't, nor should we, discount or dismiss an entire sector of people and organizations that have been working on social problems since before it was cool. Indeed, the sector contributes over \$600 billion to the U.S. economy, capturing 5% of the U.S. gross domestic product and 10% of jobs.<sup>1</sup> The size, impact and resources of the sector are far from insignificant and cannot be ignored.

However, there are some things that nonprofits can learn from the social innovation movement. And in doing so, the nonprofit sector--the people, organizations, and resources it encompasses--could revolutionize social change in this country.

But becoming more innovative involves some dramatic changes in a nonprofit's mindset, goals, and approach to funding. Here's what that looks like.

#### **Be Bold**

Nonprofits need to think bigger--much, much bigger. One thing that all social entrepreneurs have in common is their predilection toward bold thinking. What if nonprofit organizations took a new approach and became bold? Really BOLD.

What if nonprofit organizations adopted massive, crazy, BOLD goals? The BHAGs (Big Hairy Audacious Goals) that Jim Collins in *Good to Great* describes:

*A BHAG is a huge and daunting goal — like a big mountain to climb. It is clear, compelling, and people “get it” right away. A BHAG serves as a unifying focal point of effort, galvanizing people and creating team spirit as people strive toward a finish line. Like the 1960s NASA moon mission, a BHAG captures the imagination and grabs people in the gut.*

It is an enormous, energizing goal that can bring people together, give them something to work for, make them part of a team that is doing something inventive, game-changing. Really bold goals for nonprofit organizations are things like curing cancer, eradicating AIDS in Africa, eliminating the high school drop-

out rate. Who knows if these things are possible? But they definitely won't happen if we can't even envision them.

At Social Velocity, we have seen our clients adopt huge goals, which transformed their organization and galvanized board, staff, volunteers toward solutions. When they decided to take on exponential growth instead of incremental growth. When they moved from working to grow their services by 10% each year to working toward addressing 100% of the need. When it was no longer enough to teach a population new skills, but now they wanted to change the education system overall.

This change in perspective, in goals can revolutionize an organization. No longer are the board, staff and funders content to add a few sites each year with no end goal. Rather, they understand and rally around their long-term goal, which is to solve a problem. And they see every effort they make, every meeting they come to, every investment they secure as getting them that much closer to that solution. It can transform an organization, and ultimately solve a problem.

### **Lose the Charity Mindset**

Part of the lack of bold thinking in the nonprofit sector comes from a charity mindset. Nonprofits are sometimes referred to as "charities," and it is a real misnomer. But beyond semantics, the word, and more importantly the mindset, does a real disservice to organizations working toward change.

A charity mindset is when an organization, its board, its funders or others promoting its work have a narrow view that the organization is benevolent, but not critical, to the world at large. The charity mindset assumes that a nonprofit starts from the position of need, inadequacy, and burden, rather than a position of opportunity, strength, and effectiveness. The charity mindset differs from a social entrepreneur mindset in a number of ways:

- **Symptoms vs. Solutions:** A charity, by its very definition, exists to provide aid to the needy, not to solve the underlying cause of the need. This is not to say that every nonprofit can work toward solving an underlying problem; there will always be organizations that exist simply to provide basic needs (food, shelter, safety, etc.). But I wonder if too many nonprofit organizations view their work as residing in the "charity" camp, instead of working, as social entrepreneurs do, to understand the underlying cause of the problem and how they could attack and solve it.
- **Investment in Infrastructure:** Charities spend every last penny on the program and leave little money for building the organization. Social entrepreneurs understand that it takes organizations, infrastructure, systems, and talent to effectively execute on a solution to a social problem.
- **Respect:** Charities may be beloved by their supporters, but they may not garner a lot of respect from them. Social entrepreneurs behave as equal partners with funders in creating solutions, and, as such, they command and receive real respect from investors, volunteers, partners and others.
- **True Costs:** Charities like to claim that as much money as possible goes to direct services, but social entrepreneurs recognize the true costs of their endeavors and are open and honest with funders about those costs. In fact they demand that funders understand and support those true costs.

- **Fundraising:** A fundraiser in the charity mindset apologizes for the burden of asking someone for money, but a social entrepreneur offers investment opportunities to prospects. Wendy Kopp from Teach for America went around evangelizing the Teach for America story and sought investors who wanted to get in on the ground level of an incredible opportunity to change the American public education system.

### **Finance, Don't Fundraise**

But a better approach to fundraising is not enough. Indeed, traditional fundraising is holding the sector back by keeping nonprofits in the starvation cycle of trying to do more and more with less and less. Social entrepreneurs understand that in order to realize the change they seek they need to finance that change, not fundraise for it.

Nonprofits, too, need a financing strategy, not a fundraising strategy. By that we mean that nonprofits have to break out of the narrow view that traditional FUNDRAISING (individual donor appeals, events, foundation grants) will completely fund all of their activities. Instead, nonprofits must work to create a broader approach to securing the overall FINANCING necessary to create social change.

What does this new approach to financing the nonprofit sector look like? It looks like this:

1. Nonprofits understand that funding programs and general operating expenses is not enough to survive and thrive. All activities that bring money in the door (individual donors, foundation grants, earned income, government contracts, loans etc) are integrated and part of a larger financing strategy that supports the short AND long term goals, as well as the programs AND infrastructure of the organization.
2. Nonprofits no longer segregate fundraising from their other activities (programming, administration). All elements of a nonprofit's operations, including the money-making ones, are fully integrated and moving forward together.
3. Individuals, who make up 80%+ of the private money entering the sector, become a greater focus of fundraising efforts, rather than corporate or foundation philanthropy (which make up 5% and 12%, respectively, of the private money entering the sector).
4. Fundraising messaging moves from an emphasis on the tin-cup mentality and donor benefit, to an emphasis on the social impact that a nonprofit is creating.
5. Money is raised to support not only the direct services that a nonprofit provides, but also the infrastructure (staff, technology, systems, evaluation, training) of the organization. Nonprofits understand that they will only get better at delivering impact if they have an effective organization behind their work.
6. Other types of capital vehicles (like loans, equity) are added into a nonprofit's financing mix.
7. Earned-income opportunities are evaluated and, if appropriate, launched. Earned income is not right for every nonprofit, but it is worth exploring and analyzing opportunities as they come and understanding and being open to the revenue-generation possibilities.

8. The net revenue of every money-making activity a nonprofit engages in (events, individual fundraising appeals, corporate sponsorships, earned income, etc.) is calculated and evaluated. Low net revenue activities are replaced with higher net endeavors.
9. Nonprofits move away from “push” fundraising and marketing efforts that force their message on innocent bystanders (like direct mail appeals) and towards “pull” fundraising and marketing efforts that bring interested donors/prospects to the organization (like blogs, Twitter, Facebook, friend-raising events, etc.)

### **Make Donors Organization Builders**

But how can a nonprofit organization break out of the endless fundraising cycle when donors won't fund the capacity building necessary to get them there?

There is hope. Social Velocity has seen some great early signs that when approached in the right way, foundations and individual donors, who previously may have only provided direct service funding, can become organization builders.

We helped one of our clients, Heart House, an after-school program for at-risk kids in Austin and Dallas, strengthen their plan to grow statewide and create a pitch for growth capital. Heart House could not pay for this planning work through their operating budget, so they went to a foundation that was already supporting their program and asked them to invest in this growth planning. When the foundation understood that a small investment in organization building would help this organization that they love improve the lives of even more children, they were happy to invest.

English at Work, another Social Velocity client, teaches ESL classes to the employees of restaurants and hotels. English at Work is a subsidized social enterprise where the hotels and restaurants pay them a fee to run these classes. The nonprofit is demonstrating great results and has real potential to replicate the model. First, however, they needed to strengthen their overall revenue function to position them for growth, which is where Social Velocity came in.

But again, English at Work didn't have the operating revenue to pay for that outside expertise. So they approached a foundation in their fold and made the case for how a strengthened revenue function would put English at Work in a position to start planning for replication. And that replication would mean that their results-achieving model could provide more people with stronger English language skills. Stronger English language skills mean better, higher paying jobs, less stress on the social safety net and a stronger, healthier community. And what English at Work helped their donor understand is that to get to that positive outcome, English at Work as an organization has to be more effective. They have to learn how to create a stronger, more sustainable revenue function that can support a larger organization over the long term. And figuring that out costs money.

The way to get more philanthropic money invested in organization building is for nonprofit organizations to start approaching the donors and board members who are already supporting their programs and make the case, in an articulate, reasoned, but passionate, way that in order for more of the outcomes they seek to happen, they have to invest in their organization. And they need those closest to the organization to make those investments. It is a process of educating those nearest and dearest to the organization about the power of a stronger internal organization. It's a new conversation, but an

important, and potentially game-changing, one.

### **Remaking the Nonprofit Sector**

Social entrepreneurship is not a panacea. But there are things to be learned from a movement that is re-envisioning the future, finding new ways to finance social impact, working towards BIG goals and turning the status quo on its head. The social innovation movement provides an opportunity for the nonprofit sector to see things in a new way and move the best ideas forward.

Social Velocity can help your nonprofit become more innovative, create more impact, find a way to finance that impact, and ultimately realize the change you seek. To learn more about how we can help your organization, check out our Services page at [www.socialvelocity.net/services](http://www.socialvelocity.net/services), or schedule a free, initial consultation at [info@socialvelocity.net](mailto:info@socialvelocity.net).

### **About Social Velocity**

Social Velocity accelerates social innovation by leading nonprofits to greater social impact and sustainability. We do this as a strategy consulting firm that helps nonprofits bring more money in the door, use resources more effectively, and grow their results-driven programs. The end result is more effective organizations leading social change. To find out more, visit us online at [www.socialvelocity.net](http://www.socialvelocity.net).

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<sup>i</sup> The Urban Institute, 2010.