Mentoring Non-Profit Social Enterprises
TABLE OF CONTENTS

**Introduction**  
When Only a Nonprofit Will Do  
3

**Understanding the Culture**  
Mission Driven, not Management Driven  
4
Unspoken Aversion to Business Ideas  
4
The Need for Sensitivity  
4

**Unique Challenges in Nonprofit Business Models**  
Two Sets of Customers  
6
Restricted Funds  
6
Selling At a Loss and Scaling  
7
Capital Reserves  
7
Impact Metrics  
8
Marketing and Sales Funding  
8
Incentive Alignment  
8
Finance Driven and Planning Model  
8
Hybrid Business Models  
8
People Power  
9
Competition and Collaboration  
9

**Understanding the Funding Model**  
Individual donors  
10
Institutional Funders (Foundations/NGOs/CSRs)  
11
Governments  
12
Earned Income Streams  
13

**Unique Characteristics of Nonprofit Boards**  
14

**Key Takeaways**  
15
Introduction

This document is intended to be a resource for Miller Center mentors working with social entrepreneurs (SEs) in the nonprofit sector in any of our Global Social Benefit Institute (GSBI®) Accelerator programs. Its goals are:

• To highlight possible cultural differences that mentors should be aware of.
• To highlight areas where the typical nonprofit Business Model deviates from the traditional for-profit model.
• To provide a baseline level of knowledge in areas that most mentors coming from the for-profit world may not be familiar with.

Miller Center strongly believes in the value of social entrepreneurship, and that we should solve social problems using the traditional tools and business practices of the for-profit world wherever possible. Traditionally this has usually meant looking for a path to break-even and ideally for the organization to be able to run independent of contributed as opposed to earned funds. Most nonprofits do not operate with this model. Many are completely dependent on contributions revenue (i.e. donations) to fund operations. Some nonprofits have, or may wish to explore the idea of, an earned income stream to lessen their dependence on fundraising.

The important thing to understand is that the GSBI model has much to contribute to nonprofits regardless of their funding mix. As a mentor it will be important to determine at the outset where the nonprofit organization is both philosophically and in practice on this spectrum of total vs partial dependence on donations. Clearly, the traditional GSBI model applies quite well to earned-income initiatives. But most of the concepts in the GSBI model can be of great help to organizations that are contribution-dependent. You, as the mentor, will find it rewarding to expand and apply your knowledge in this distinct, inspiring and essential sector.

Understanding the Culture covers the philosophy that drives many nonprofits and possible tensions that can arise with a traditional for-profit mindset.

Unique Challenges in Nonprofit Business Models highlights Business Model differences between nonprofit and for-profit enterprises.

Understanding the Funding Model gives an overview of different funding models for nonprofits.

Unique Characteristics of Nonprofit Boards highlights some of the characteristics and challenges associated with nonprofit boards.

Key Takeaways provides a 1-page summary of points covered in the document.

We have tried to provide the information in a way that aligns closely with Miller Center’s GSBI Framework for Sustainable Growth and Scalability, as described in our SE Assessment Tool. It may be useful to read this document prior to starting with a new cohort, and then to refer back to specific sections as those parts of the plan are being worked by the SE.
When Only a Nonprofit Will Do

There are a number of sectors where it is difficult to envision a for-profit model being feasible. Possible examples include organizations that work with:

- Refugees
- Human trafficking
- Prison populations
- Underserved children and disadvantaged youth
- Teenage pregnancies
- Inner city food poverty.

It is possible to find exceptions within some of these categories and it is worth exploring that possibility with your SE. However it is fair to say that the nonprofit model is the only viable one to address a number of social ills. In those cases, the mentor’s focus will be on helping the organization run as effectively as possible, rather than looking to scale earned income.

Understanding the Culture

Cultures vary across nonprofits but these are some traits you may encounter that may have prevented social entrepreneurial practices from being adopted before:

Mission Driven, not Management Driven

Oftentimes, a nonprofit is founded because of a passionate belief in the mission. This is common in for-profit startups as well, but the profit objective drives those companies’ managers to actively seek to learn or access business skills. In nonprofits, pursuit of the mission permeates every aspect of the organization; in that context, topics related to that mission – not business skills – often dominate management’s developmental efforts. Efficiency and impact are constrained as the organization tries to do more and more without commensurate changes and growth in people and systems. Typically this becomes less of an issue as an organization scales.

Unspoken Aversion to Business Ideas

Nonprofits can also consciously or unconsciously subscribe to a belief that they explicitly should NOT behave like for-profit companies. For example, there may be a perception that the benevolence of the mission should be reflected in a corporate culture of unfailingly supportive, flexible and collaborative interactions. Such entities seek to succeed without the benefit of behaviors such as holding each other accountable, adopting disciplined processes, and making decisions without complete consensus.

There may be an unspoken bias against perceived cut-throat practices in the for-profit world, and perhaps even a belief that for profit business practices are directly responsible for the social problem they are trying to address.
The Need for Sensitivity

Your success and effectiveness as a mentor is crucially dependent on understanding what drives the nonprofit model of your SE’s entity and where your SE and his/her entity lie on the cultural spectrum described above. Be open and rigorous in understanding where their concerns about adopting business practices are well-founded and where business approaches can be applied to highest benefit and cause no harm. Build trust as you gain that understanding.

Once you have the understanding and have established a base of trust, continue to be humble in your interactions. Many nonprofits are run by seasoned business people who have no problem plunging into the details of budget, staff development, growth plans, etc. Others may not be as seasoned and may need to have some concepts explained. Be respectful as you seek to persuade them to adopt policies or practices that might seem obvious or self-evident to you. Your initial sessions should focus on a respectful but deep exploration of their situation and culture so you can determine how quickly or slowly you can move as you look to help them.

Rushing into this before you’ve established trust may trigger an allergic reaction that will seriously hamper progress.

It is your responsibility as a mentor to meet the SE where they are, to help them see other possibilities, and to walk with them towards where they want to be.

Unique Challenges in Nonprofit Business Models

There are fundamental differences in the business models between the for-profit and nonprofit worlds. Each of these challenges lends itself to assistance by the Mentor using the GSBI tools to elucidate and quantify the issue, or help the SE innovate solutions.

Two Sets of Customers

There are two sets of customers in the nonprofit world. The first set of customers are the beneficiaries who receive the services the nonprofit offers - children, veterans, etc. The second set of customers are people who fund the organization - individual donors, foundations, governments, etc. (In some cases, the beneficiaries may also be funders by, for example, paying for services received.)

This is one of the biggest differences from the for-profit world and it is important for mentors to grasp this. Equally important is for the organization to explicitly recognize this. Organizations often do not think of donors as customers but doing so is vital.

Different outreach and marketing strategies are required to reach both sets of customers.
Restricted Funds

A major source of complexity for nonprofits is restrictions placed on the use of funds by the donor. Ideally all funds would be “unrestricted” meaning the organization can use it however it chooses. However most foundations, governments, and some private donors place restrictions on the use of their funds. For example, they may not allow funds to be used for “Overhead” - accounting, HR, marketing, etc. This can result in an organization having serious cash flow challenges in spite of having money in the bank.

Restricted funds also place additional burdens on accounting, as foundations and governments require documentation showing how their funds were spent, and that they were spent in accordance with the restrictions given. Foundations have their own legal reporting requirements and need to show that their grants are not used to make money; in order to do this they need clear reports from the organization.

It can be useful to think of restricted funds as blocks that can be used to build a wall. The blocks may not be quite the right size to fit; it’s essential to have “mortar” (i.e. unrestricted funds) that can be used to fill in the gaps between the blocks.

Selling At a Loss and Scaling

For the first category of customers (the people receiving services) every additional customer the organization adds increases the cost to the organization. So the traditional model of scaling by adding more customers is inverted - adding more customers increases costs.

While it may not be immediately obvious, the GSBI scaling methodology applies here. Funders want to see evidence of increased efficiency as the organization scales, so that the cost of service per client goes down as the organization scales. Similarly, funders want to see the fundraising side of the business become more efficient as the need for funding grows.

If the organization has an earned-income stream, it is highly desirable for that stream to be aligned with the core mission. This means that income increases (at least somewhat) as the service expands.

Less intuitively obvious, funding based on government contracts can also generate losses. As noted, contracts typically have restrictions on what will be covered; often times there are costs associated with a program that the contract may not cover. Organizations need to find additional sources of funding to cover whatever is not paid for by the contract.

Organizations need to have a good grasp of the true cost of an actual or proposed program. This means includes the direct costs, plus the program’s share of indirect costs, plus overhead, plus fundraising expenses associated with that program. The total cost needs to be considered when negotiating Fee-For-Service contracts. Funders may not recognize geographical variation in market rate salaries for staff, which can result in serious under-funding if not identified in the bidding process.

In summary, scaling a nonprofit organization is a two-dimensional challenge. Adding more customers receiving services requires corresponding growth in the customers providing funding. The organization needs to ensure it has sufficient development (i.e. fundraising) staff to meet the new revenue target.
**Capital Reserves**

Every nonprofit needs to have reasonable cash reserves to allow it to weather short term requirements, need for capital improvement programs, investments in technology, etc. Many donors want to see reasonable capital reserves as an indication of financial stability of the organization.

However having healthy capital reserves is a two-edged sword. First, very few donors are willing to have their funds used to build reserves; they want to see their donations directly funding programs. Also, evidence of healthy reserves can be viewed as indicating that the organization doesn’t need additional funding. Sophisticated donors don’t typically have this concern but it may be necessary to explain this to less sophisticated donors.

**Impact Metrics**

Unlike traditional companies, but like other social enterprises, nonprofit organizations need to be able to clearly articulate the impact, and not merely the outcomes, of their program for successful donor attraction and retention.

The model is typically Activity > Outputs > Outcomes > Impact

For example, for a nonprofit that helps middle school kids make it to college, the outcome might be kids making it to college but the impact is families earning a living wage. Organizations can show how their initiatives tie into the UN’s SDGs or other well recognized metrics.

While most nonprofits recognize the need for such metrics, they may struggle to establish processes for robust and affordable metrics collection, analysis and reporting.

**Marketing and Sales Funding**

Nonprofit organizations may not have sufficient resources dedicated to marketing and selling the earned income product, and they may find it difficult to justify allocating resources to this activity.

**Incentive Alignment**

For larger organizations that comprise many different entities, there can be a lack of alignment of incentives between an individual team and the larger organization. For example if one team generates a profit from an earned income stream, it may not get to keep or reinvest those profits into its own business but rather have to turn them over to the larger entity.

**Finance Driven and Planning Model**

In a traditional business, the market opportunity is sized and a budget is developed based on that market opportunity. For nonprofits (especially larger ones with a centralized financial planning group), the model is more likely to be one where the budget is handed to the team who then has to determine how best to use those dollars.
Hybrid Business Models

As with many social enterprises, an Increasing numbers of nonprofits are considering hybrid models where parts of the organization continue to run as pure nonprofits while other parts strive to be viable for-profit entities.

People Power

The inspiration of the employed individuals is particularly essential in nonprofits. Even after entities grow they often operate on the very low edge of the compensation ranges for each job so that funding is stretched. In addition, there is often a psychic cost to dealing with the troubles of others day in and day out. Building and maintaining engagement is therefore of paramount importance.

Competition and Collaboration

Nonprofits often do not think in terms of the other entities that are serving their constituents as competitors. This is because of the singular focus on doing good for the beneficiaries and because the concept of competing with other benevolent organizations seems wrong. This can sometimes keep them from shaping their activities to provide greater value to the beneficiaries and stand out to funders.

Nonprofits also need to recognize that if they are “competing” to serve their beneficiaries, they are probably also competing for the same funding sources.

For-profit companies can choose suppliers and collaborators for a value chain that enables each player to focus. Nonprofits face challenges since a collaboration may create confusion in the minds of funders. This often leads them to either focus on what they know is a partial solution to the social problem, or to take on a broad mandate that is hard to fulfill.

For both of these reasons, having a clear view of the landscape of other organizations working in the same space is important. Being able to articulate a unique value relative to the “competition” and being able to look for ways to collaborate or even merge with other organizations are important signs of maturing and growth.
Understanding the Funding Model

For many mentors coming from the for-profit world, fundraising is one of the areas where they are least knowledgeable. This is unfortunate because it is almost without exception one of the areas where nonprofits need the most help. This section tries to serve as a basic introduction to the space so you as a mentor can at least ask some good questions, even if you don’t necessarily have strong answers.

Funding sources for nonprofits fall into a number of distinct categories. It is important to understand that both initial fundraising and ongoing donor maintenance are quite distinct across these spaces. Depending on resources, nonprofits should be careful to recognize these different needs and not spread themselves too thin by trying to cover them all.

Uncomfortable though it may make them, nonprofits need to understand that donors are their customers; the donors are the ones spending their money on the product that the nonprofit is offering. We have already touched on this in the “Two Sets of Customers” section. It is important to embrace a “sales pipeline” mentality so there is a continual stream of potential donors/“customers” lined up. Fundraising consumes a significant component of every nonprofit’s bandwidth and a customer centric model around donors is important to adopt and maintain.

In the same way that it’s not good for a for-profit enterprise to be over-reliant on a very small number of customers, diversity in funding sources is vital for the long term health of a nonprofit. Being overly reliant on a single donor can put the organization in jeopardy if that funding source goes away.

Predictability of funding is also critical. In general it is much better for an organization to take a $600K grant as $200K for each of three years rather than as a single $600K grant for a single year. This will enforce fiscal discipline and reduce the risk of unsustainable over-expansion.
**Individual donors**

Individual donors cover a very broad spectrum, from casual one-off small donations (e.g. $20 on Giving Tuesday) to significant donations from high net worth individuals. Strategies for reaching these different classes of donors are different as is ongoing maintenance of them.

One advantage of individual donors is that typically their grants are unrestricted, meaning that they can be used however the nonprofit sees fit. Other granting sources (and some large individual donors) typically place restrictions on how donations can be used, such as indicating that the donation must be used in direct support of the program rather than (for example) fundraising.

If nonprofits aim to reach high net worth individuals, they need to plan carefully to dedicate the time to the effort. They need to spend time finding potential donors, cultivating relationships with them, developing an understanding of why the donor wants to give to their particular organization, honoring the donor in ways that are meaningful to that person, and making them feel like they’re an important part of the organization. Without a systematic plan to actively engage the donor, the organization is not likely to be successful in getting repeat or ongoing donations.

It is also important for the donor to feel connected to the organization and not just the ED or Development Director. If the relationship is personal, then the funding will likely be lost when the ED moves on.

Committed high net worth donors are clearly extremely valuable. They tend to be very consistent in their giving which helps budgeting. This attractiveness makes them a scarce resource, however; the organization is likely competing with many others for the donor’s money. Finding whether there’s a personal connection between the donor and the mission of the organization can be compelling - perhaps the donor is a child of immigrants and is very sensitive to the lack of opportunities for undocumented children.

Mid-range donations often come through forging deep relationships with particular companies or groups that are interested in the organization’s mission. Getting companies engaged to help with a volunteer effort (e.g., putting together back-to-school backpacks for underserved kids) can generate interest and a willingness to donate.

Social media is a critical part of broad based fundraising. A clear strategy is essential to avoid being drowned out among so many competing voices.
Institutional Funders (Foundations/NGOs/CSRs)

Between individuals and governments, fall a broad spectrum of institutional funding organizations. These include Non-Governmental Agencies (NGOs), public and private foundations, and charitable arms of many for-profit companies, often referred to as Corporate Social Responsibility (CSR). For ease of reference, we’ll use the term Foundation throughout the remainder of this section.

Given the breadth of organizations in this sector, giving patterns vary widely. Some parameters include:

• Duration of grants. Some foundations put strict time limits on their grants. They may offer a one-time grant and not consider the nonprofit organization for further grants for some lock-out period. They may fund a project for a set number of years with no option to renew. Or they may fund on an open-ended basis, using reports and results to determine future funding.

• Funding Philosophy. Each Foundation will have its own unique set of criteria for what organizations it will support. This can include what stage the organization is at (proof of concept, validation, scaling, etc.), the scope (e.g. local versus regional versus national versus global), the opportunities for scaling, and the specific area where the Foundation makes grants (e.g. early childhood development, at-risk youth, healthcare, etc.)

• Restrictions. Foundations may impose limitations on how their grant is used. This is called a “restricted grant”. Typically, restricted funds have to be used for direct support of a specific program or initiative. Based on the conditions, they may not be used on other programs the nonprofit is running, for overhead expenses, or for capital improvement projects. They have to be fully spent in the time specified, with documentation showing that they were spent as stipulated

• Reporting. Foundations may impose specific reporting requirements above and beyond the organization’s regular reports. Knowing the reporting required in advance helps the organization plan for the administrative burden that these extra reports require.

Giving trends can change rapidly, requiring program and/or marketing changes at nonprofits. For example in Silicon Valley some years ago, there was a huge focus on STEM (Science, Technology, Engineering, Math). After some time, the emphasis shifted subtly but noticeably to funding “increased teacher effectiveness”. Nonprofits whose work aligned squarely with STEM but who didn’t work directly with teachers often found themselves out of consideration. There can be something of a herd mentality in the foundation space so being aware of these trends is important.

Nonprofits can also suffer from their own success. An effective, well-honed program may lose funding to a new untested program simply because the acclaimed proven program is no longer the new innovative idea.
Governments

Government at the local, state, or country level, can all be sources of funding. A nonprofit providing foster youth services, for example, might be funded to provide those services for an entire community.

- Nonprofits may need help preparing to handle the implications of getting government funding.
- Government funding can sometimes be accompanied by onerous legal and reporting requirements. For example, the nonprofit may need to provide detailed breakdown on the composition of its workforce and of the client base being served to ensure they are in compliance with government diversity requirements. Such requirements can be a significant burden both during the application process and while the grant is in process.
- This funding can be slow to arrive and is sometimes subject to disruption due to political or fiscal changes.
- Government funding is typically either a fee-for-service model or a cost reimbursement model. Fee for service contracts build in an allowance for overhead above and beyond the direct program fees but nonprofits often find that this overhead allowance does not fully cover their costs and need to find additional sources of funding to allow the program to break even. Cost reimbursement models typically offer much less in overhead coverage, and thus need greater funding from other sources.

Earned Income Streams

To help lessen the continual struggle to raise money, it is good for the nonprofit to explore possible earned income streams.

Some nonprofits have an earned income stream as an integral part of their program. Swords to Plowshares builds housing for veterans, for example, which generates rental income.

There are creative models for organizations where earned income is not an integral part of their business. The Pollinate Group, for example, has a model where volunteers pay to spend one to two weeks in the field gathering data for Pollinate. This is a double win in that Pollinate both gets money from the volunteer and also gets them to work.

It is important for the nonprofit to recognize that it takes time, energy, and money to organize an earned income stream, and to do the due diligence up front to ensure that they will actually make money from the effort. Pollinate, for example, has to coordinate flights, accommodation, insurance, meals, transportation, and translation capabilities to ensure the volunteers have a safe and rewarding experience. This is a non-trivial undertaking.
Unique Characteristics of Nonprofit Boards

Mentors coming from the for-profit world need to understand some unique characteristics of nonprofit boards.

In addition to having the same fiduciary responsibility as their for-profit brethren, board members on nonprofits are also typically significant donors to the organization. There is often a “give or get” requirement where the board member is expected to contribute a certain amount, either through a personal donation, or through fundraising. Other organizations require a “personally significant” contribution. It is not unreasonable to require some form of contribution from board members, but it is important to make any such expectation explicit at the time that board members are being recruited.

This dual role of reporting to the board, but also securing their financial commitment can place the Executive Director in a very awkward position. It can be difficult to hold board members accountable for work they’re expected to do while knowing that they are significant donors. An ED who has an ineffective Finance Committee, for example, may choose to do the work of the committee herself rather than risk losing them or their donation.

The same sensitivity can apply to board members who are over eager and who inappropriately engage directly with the staff of the organization.

EDs frequently request coaching on dealing with board interactions like these; it is good for you as a mentor to explicitly probe on the health and effectiveness of the board and the state of ED’s relationship to it. In smaller nonprofits you can play a critical role as a sounding board for an ED who feels s/he has no one to talk to about board challenges.

There is a trend among funders to demand more diversity on boards. Ideally, a board will include some major financial supporters but also people with experience in the issues. The expected financial contribution of each board member can vary widely as a result.

The composition and role of the board changes as the nonprofit matures and grows. In the beginning the board is usually small and dedicated to supporting the founder(s). Once the organization is established the board should evolve to take on the full governance role that is traditionally the role of a board. In that stage the members often represent a range of constituents to help steer the entity. Large nonprofits who establish a brand may evolve the membership of their board to maximize its fundraising needs while also providing governance. Mentors can help the entity examine whether their board is appropriate for their stage of development.

Key Takeaways

Here are a list of key points we’ve tried to cover in this document.

- There are two sets of customers: Users & Donors
- Scaling increases losses
- Restricted donations carry a cost burden too
- Remember the cost of receiving funds & donations
- Fund your funding pipeline
- Diversify your funding pipeline
- Donor Board Members: A tricky reality
About this Document

This document is a tool that Miller Center for Social Entrepreneurship has developed for its own programs and to share with the global social enterprise community. We are making it available publicly so that others can freely use, adapt, and share the content.

We solicit your comments about the tool and its potential applications in your work. Please direct your feedback to Andy Lieberman at alieberman@scu.edu

About Miller Center for Social Entrepreneurship

Miller Center is the largest and most successful university-based social enterprise accelerator in the world. Founded in 1997, Miller Center is one of three Centers of Distinction at Santa Clara University, located in the heart of Silicon Valley. Here we leverage this entrepreneurial spirit with the University’s Jesuit heritage of service to the poor and protection of the planet.

More than half of the world’s people live in poverty. Social entrepreneurship addresses the root problems of poverty through the power of business and innovation to provide sustainable economic and social impact.

Santa Clara University licenses this material under the Creative Commons Attribution ShareAlike 4.0 International License

GSBI is a registered trademark of Santa Clara University.
All rights reserved.