

# An Enterprising Ministry

## How Business Enterprises Can Help Fund Your Mission



By David Rendall and Michael W. Lowstetter

It was Monday morning and Anna was preparing to meet with her executive team. As CEO of Mission-Based Ministries (MBM) in Milwaukee, she was struggling to overcome consistent financial deficits.

Within the organization, there were many competing perspectives. Tyler, the finance director, believed they needed to cut a number of programs and staff. This was the only way to balance revenue and expenses. In contrast, Grace, director of MBM's programs, argued for more services and improvements to existing ones. She felt the development department should raise more funds to sustain and expand vital services.

However, as MBM's development director, Wayne contended he was already maximizing every available option for fund raising. His analysis and experience led him to conclude there wasn't enough potential revenue to support the organization's plans for improvement and expansion.

At this morning's meeting, these four would have to come to a decision, and it wasn't going to be easy.

### The Driving Forces

Unfortunately, this story is repeated again and again in ministries and churches throughout the country. The funding crisis many organizations face is the culmination of a number of factors. Drastic reductions in government funding, stagnant individual giving, and decreased corporate philanthropy have combined to create significant financial pressures for nonprofit organizations.

Additionally, in response to an increase in social problems, the number of nonprofits has grown rapidly. This growth, in

combination with shrinking sources of financial support, has led to funding competition within the nonprofit sector. Some nonprofit organizations are even competing with businesses for government contracts and clients. Furthermore, scandals involving nonprofits threaten to undermine the credibility of the entire sector. Together, these issues have created a significant challenge for nonprofit organizations.

In response to the escalating problems described above, many nonprofit organizations have started social enterprises. A social enterprise is a nonprofit organization that generates earned income to support its mission. Earned income includes money exchanged for products or services. It does not include grants or donations.

The key point is that nonprofits use business enterprises to fund their social mission. The National Center for Social Entrepreneurs refers to this as "finding a productive balance between mission and money." In other words, social enterprises integrate the dual goals of purpose and profit.

### The Potential Dangers

Social enterprises also present potential dangers for nonprofit

### Benefits of Social Enterprise

By operating social enterprises, nonprofit organizations hope to:

- Increase revenue
- Improve sustainability
- Reduce dependence on philanthropy
- Build organizational capacity
- Achieve greater social impact

its. For example, social enterprise could cause them to abandon their social mission in pursuit of profit. Nonprofits that operate social enterprises can also incur financial losses. Many people are uncomfortable with mixing enterprise with ministry. It can cause conflict both inside and outside the organization. For example, board members and leaders often believe that enterprise will jeopardize the organization's tax exempt status. Furthermore, some organizations reject social enterprise because they fear a subsequent reduction in giving. Some of these dangers are very real and warrant initial consideration, and others are based on a misunderstanding of nonprofit ministry.

### Some Wrong Thinking

Many objections to social enterprise are founded on false beliefs about the nonprofit sector.

■ **Myth #1: Nonprofit means no profit.** Those who believe this myth interpret the terms nonprofit or not-for-profit literally. Nonprofits are distinctive because of their religious, charitable, educational or scientific purpose. They're also distinct from for-profits in the handling of profits. Nonprofits are allowed and, in fact, expected to make a profit. But they're required to reinvest that profit back into their organization and mission. They can't distribute profits to specific individuals.

■ **Myth #2: Enterprise will cause a nonprofit to lose its tax exempt status.** This myth grows out of the last one. It follows logically, they say, that if nonprofits should not earn a profit, then those that do will be stripped of their membership in the nonprofit community. This is also untrue. Tax exempt status means a nonprofit doesn't have to pay taxes on its profits. If the IRS expected nonprofits not to have profits, then there'd be no need for this distinction. Having profits will not automatically cause your organization to lose its exemption.

■ **Myth #3: Charitable ministry depends on charity giving.** Because nonprofits exist for charitable purposes, and are often called charities, many people believe they're reliant solely on donations, or should be. They believe social enterprise is wrong because it violates this basic law of nonprofit existence. Again, this is an unfortunate mis-

understanding. Charity refers to the mission of the organization. Nonprofits are providers of charity, but they're not necessarily the recipients of charity. This is an important distinction.

Furthermore, income statistics for the nonprofit sector clearly demonstrate that the majority of nonprofit revenue

comes from fees for services. The next largest source of income is government funding. Donations or charitable giving provides the smallest portion of revenue for the nonprofit sector.

vides. Colleges and Christian schools do this when they charge tuition. Ministries do this when they charge for tapes, books and other Bible study materials. This is the most common and simplest way to get started in enterprise.

■ **Related businesses.** These are enterprises that fit closely with the organiza-

## Examples of Social Enterprise

Organization	Purpose	Profit
Girl Scouts	Growing girls	Cookie sales
Sesame Street	Educational TV for kids	Licensing images of characters
Goodwill	Employing people with disabilities	Thrift stores

comes from fees for services. The next largest source of income is government funding. Donations or charitable giving provides the smallest portion of revenue for the nonprofit sector.

It's also important to note that many nonprofits actually experience an increase in donations after starting an enterprise. Donors, instead of rejecting social enterprises because they "don't need the money," often want to support an organization that wisely invests its money in sustainable activities.

So what can your organization do to get started in social enterprise?

tion's mission. For example, a gift shop at a hospital or museum is a mission-related business. Another example is a business run by an organization that employs people with disabilities or disadvantages. These businesses provide employment to people in need and also generate revenue to support the organization.

■ **Consulting.** This is another important enterprise strategy. Organizations often have significant knowledge and experience, gained through many years of operations, that can be helpful to other organizations and ministries. For example, a large church may have expertise in managing big events involving thousands

## Resources for Social Enterprise

If you're interested in learning more about social enterprise and ways you can apply it to your ministry, here are a list of resources:

- **Websites:** Social Enterprise Alliance ([www.se-alliance.org](http://www.se-alliance.org)); Roberts Enterprise Development Fund ([www.redf.org](http://www.redf.org)); National Center for Social Entrepreneurs ([www.nationalcne.org](http://www.nationalcne.org)); The Institute for Social Entrepreneurs ([socialentrepreneurs.org](http://socialentrepreneurs.org)); and Yale School of Management-Goldman Sachs Partnership ([www.ventures.yale.edu](http://www.ventures.yale.edu))
- **Books:** *Entrepreneurial Faith: Launching Bold Initiatives to Expand God's Kingdom*, by Kirbyjon Caldwell & Walt Kallestad; *Social Entrepreneurship: Strategic Tools for Social Entrepreneurs*, by Peter Brickerhoff; *Enterprising Nonprofits*, by Dees, Emerson & Economy; and *Venture Forth! The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization* by Rolfe Larson.

### Practical Strategies

There are a number of common strategies for generating earned income within a nonprofit organization. The most prevalent are fees for service, related businesses, consulting and licensing.

■ **Fees for service.** This simply involves charging money for products and/or services the organization pro-

of people, and could provide consulting services to nonprofit and for-profit organizations that need help with event planning and coordination.

■ **Licensing.** This involves selling the rights to an organization's product, service, image or other tangible or intellectual property. For example, a counseling agency may have developed a sophisticat-

ed software system for managing its client caseloads. Instead of simply using this system within their organization, it could license, for a fee, similar organizations that could benefit from such a program.

These four strategies are the most common and the most likely to succeed. The next section explains the key success factors for a social enterprise, regardless of the particular strategy used.

### Success Factors

Successful enterprises require three things: a business plan, dedicated leadership, and an earned income strategy that's related to the organization's social mission. A foundational study on social enterprise by the Yale School of Management/Goldman Sachs Foundation Partnership on Nonprofit Ventures found that successful enterprises were more likely to have a business plan than those that were not successful. This study and others also confirm that enterprises require at least one full-time leader whose sole responsibility is the success of the venture. This is not a part-time job.

Social enterprise leaders must also be comfortable balancing mission and

money. Research by one of the authors showed that social enterprise leaders integrate the values traditionally associated with the nonprofit and for-profit sectors. In other words, they reject the dichotomies of the existing sectors and value elements of each sector in an equal and complementary way. Furthermore, the enterprise must have support of the organization's leadership, including the board of directors or deacon board.

Finally, evidence suggests that successful enterprises have missions that are closely tied to their nonprofit's original mission. Again, social enterprise requires the integration of profit and purpose. It's easier to achieve this integration when there's clear alignment between the organization's mission and the chosen enterprise.

Remember Anna, Tyler, Grace and Wayne from Mission-Based Ministries, whom we talked about at the beginning? One of them knew about social enterprise and shared that knowledge in the Monday morning meeting. They decided to pursue some enterprise strategies, and since then, they've increased their focus on fees for

service and have started writing a business plan for a related venture. They still need to raise funds, control their finances and manage their programs, but Monday mornings don't hold the same sense of dread. They've become much more optimistic about their ministry development.

Social enterprise isn't a panacea, but it's an important funding tool for ministries to consider as they seek to build a financially healthy and sustainable organization.

**David Rendall** is founder and former director of SERVE Enterprises, the social enterprise division of Shepherds Ministries. He's now assistant professor of business at Mt. Olive College, Mt. Olive, N.C. He's also principal of Rendall & Associates, a consulting firm dedicated to helping organizations integrate purpose and profit. You may contact him at [drendall@moc.edu](mailto:drendall@moc.edu).

**Michael W. Lowstetter** is director of finance for Shepherds Ministries and SERVE Enterprises, Union Grove, Wis. Shepherds Ministries ([www.shepherdsministries.org](http://www.shepherdsministries.org)) and SERVE Enterprises ([www.serveonline.org](http://www.serveonline.org)) provide residential and vocational services to people with cognitive disabilities. You may email him at [mlofstetter@shepherdsministries.org](mailto:mlofstetter@shepherdsministries.org)

© 2004, Christian Management Association. All rights reserved.