

Social Enterprise on the Rise



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Lee Herrin, executive director of Fernwood NRG, at the organization's Cornerstone Café. "Would a Starbucks like to have a café on the corner of Gladstone and Fernwood — probably? But we didn't want that," Herrin says.

By Andrew Findlay | Sep 20, 2012

In uncertain economic times, with government funding increasingly scarce and citizen donors keeping a tighter grip on personal purse strings, burgeoning numbers of charitable and non-profit organizations are thinking and behaving more like businesses than shoestring NGOs. It's a trend known as social enterprise.

Victoria's funky Fernwood neighbourhood has sustained its share of ups and downs; over the years the small commercial hub on the corner of Fernwood Road and Gladstone Avenue has vacillated from derelict to thriving. Today Fernwood is on the upswing and the Cornerstone Café, which sits across from one of Fernwood's enduring cultural institutions, the Belfry Theatre, has emerged as the social hub of the neighbourhood, where students, artists, business people, area residents, and even the homeless congregate. The Cornerstone is also the business end of Fernwood Neighbourhood Resource Group Society (Fernwood NRG), a non-profit founded in 1979 and dedicated to the revitalization and sustainability of this colourful Victoria enclave.

The Evolution of Non-Governmental Organizations (NGOs)

Social enterprises are represented by a particular type of business venture that the BC Centre for Social Enterprise says "applies an entrepreneurial approach to addressing social issues and creating positive community change." More pointedly, it's when non-profits "earn some of their revenues through selling goods and services instead of relying solely on grant writing and donations."

Lee Herrin is executive director of Fernwood NRG, a complex hydra of an organization that operates two licensed daycares; manages 10 three-bedroom affordable housing units that it built in Fernwood between 2006 and 2009; publishes the community newspaper *Village Vibe*; organizes two annual

neighbourhood festivals, Fernfest and Fernwood Bites (a local food and beverage tasting event); and runs the Cornerstone Café, that's housed in the 8,000-square-foot Cornerstone building (which it also owns). According to Herrin, a former provincial government staffer with a master's degree in environmental studies from York University, thinking like a business was a matter of survival for Fernwood NRG. Rather than focusing valuable organizational resources on the soul-depleting task of grant applications while watching government funds atrophy, this Victoria non-profit decided to get creative.

“When the BC Liberals were first elected back in 2001, we saw the writing on the wall, that funding was going to be harder to come by, and that we were going to have to become more financially self-sufficient,” Herrin says.

To this end, Fernwood NRG has grown its daycare operation. In 2005, the non-profit purchased the Cornerstone building at a premium price of \$1.28 million (Herrin says they were willing to pay above market value for the property that had languished into dereliction under the previous owner), and the following year opened the Cornerstone Café.

“Would a Starbucks like to have a café on the corner of Gladstone and Fernwood — probably? But we didn't want that,” Herrin says, demonstrating the sense of neighbourhood propriety that underpins everything Fernwood NRG does. “So we decided to run a business in that location.”

In 2011, Cornerstone Café generated \$535,581 in sales, and now employs 10 people, half of them part-time but most of them Fernwood area residents. Café staff account for a roughly a quarter of the full and part-time employees on the non-profit's payroll. A look at the books indicates that Fernwood NRG's entrepreneurial efforts have paid off, significantly reducing its reliance on government funding over the past decade. In its 2002-03 financial report, the organization reported that almost \$650,000, or 69 per cent of its annual revenue of \$938,000 came from government grants and donations. In 2011, grants accounted for just 28 per cent of total revenues of \$1.6 million. Herrin credits Fernwood NRG's forward thinking board for this success.

Fitting within Government Parameters

However, the marriage between the worlds of non-profit and for-profit enterprise can be fraught with difficulties. Unknowingly, Fernwood NRG came close to running afoul of Canada Revenue Agency regulations and has had to revisit how it structures its business to fit within the taxation authority's guidelines governing non-profits and charities. Herrin says the financial ship has now been righted.

“Running a non-profit of \$1.6 million that includes social enterprise is much more complicated than a \$1.6 million private small business,” Herrin says.

Lesley Patten is CEO of Every Aspect Management, a social enterprise launched last year by the Association of Service Providers for Employability and Training (ASPECT), a non-profit that provides leadership, advocacy, public awareness, and education for its 175 members that are in the community workforce development business. She agrees with Herrin that shoehorning a for-profit business, where bottom line is the focus, into a non-profit paradigm comes with challenges, but in fiscally stringent times

it's a necessary challenge to undertake. Like Fernwood NRG, when government grants and contracts started to dwindle, ASPECT started to think like an entrepreneur.



In the funky Fernwood neighbourhood in Victoria, B.C., social enterprise is flourishing.

“The world of funding is precarious ... so one of the things the association wanted to do was to create a business that hopefully at the end of the year could help fund the work of ASPECT,” Patten says of Every Aspect Management, which offers event planning services and is a wholly owned subsidiary of ASPECT.

It took several years to make it happen, and Every Aspect Management has started modestly with a full-time staff of three. Patten believes it was natural evolution; ASPECT was already planning events for its members, but its non-profit status limited the scope of its business. As a social enterprise, Every Aspect Management is free to contract its services to any clients within the government, non-profit, and business worlds. In its first year of operation Every Aspect has planned events for

the Ministry of Agriculture, the Seniors Expo for *Seniors Living* magazine, and the Canadian Association for Supported Employment.

An Exploding Model

Stacey Corriveau, executive director of the BC Centre for Social Enterprise, says social enterprise is exploding as a model among the province's estimated 20,000 non-profits, which includes 7,000 registered charities. She says BC experienced “a first wave of more traditional social enterprise, such as thrift stores,” like the Thrift Boutique that is run by Victoria Hospice and Palliative Care Foundation (in the 2011-12 financial year, Thrift Boutique generated \$250,000 in revenues, or 6.6 per cent of the foundation's total revenues).

The thrift-store model was followed by a second, more diverse wave of social enterprise covering a multitude of business areas, such as Shift Urban Cargo, a zero-emission cargo delivery service, and CircusWest's CirKids, a for-profit children's circus focusing on developing skills, confidence, and teamwork among youth. According to Corriveau, the growth of social enterprise is a by-product of shrinking government and donor resources in the face of myriad ongoing social and environmental issues that non-profits of all stripes and colours are attempting to address. Besides revenue generation, social enterprise serves another equally important function by providing training and employment for the recovering addicts and alcoholics, homeless, mentally ill, and other vulnerable people without easy access to the regular workforce.

The Grey Area

As intuitively obvious as social enterprise may seem to anyone with an eye to non-profit fundraising, it's a complicated business which occupies a grey area when it comes to taxation and regulation. The scope of a social enterprise's operation for a non-profit or charity is legally determined by the Canada Revenue Agency; both are unique and have specific reporting and operating guidelines. A charity, unless it's operating a business directly related to its mission, must establish a social enterprise in a taxable corporate subsidiary. A non-profit without charitable status can earn profits only if it is very small or is saving for a physical asset the community will benefit from.

According to Corriveau, many social enterprises operated by charities, although still run as projects of the charity, are technically unrelated and are therefore on the wrong side of the law with the federal taxation authorities.

“And estimates are that 75 per cent of non-profits operating social enterprises are also offside if going by the letter of the law,” Corriveau says.

That's why last February the province introduced new legislation, Bill 23, with the aim of bringing clarity to social enterprise. It's modelled after similar legislation in the United Kingdom where by some estimates more than 62,000 social enterprises contribute an astounding \$38 billion annually to the economy. Under proposed changes to the province's Business Corporations Act, a new species of business known as the Community Contribution Company, or CCC, would be established.

According to a government press release, CCCs combine “the flexibility and ability to attract capital with the entrenched community benefit purpose of a non-profit.” Here's the catch: CCCs would be held to a higher degree of public accountability than regular corporations, dividends and other forms of profit distribution would be restricted, and its assets would be locked; in other words, if the CCC dissolves, its assets must flow to another asset-locked body, such as a charity or another CCC. Though the legislation is in its early stages and specific regulations have yet to be drafted, Corriveau likes what she sees so far.

“I expect that a popular use for the CCC will be charities that are operating unrelated businesses under Canada Revenue Agency's definition,” Corriveau says. “Also, there are limits placed on non-profits without charitable status, so the CCC may be an attractive option for these groups as well.”

David LePage, who heads up another Vancouver-based advocacy organization called Enterprising Non Profits, is also optimistic about Bill 23 but says more could be done to foster social enterprise.

“Other supports, such as business skills training in the non-profit sector, tax credits for investors, and social impact purchasing also need support and encouragement to provide a supportive environment for social enterprise,” LePage says.

The Cash Cow Warning

Clearly, social entrepreneurs must be prepared for accounting and administrative gymnastics beyond the normal scope of non-profit operations. However, Elizabeth Lougheed Green, Vancity Community

Foundation's manager of strategic programs, says these well-intentioned entrepreneurs should also be aware that social enterprises are rarely the cash cows non-profits and charities hope them to be.

Green has solid social enterprise credentials. Before joining the foundation, she helped launch Potluck Café and Catering in 2001, one of Vancouver's more successful social enterprises. It provides employment in its catering business, nutritious meals, and education for the homeless and other marginalized residents of the Downtown Eastside. In its early stages, Potluck was growing business by between 10 to 20 per cent per year, with annual revenues reaching more than \$1.5 million.

Cautionary Tales

More than a decade ago, Vancity Community Foundation spotted a trend and a societal need when it identified social enterprise as one of its three fund-granting priorities. But it was still a relatively new concept, then driven by lofty goals and ideals, and less by business sense. Green says the foundation now has a clearer idea of what constitutes a solid social enterprise proposal — that is, like any other entrepreneurial inspiration, it needs to be backed with a sound business case.

“We won't invest in a social enterprise until it's completely and thoroughly planned. The proponent has to demonstrate that they are solid entrepreneurs like any mom-and-pop operation,” Green says. “They also don't make enormous profit margins. A good profit margin is in the 10 to 15 per cent range. On revenues of \$2 million, that's around \$200,000 and that's not a lot of surplus for program delivery.”

In spite of these cautionary tales, the social enterprise model is getting more popular. In 2011, Vancity Community Foundation doled out grants to a wide variety of social enterprises, among them Jewish Family Services, for a home support and care management service, Mission Possible, a property maintenance business, and the green-oriented Shift Urban Cargo delivery service. At an information session held by the Vancity foundation in Squamish in March, Green says she and her colleagues were overwhelmed by enquiries from budding social entrepreneurs.

The Roles

Yet Green sees a role for social enterprise beyond that of a small business created to prop up the finances of cash strapped non-profits or providing jobs for the marginalized. The social enterprise of the future might be embraced by the young entrepreneur with a good idea, a social conscience but without access to capital; someone who wants to grow a business along free-market principles but dedicate the enterprise to a higher purpose than simply return to shareholders and corporate bonuses.

For Herrin and the Fernwood NRG, social enterprise simply makes sense from a financial and a community development perspective. Staking the group's future on government grants would be akin to organizational suicide, so why not assume at least some control over financial destiny, Herrin says. Fernwood NRG has a strong mandate to maintain the local vibe and feel of a beloved Victoria neighbourhood that has more than once teetered on the brink of dereliction — and a troubling sense of untapped heritage potential.

Social enterprise is at least part of the charity's strategy to ensure knights in shining armour don't gallop to the rescue in the guise of generic franchise businesses, thus helping Fernwood retain its grassroots charm.

"A decade ago our board was already having discussions about being more financially self-reliant," Herrin says, "Since 2005, we have been steadily decreasing our reliance on government funding and we hope to continue this growth."

As the Fernwood NRG website says, Fernwood is where you can drop off the kids at daycare, catch the game over a cold beer, take a karate lesson or yoga class, and enjoy world-class theatre, all within a city block. And every espresso sold at the Cornerstone Café or kid checked into daycare helps to ensure the viability of funky old Fernwood.