

**STRATEGIC TOOLS FOR
SOCIAL ENTREPRENEURS:
ENHANCING THE PERFORMANCE OF YOUR
ENTERPRISING NONPROFIT**

**J. Gregory Dees
Jed Emerson
Peter Economy**



JOHN WILEY & SONS, INC.

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To Peter F. Drucker and John W. Gardner, for their visionary work on behalf of the nonprofit community, for showing us what's truly possible when we commit ourselves to achieving our highest aspirations, and for demonstrating through their work and their lives that people are the most important asset of them all.

FOREWORD

Enterprise drives much of human endeavor, from the neighborhood business to the corporate giant, from the church bake sale to the healthcare conglomerate. Social sector leaders today need to understand social enterprise in order to help their organizations further their missions. In a society where the call is for collaboration, for leading beyond the walls, and for making the wise use of the people and tangible resources of the institution, the ways and means of enterprise must be learned.

The social entrepreneur holds unique advantages over entrepreneurs in other circumstances. With mission as the guiding star, the social entrepreneur can organize and deploy diverse resources. The social entrepreneur can engage volunteers, customers, partners, and investors through a logical business plan that furthers the organization's mission. In the social sector, success in the enterprise equals significance through changed lives and healthy communities.

Although the social entrepreneur has the advantage of a mission that inspires, this entrepreneur must also meet the challenges of developing and rewarding people, of working in collaboration and partnership with other organizations and the community, and of meeting the competitive challenges most businesses face daily.

In 1989 Peter F. Drucker published a notable article in the *Harvard Business Review*. Many who read the title—"What Business Can Learn from Nonprofits"—thought it was a misprint. Drucker wrote that social sector organizations set the standards to be emulated when it comes to strategy, the effectiveness of the board, and the mobilization and productivity of knowledge workers. *Strategic Tools for Social Entrepreneurs* shares the entrepreneurial techniques perfected in the business community as well as social sector models of innovation and results. In five years the lessons from the social sector may well change the way enterprise in all three sectors is developed and managed. Now is the time for social sector leaders to use every tool available to them and to apply those tools to further the organization's mission, serve its customers, and build community.

Not every nonprofit organization needs to operate an enterprise. At the same time, every nonprofit leader needs to know when enterprise is the right tool to further the organization's mission. As we employ the

tools we need to further the mission of our organizations, we may move closer to our vision of a country of healthy children, strong families, decent housing, good schools, and work that dignifies, all embraced by the inclusive, cohesive community. May your organization use *Strategic Tools for Social Entrepreneurs* to help us get a little closer.

Frances Hesselbein
Chairman of the Board of Governors
The Peter F. Drucker Foundation for Nonprofit Management

PREFACE

Ewing Marion Kauffman (Mr. K) was a successful businessman and former owner of the Kansas City Royals baseball club. When he started his foundation (the Ewing Marion Kauffman Foundation), he initially planned to devote his substantial accumulated wealth to helping children and youth become productive members of society. This meant initiating a variety of programs in the Kansas City region to help young people develop moral and ethical behaviors, stay free from drugs and alcohol, be prepared to enter school ready to learn, and successfully graduate from high school, trade school, or college.

After a few years of operating these four programs within the foundation, Mr. K decided that he needed to do more to help children, youth, and their families become more self-sufficient. Because Mr. K had always been an entrepreneur—and because he had turned his own modest personal savings into a fortune through hard work and an unbounded entrepreneurial spirit—it was natural for him to believe that, by encouraging and accelerating entrepreneurship in America, he could achieve this goal. After several months of careful study, he came to the conclusion that his foundation should be a leader in teaching and promoting the concepts of entrepreneurship to children, youth, and adults—and he set about turning that idea into a reality.

Under the leadership of Michie Slaughter, Kurt Mueller, Bob Rogers, Lou Smith, Ray Smilor, Marilyn Kourilsky, Rhonda Holman, and many others, the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation has developed and funded many innovative and groundbreaking programs to teach entrepreneurship to youth and adults. While the early work in this area was focused entirely on for-profit enterprises, as time went on Mr. K noticed that the same skills and attitudes seen in successful for-profit entrepreneurs were also prevalent in many successful nonprofit leaders. At Mr. K's urging, the foundation soon began to devote its significant resources to developing, supporting, and encouraging entrepreneurs who practice in the nonprofit sector as well.

We have met many wonderful, inspiring, dedicated and courageous social entrepreneurs over the years—many of whom are written about in this book. Nonprofit organizations have always been faced with a

dilemma: how to balance the competing needs for providing necessary services to clients who could not afford to pay for them. For years, nonprofits have relied on the financial largesse of the government, corporations, foundations, and individuals to generate operating and program funds. Without these traditional sources of funds, most nonprofits would not exist today. Over the past decade, however, many of these traditional sources of funds have dried up. According to an Independent Sector study, federal government spending on programs of concern to nonprofits (not including assistance to individuals) has decreased by more than \$30 billion.

In response to these trends, more and more nonprofit organizations are beginning to consider new and different ways to generate the funds they need to operate. Indeed, for many organizations, social enterprise—the adoption of entrepreneurial behaviors and techniques by nonprofit organizations—is rapidly becoming a necessity for survival rather than just another management buzzword. Instead of viewing the world of business as the enemy, many nonprofits are beginning to learn how to take business skills and frameworks and apply them within a community context to create social value.

Make no mistake about it: This is really hard work. For the most part, social entrepreneurship is not a science that can be simply copied from the for-profit world—nonprofits *are* different. That is exactly why this book exists. Not only will *Strategic Tools for Social Entrepreneurs* help social entrepreneurs determine how and when for-profit entrepreneurial skills can help them achieve meaningful results and create social value for their clients, it will provide them with all the tools and resources necessary to put these important concepts into practice.

Mr. Kauffman died in 1993. His legacy lives on, however, through the work of his foundation, and through the lives of all the people he has touched over the years. Mr. Kauffman would be pleased that entrepreneurs—both for-profit and nonprofit—are working together now more than ever before to create a better world. As Mr. K said: “All the money in the world cannot solve problems unless we work together. And if we work together, there is no problem in the world that can stop us as we seek to develop people to their highest and best potential.”

We hope this book is a practical tool to help you fulfill *your* potential to create meaningful social value for your clients.

Steve Roling
Ewing Marion Kauffman Foundation

ACKNOWLEDGMENTS

Nothing like this gets accomplished without family support. Whatever talent I bring to this project was first nurtured by my parents, Geneva Evelyn and James Harold Dees. The patient and loving support of my wife, Betty Ann Probst, was essential to its successful completion. She is my shining star and best friend. Accordingly, my work on this book is dedicated to the memory of my father who passed away before he could see the finished product, to my mother's continuing health, and to many more years in the warm embrace of my wife.

On a more specific level, I want to thank my good friend Steve Roling at the Kauffman Foundation. This was his idea and he should be held fully responsible! It continues to be a rare treat to work with Jed Emerson and Peter Economy. Jed's unique combination of passion, intelligence, experience, and receptivity make him the very best kind of colleague and coauthor. Peter has a wonderful gift for making complex concepts accessible and for keeping a major project, such as this, on track. Susan McDermott, our editor at Wiley, has been very supportive and encouraging. All of our authors have demonstrated not only their expertise but also their patience and flexibility as we worked to make sure themes and concepts were integrated across the chapters. I am particularly grateful that Melissa Taylor and Beth Anderson agreed to take on the challenge of composing chapters with Jed and me. They made us look good. I am also deeply grateful for all of the friends and colleagues who encouraged and supported my work on social entrepreneurship. It would be futile to attempt a complete list here. Many colleagues from McKinsey, Yale, Harvard, MACED, Stanford, and Duke have served as role models, coaches, mentors, cheerleaders, and intellectual partners. Numerous social entrepreneurs and philanthropists have helped me understand the power and limits of bringing business concepts into this arena. Together, these friends, colleagues, and social entrepreneurs gave me the strength to persist when others were telling me that working on social entrepreneurship was fundamentally misguided, unimportant, or unwise from a career point of view. This has proven to be the most satisfying work of my life.

J. Gregory Dees

I would like to thank the project team who made this book, and its predecessor, possible. Finding folks with whom one can not only work but enjoy the process of work is something to be valued, and I greatly appreciate each member's wit and patience. Greg has been a personal colleague and mentor who has had a major impact on my ability to maintain enthusiasm in the face of institutions and individuals who do not naturally welcome challenge and change. Peter's feedback has contributed to making my own words say what I mean as opposed to what I thought I was saying. And Steve's unrestrained backing of my work and life journey has been exceptional. I would also like to thank Beth Anderson and Melissa Taylor, whose leadership in writing our chapters in this book was significant and whose great attitude made for a fun writing process—critical to both the generation of good ideas and presentation of “readable” text when sculpting the thoughts of three authors.

I would like to offer my sincere and personal thanks to Paul Brest and Susan Bell, both of the William and Flora Hewlett Foundation. My senior fellowship with the Foundation has been critical to my development of next-wave ideas and has provided me a path to future applied theory and practical thinking. Their unwavering support has been central to my transitioning from traditional social entrepreneurship and venture philanthropy to blended value pursuits of even deeper levels of potential importance. Their unbridled enthusiasm for my emergent notions of reality has provided me with more room to grow than many others ever have the good fortune to explore—and I deeply appreciate it, all the while skipping along the edge.

Special thanks must also go to Carol Guyer, a wonderful mentor and matriarch of progressive philanthropy. Carol's lifetime of experience has contributed much to my own work and thinking. I am deeply grateful for her friendship.

Finally, I would like to thank the many folks who have seen my “stand-up number” or listened to me rant in a meeting and allowed me the courtesy of expressing my raging frustration, enthusiasm, and love for those attempting to maximize value of all kinds—within nonprofits, business, and (dare I say) government. Your gracious accommodation of my presentation and verbal eccentricities is appreciated more than you know, and in the future I will try to use fewer swear words in expressing my thoughts (with the operative word being “try”!).

Get out and climb mountains, adopt abandoned animals, change the world, and be peace!

Jed Emerson

I would like to thank my coeditors Greg Dees and Jed Emerson both for their patience and for freely imparting their great knowledge and insights on the topic of social entrepreneurship. I would also like to thank our guest authors for being so responsive to the needs of this long-term project—it's been a real pleasure working with each one of you. A special thanks to Alison Carlson for first introducing me to the project team, to John Tyler, Suzanne Mathes, and Karen Owens at EMKF who many times dropped everything to help out, and to our editors at John Wiley & Sons—Susan McDermott and Alexia Meyers—for helping to develop this book and bring it to fruition. And thanks most of all to Steve Roling at EMKF for inviting me to join the team and for supporting my efforts. Your ongoing leadership on this project has been inspiring, and I'll always be grateful to you for allowing me the privilege of being a part of this book.

Peter Economy

ABOUT THE AUTHORS

J. Gregory Dees is Adjunct Professor of Social Entrepreneurship and Nonprofit Management at Duke University's Fuqua School of Business, and Entrepreneur-in-Residence with the Kauffman Foundation's Center for Entrepreneurial Leadership. Prior to coming to Duke, he served as the Miriam and Peter Haas Centennial Professor in Public Service at Stanford University's Graduate School of Business where he was the founding codirector of the new Center for Social Innovation. Most of Greg's academic career was spent at Harvard Business School where he helped launch the Initiative on Social Enterprise. In 1995, he received Harvard Business School's Apgar Award for Innovation in Teaching in recognition of his new course on "Entrepreneurship in the Social Sector." Greg took a two-year leave from Harvard to work on economic development in central Appalachia at the Mountain Association for Community Economic Development in Berea, Kentucky. He previously taught at the Yale School of Management and worked as a management consultant with McKinsey & Company. When not teaching at Duke, Greg and his wife make their home in Louisville, Kentucky.

Jed Emerson has been active in community and social work since the mid-1970s, spending the past decade focusing his efforts on the areas of social entrepreneurship and venture philanthropy. Jed is cofounder of the Roberts Enterprise Development Fund, Senior Fellow with the William and Flora Hewlett Foundation, and a lecturer with the Center for Social Innovation at the Graduate School of Business at Stanford University. Jed also served as the Bloomberg Senior Research Fellow at Harvard Business School.

In 1996, he coedited and wrote numerous chapters in *New Social Entrepreneurs: The Success, Challenge and Lessons of Social Purpose Enterprise*, published by The Roberts Foundation in San Francisco, CA. Jed is well known for his writings and public speaking. Other articles and writings of his may be found at the Fund's website (www.redf.org). The *Nonprofit Times* selected Jed in both 1998 and 2000 as one of the "50 Most Influential People in the Nonprofit Sector" in recognition of his advocacy and advancement of concepts such as social return on investment, social

enterprise, and innovative approaches to philanthropy. Jed holds masters degrees in both social work and business administration.

Peter Economy is the bestselling business author of numerous works including *Leadership Ensemble: Lessons in Collaborative Management from the World's Only Conductorless Orchestra*, *Managing For Dummies*, *At the Helm: Business Lessons for Navigating Rough Waters*, and many others. He is Associate Editor for the Drucker Foundation's award-winning magazine *Leader to Leader*, home-based business expert for the AllBusiness.com website, and consulting editor for *Bob Nelson's Rewarding Employees*. He was formerly Director of Administration for Horizons Technology, Inc., a San Diego based software development firm, and Vice President for project management and operations for a nationwide computer services firm. Peter has a Bachelor of Arts degree with majors in economics and human biology from Stanford University and is currently pursuing MBA studies at the Edinburgh Business School.

Steve Roling, Senior Vice President of the Ewing Marion Kauffman Foundation of Kansas City, Missouri, has spent his professional career involved in various for-profit and nonprofit organizations. While still in graduate school he was resident director of Butterfield Youth Services—a residential treatment facility for at-risk youth. He then joined the staff of former U.S. Senator Tom Eagleton (D-MO) as a legislative assistant in Washington, D.C. for six years. He returned to his home state of Missouri to become a banker for four years before he spent six years as Publisher of the *Kansas City Business Journal*. For the last 10 years, Roling has worked for the Ewing Marion Kauffman Foundation, and is currently responsible for the foundation's Youth Development investments. Steve and his wife Judi have two daughters. Stephanie is a nurse at Mount Sinai Hospital in New York City and Susie is a junior at The Catholic University of America. Steve Roling has both an undergraduate and graduate degree from the University of Missouri–Columbia.

Beth Battle Anderson is a Senior Research Associate in social entrepreneurship and nonprofit management at The Fuqua School of Business at Duke University. She works closely with Professor J. Gregory Dees, under whom she previously served as Research Associate and Acting Director at the Center for Social Innovation at Stanford Graduate School of Business. While pursuing her MBA at Stanford, Beth spent a summer as an Associate with McKinsey & Company. Prior to business school, she worked for five years in the nonprofit sector, first within the grassroots Olympic Movement and subsequently at an outdoor education center for people with disabilities. Beth received her BA in Classics from Williams College.

Jill Blair is a founding Principal of BTW Consultants—*informing change*, a consulting firm based in Berkeley, CA, that works with nonprofit and philanthropic organizations. The services provided include evaluation, program development, information systems design, needs assessments, and organizational planning. As a consultant to nonprofits and philanthropy, Jill works both locally and nationally on program design, strategic assessment, and evaluation. She has worked on policy and program issues related to the lives of children and youth for more than 15 years, in the public, private, and philanthropic sectors. In 1990, Jill served as Special Assistant to the Chancellor of the New York City Public Schools, and was responsible for designing and implementing the nation's first school-based condom availability program for AIDS prevention. Among the projects that Jill is currently directing are two evaluations of innovative program models, a foundation incubator, and an organizational capacity grants initiative. She is also working with the Charles and Helen Schwab Foundation on facilitating the design of a capacity building initiative for California substance abuse treatment programs in San Mateo County.

Kay Sprinkel Grace, CFRE, is a San Francisco-based organizational consultant, providing workshops and consultation to local, regional and national and international organizations in campaign strategies, case and board development, staff development, and other issues related to leadership of the fund raising process. Her clients include schools, universities, health and human services organizations, arts and cultural organizations, and those concerned with the environment and other issues. She is an acclaimed and popular trainer of boards and staffs, and has provided mentoring to countless people entering or working in the development profession. She has been a member of the faculty of The Fund Raising School (Center on Philanthropy, Indiana University) since 1980, and serves on its advisory board.

She is the author of *Beyond Fund Raising: New Strategies for Nonprofit Innovation and Investment* (John Wiley & Sons, 1997) and co-author, with Alan Wendroff, of *High Impact Philanthropy: How Donors, Boards, and Nonprofit Organizations Can Transform Communities*, released by John Wiley & Sons in January, 2001. She has published articles for *Fund Raising Management*, and the journal of the National Society of Fund Raising Executives, and is a regular columnist for the publication *Contributions*. She has participated in the development and production of three videotapes for the National Center for Nonprofit Boards, and is the author of their best-selling booklet and audiotape, *The Board's Role in Strategic Planning*.

Her BA and MA are from Stanford University, where she served two years (1992–94) as the first woman Volunteer Chair of the Stanford (Annual) Fund. She served for three years as chair of the University of San

Francisco Institute for Nonprofit Organization Management Advisory Board, and is on the board of the Women's Philanthropy Institute and the Djerassi Resident Artist Program (Woodside, California). She lives in San Francisco and is passionate about her grandchildren, art and her photography.

Shirley Brice Heath is a Faculty Affiliate of the Center for Social Innovation at Stanford University. Professor Heath's passion for social entrepreneurship and community grew out of her work on youth language and culture. Her ArtShow video features entreprising nonprofits that use the arts to engage young people. She has taught social entrepreneurship at Stanford and consults internationally on issues related to social entrepreneurship, youth, community, and the arts. Heath is also the recipient of the prestigious MacArthur Fellowship (also called the "genius" award).

James Heskett is Professor Emeritus at the Harvard Business School, cochair of the faculty for the school's program in Strategic Perspectives in Non-Profit Management, and faculty chair of the Denali Initiative in Social Entrepreneurship. He is a director of several organizations, including WeGo.com, a company offering Internet-based support services to associations and other nonprofit organizations, and has authored a number of books, articles, and cases, among which are many based on the experiences of nonprofit organizations.

Jerry Kitzi is the president of Social Venture Partners of Greater Kansas City. SVP—GKC is an exciting model of venture philanthropy designed to grow philanthropy and strengthen the nonprofit sector. It provides investors a hands-on opportunity to combine their financial investments with their business expertise to address the day-to-day growth issues of the nonprofits they select for investment. Before helping to launch SVP—GKC, Kitzi served as the vice president, Youth Development division, with the Ewing Marion Kauffman Foundation where he was responsible for overall planning, coordination, and implementation of the Youth Development division's approved operating and grant-making strategies. Kitzi also served as the executive director of Adolescent Resources Corporation in Kansas City, a nonprofit organization dedicated to improving the quality of life for teenagers and their families.

Melissa A. Taylor is a PhD candidate at the Martin School of Public Policy and Administration at the University of Kentucky. Prior to pursuing her PhD full-time, she was a research associate for the Stanford University Graduate School of Business where she focused on nonprofit issues.

She was formerly the director of the Entrepreneurship Initiative at the Mountain Association for Community and Economic Development (MACED), a nonprofit organization in Berea, Kentucky.

Fay Twersky is a founding Principal of BTW Consultants—*informing change*, a consulting firm based in Berkeley, CA, that works with nonprofit and philanthropic organizations. The services provided include evaluation, program development, information systems design, needs assessments, and organizational planning. Fay has worked as a consultant for more than ten years and is nationally recognized for her work in assessing community economic development initiatives. She develops strategies for tracking both the social impacts and economic progress of nonprofit enterprises funded by the Roberts Foundation. In 1996, Fay coedited the book, *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*. More recently, Fay has authored and coauthored several articles that describe efforts to develop sustainable client tracking systems as well as new lessons being learned from the successes and failures of social entrepreneurship. In addition to her work in the field of social entrepreneurship, Fay directs program and initiative evaluations in the fields of community and economic development, public health, education, criminal justice, and adolescent services. Locally and nationally, Fay trains practitioners and funders in community-oriented evaluation and needs assessment research.

Betty Henderson Wingfield of Executive Development Associates is an independent consultant, executive coach, facilitator, and keynote speaker in the areas of executive development, leadership and management development, and organizational change. As an independent consultant, Betty has enjoyed the opportunity of working with the private and public sectors.

Prior to becoming an independent consultant, Betty was Senior Manager of Human Resources Training and Development at BankBoston in Boston, MA. She led the development and implementation of BankBoston's innovative Acceleration Leadership Program (ALP) for the top 200 executives. During her tenure at the bank, she was honored for her leadership skills and focus on client satisfaction. She was a key contributor to most of the major strategic change initiatives within the organization.

Before joining BankBoston, Betty was Regional Director of the Ronkin Educational Group in Framingham, MA, where she was responsible for day-to-day operations of the regional office. From 1987–1992, she was Regional Training Manager for WWGroup, Inc., covering eastern Massachusetts and Rhode Island. Her career has also included program development for the YWCA of Pomona Valley, California, and various teaching assignments in public education.

In 1998, Betty spent a month in Fontainbleau, France, at INSEAD, the European business school, studying in the Advanced Management Program. She graduated from Winston-Salem State University with a BS degree in Education and continued her graduate studies in Urban Education at California State University in Los Angeles.

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