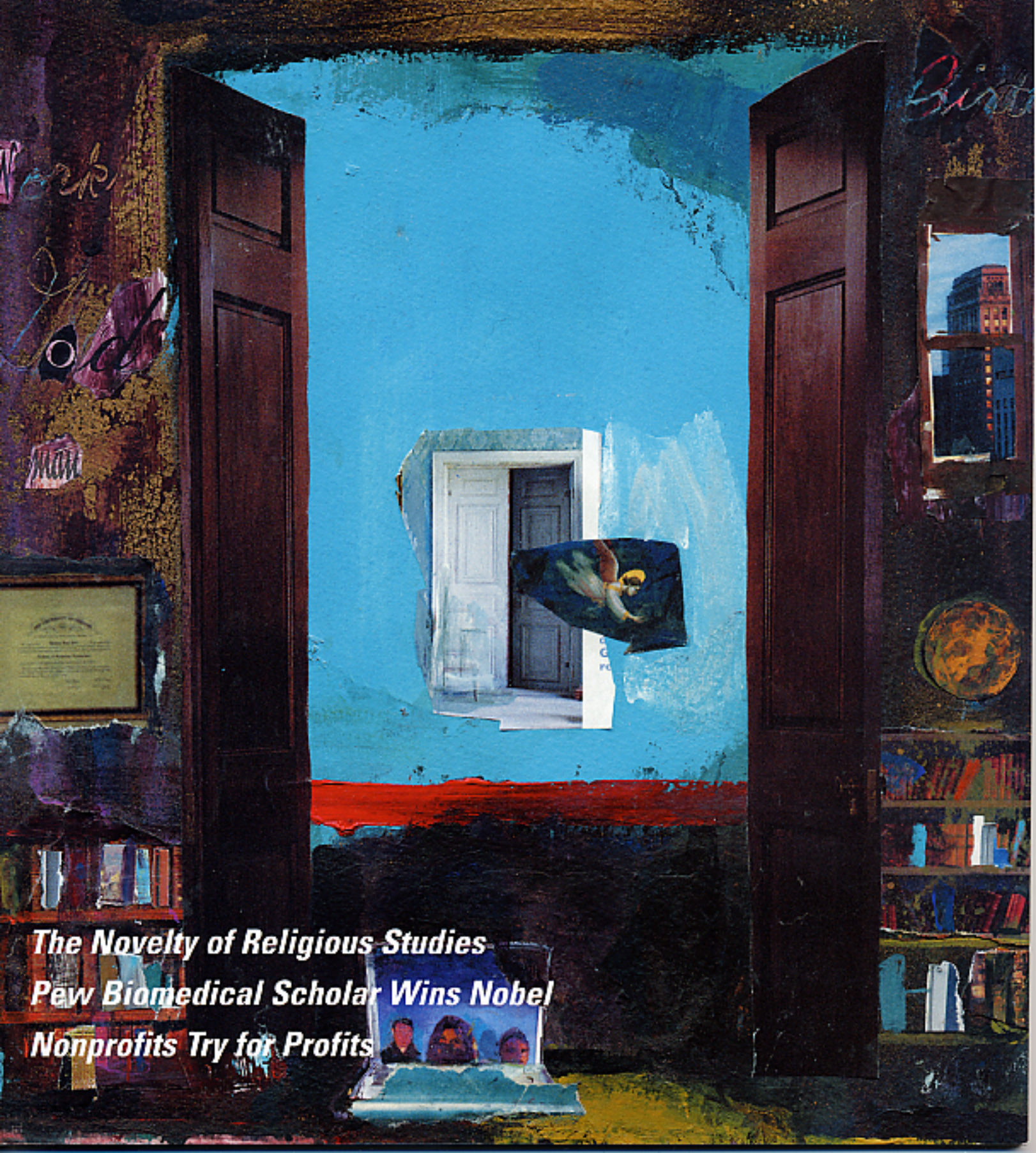


# Trust

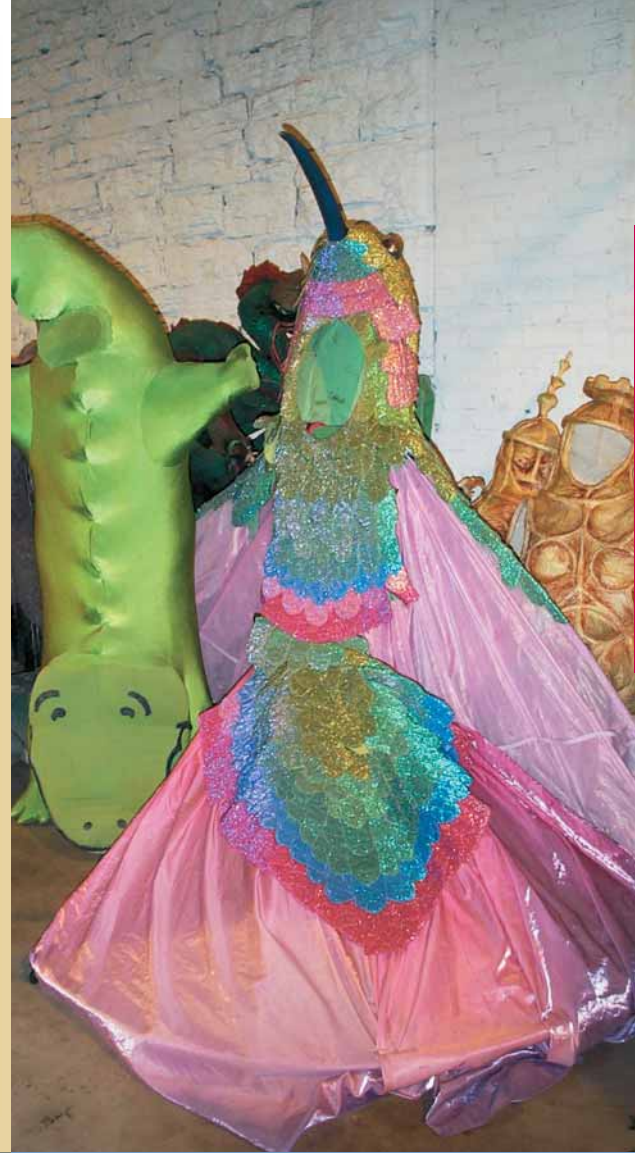
The Pew Charitable Trusts

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***The Novelty of Religious Studies***  
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***Nonprofits Try for Profits***





Omar Ontiveros



## In Search of *(Business Plan)*

# EXCELLENCE

Nothing ventured *smartly*, nothing gained.

By David Bornstein

Top winners of the first nonprofit-ventures competition (clockwise from upper left):

PARRETT PAPER: die-cut greeting cards and gift tags; employment and training. Rochester (N.Y.) Rehabilitation Center. [www.rochesterrehab.org](http://www.rochesterrehab.org)

COSTUMERENTALS: costumes for nonprofit theaters. Guthrie Theater and The Children's Theatre Company, Minneapolis. [www.guthrietheater.org](http://www.guthrietheater.org), [www.childrenstheatre.org](http://www.childrenstheatre.org)

DISCOUNTECH: sells software and hardware technology to nonprofits. CompuMentor, San Francisco. [www.techsoup.org](http://www.techsoup.org)

DISEÑOS MAYAPÁN: medical scrubs; employment and training. El Puente Community Development, El Paso, Texas. [www.mujebrera.org/elpuente](http://www.mujebrera.org/elpuente)

**T**he nonprofit El Puente Community Development Corporation exists to help low-income Mexican immigrants in El Paso, more than 30,000 of whom have lost their jobs to economic dislocation. So when Rodrigo Morin and others at El Puente began noticing that Mexican-Americans, who make up a large proportion of hospital workers in the Southwest, were often unable to find uniforms—"scrubs"—that fit, he got an idea. Could El Puente simultaneously create jobs in El Paso and generate revenue for its good works by going into business making scrubs for immigrant hospital staff?

Not long afterward, Morin and his colleagues appeared on a stage in New York City, sporting the most fashionable hospital scrubs this side of the Rio Grande and eager to persuade a panel of judges that this idea was worth investing in. El Puente was among 20 finalists in the first annual nonprofit business plan competition of the Yale School of Management-The Goldman Sachs Foundation Partnership on Nonprofit Ventures. In the contest, nonprofit groups from across the country vie for \$500,000 in cash prizes that will help launch or expand their for-profit ventures. There was no shortage of good ideas being showcased at the two-day event last May, which many of the 500 attendees characterized as a watershed moment in the field of social enterprise.

It certainly was a watershed moment for El Puente. Hospital scrubs have changed little since they were introduced in the U.S. in the 1950s. After measuring a thousand people, Morin found that the uniforms were too long and too tight for many of El Puente's target customers—immigrant workers. "The next step was to do a market survey," he recalled. "We got an amazing response. We saw that there was a whole sector whose body size and shape



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were not well served. They were *pleading* for better scrubs.”

Years earlier, El Puente had confiscated 40 sewing machines from sweatshop owners who had not paid their wages to poor immigrant workers fairly. Morin rebuilt the machines. El Puente invested \$5,000 of its own funds and raised \$5,000 from a firm that runs hospitals in El Paso; it then contracted with a few workers and was soon producing scrubs. Thus was born *Diseños Mayapán* (“Mayapán Designs”), a business that employs highly skilled, job-displaced seamstresses, many of whom are women over 40 with less than a sixth-grade education, to manufacture suitably sized hospital scrubs in 21 attractive styles. Over the course of a year, drawing heavily on very low-budget marketing, the organization sold \$40,000 worth of them.

El Puente’s business plan to expand the venture—plus Morin and his colleagues’ onstage presentation in New York—was impressive enough to beat out more than 650 nonprofits nationwide that had entered the Yale competition to compete for one of four top prizes of \$100,000 and 24 days of free management consulting services over the course of a year.

“Winning was beyond our wildest expectations,” says Cindy Arnold, executive director of El Puente. “It meant so much. As a social-change organization, what we’re trying to do in El Paso is considered a little crazy. The business community felt we were fraudulent, and the progressive social-change organizations felt we’d sold out. But this is much more than a business plan to us. This is something that will help us wrestle with the question of how to put together an economic agenda for El Paso.”

**T**he Partnership, which has received \$6 million in funding from The Pew Charitable Trusts and The Goldman Sachs Foundation, was

established in 2001 to respond to growing interest among nonprofit organizations in running businesses that help support their core mission. The Partnership focuses on “social entrepreneurship”—a combination of business skills and social responsibility among nonprofits. Accordingly, the Partnership educates these organizations about nonprofit enterprise, serves as a mechanism for financing the most promising of the profit-making ventures and provides intellectual capital to build the concept of nonprofit social entrepreneurship.

Social enterprise has been around for decades. However, in the early 1980s, after the Reagan Administration slashed social spending, a growing number of nonprofits began exploring earned-income ventures as a strategy to diversify their revenue base. In some cases, the goal was to generate cash to support the mission. In others, it was to run a social-purpose business that itself advanced the mission—say, by providing employment opportunities or essential services to needy constituents. In cases like *Diseños Mayapán*, the ventures were designed to do both.

More recently, as nonprofit organizations across the country were again facing declines in giving as a result of the economic downturn, the approach has been gaining traction once more. But there is an important distinction between the interest in social enterprise today and that of 20 years ago: It reflects both an increased willingness by nonprofits to embrace business tools and concepts, and an increased willingness by traditional businesses to engage with the nonprofit sector to pursue initiatives with social as well as economic value.

These changes have been informed by two decades of industry-building in the nonprofit sector, with a growing recognition that it and the business sector have much in common. It is now widely accepted, for example, that successful organizations, regardless of



Runners-up (clockwise from above):

**BENHAVEN'S LEARNING NETWORK:** technical assistance and consulting to special-education programs in Connecticut public schools to serve students with autism. Benhaven, Inc., North Haven, Conn.

**BOOKSHARE.ORG:** online library for people with significant reading disabilities. Benetech Initiative, Palo Alto, Calif. [www.benetech.org](http://www.benetech.org)

**MAKE A DIFFERENCE CATERING:** food services for child-care programs and other human-service organizations. Nation's Capital Child and Family Development, Washington, D.C. [www.nccfd.org](http://www.nccfd.org)

**SCOJO INDIA:** sells low-cost reading glasses in India. Scojo Foundation, Brooklyn, N.Y. [www.scojo.com](http://www.scojo.com)





their tax status, share certain qualities, such as a clear vision, entrepreneurial leadership, access to resources and excellent management.

This recognition has helped build bridges between the nonprofit and business sectors and overcome the “respect gap” that has long impeded their ability to cooperate. It has also opened up new opportunities for young people who seek to apply business skills to achieve social ends.

In the past two decades, the field of nonprofit management, which barely existed in 1980, has grown into a small industry with hundreds of colleges in the U.S. now offering such courses. Among MBA students, interest in social enterprise is reaching new highs. “The enthusiasm for this in business schools has really grown,” notes Sharon M. Oster, Ph.D., Frederic D. Wolfe Professor of Management and Entrepreneurship at the Yale School of Management. “You see these classes at Harvard, Stanford, Duke, you see new centers for social enterprise starting up, and it all speaks to student demand. I don’t know if it’s related to 9/11 or a paucity of jobs or a change in the spirit of the young, but it’s there.”

For all the attention, many nonprofits espousing interest in social enterprise remain poorly prepared for the challenges of running businesses. Oster, cofaculty director of the Partnership, noted that of the 655 entrants in the first business plan competition, the 575 business plans eliminated in the first round represented “a big drop in quality” from the 80 that advanced to the second round, suggesting that perhaps only 20 percent or less of the plans submitted were thought through well.

Another impediment to the success of social enterprise is the availability of financing. The majority of foundations have little expertise or interest in analyzing or financing social ventures. “There’s been talk about social enterprise for 20 or 25 years,” says Cynthia

W. Massarsky, the Partnership’s co-deputy director, “but there’s never been much money behind it—a grant here, a grant there, mostly grabbing at straws.”

Two of the goals of the Partnership are, therefore, to attract attention to social enterprise by highlighting the most professional and cutting-edge profit-making ventures, while leveraging intellectual and financial resources—building up networks of support within the nonprofit, academic, philanthropic and business worlds—to help ensure that the best ideas with the best management teams behind them have a genuine chance to flourish.

**I**ronically, the seeds of the Partnership were planted in the late 1990s, not a time when nonprofits were facing significant budget crises, but when, like everyone else, they were looking to use the Internet to make money. “At the height of the boom, we were getting a fair number of nonprofits proposing business models to us,” recalls Mary Ann Stover, at the time a program officer in the Trusts’ Venture Fund. “It seemed that something was going on out there. And we started to think about how we could bring our resources to bear in a strategic way.”

Around that time, Donald Kimelman, director of the Venture Fund, came across a front-page article in *The Wall Street Journal* while riding his exercise bike. The story caught his eye because it reported on two oddly matched competitors in the construction-supplies business. “One of the companies was an industry leader, a major player,” recalls Kimelman. “The other was a student who had won a Stanford business-plan competition. I thought, ‘That student really got a lot of mileage out of winning that contest.’”

To explore whether the Trusts could play a valuable role in strengthening the field of social enterprise, Stover enlisted the expertise of Massarsky, a management consultant who had



been helping nonprofits pursue earned-income strategies since the early 1980s. Massarsky pulled in Samantha L. Beinhacker, a consultant who had specialized in strategic planning and marketing for both nonprofits and Fortune 500 companies.

With funding from the Trusts, Massarsky and Beinhacker conducted a study. They found that, of 519 nonprofit organizations that responded to their survey, almost two-thirds were already operating an earned-income venture or expressed interest in starting one. Of those in business, however, only 55 percent had prepared business plans. As expected, these were the ones that reported more success in both running their ventures and fulfilling their organization's mission.

Massarsky, Beinhacker and Stover agreed that a competition could be an effective vehicle to highlight promising ventures, provide training in business planning and reinforce the message that running a business is not for everybody. "Right from the start, the Trusts were very adamant that we *encourage* social venturing if it makes sense and *discourage* it if it doesn't make sense," says Beinhacker, who, along with Massarsky, now serves as co-deputy director of the Partnership. "Nobody should come in thinking that running a business is easier than fundraising."

Next, the Trusts began looking for a business school that would administer the program. At the top of the list was the Yale School of Management, a national leader in the field of non-profit management. When Kimelman proposed the idea to Jeffrey Garten, the school's dean, it took Garten (Kimelman recalls) "about a minute to say yes."

Through the grapevine, Massarsky had heard about another consultant who was exploring nonprofit business plan competitions—but all she had to go on was a last name. In classic entrepreneurial fashion, she scoured the

Manhattan phone book, making cold calls until she tracked down the consultant, who was working with The Goldman Sachs Foundation.

As it turned out, Goldman Sachs had been pursuing a similar strategy. "We were very interested in identifying opportunities for the foundation to have a real impact in the social-enterprise arena and actively exploring a couple of different options," recalls Stephanie Bell-Rose, the foundation president. "We had very complementary goals."

Moreover, forming a partnership with The Pew Charitable Trusts and Yale seemed eminently sensible. "For Goldman Sachs," notes Bell-Rose, "it was an opportunity to combine our financial and intellectual capital with academic and philanthropic experience." Lori Grange, a program officer in the Trusts' Venture Fund, adds that "the Goldman Sachs name and brand recognition" conferred a high degree of legitimacy for the competition in the business community and might help attract other investors for the most promising ventures.

The Partnership launched the competition in May 2002. Massarsky and Beinhacker anticipated 200 entrants. Over the summer, they received 655, at least one from every state. They were totally unprepared for the volume. "We didn't think to ask people to send in duplicates," recalled Beinhacker. "We spent a lot of time photocopying."

As with many a start-up, the first year took off at a gallop and never slowed down. The project recruited 200 evaluators, judges and advisors, including students, alumni and faculty from Yale's School of Management, Goldman Sachs executives and members of the management-consultants McKinsey & Company, the revenue-consultants Community Wealth Ventures and other firms.



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- Save for the Future
- Save for Education
- Build a dream

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Finalists (clockwise from below):

**WIN-WIN CLEANING, INC.:** business cooperative of individually owned cleaning companies (here, Mr. and Mrs. David Tran). Vietnamese-American Institute for Development, Dorchester, Mass. [www.winwincleaning.com](http://www.winwincleaning.com)

**RAMPS & RETROFITS:** modifying homes for seniors and disabled individuals. The Centre for Women, Tampa, Fla. [www.centreforwomen.com](http://www.centreforwomen.com)

**ABD COLLECTION:** custom-made knit luxury suits for women. Appalachian By Design, Lewisburg, W.Va. [www.abdinc.org](http://www.abdinc.org)

**ONLINE IDA:** enabling low- and moderate-income Americans to create individual development accounts (shown here is a postcard from a partnering project). D2D Fund, Inc., Roxbury, Mass. [www.d2dfund.org](http://www.d2dfund.org)

**LOUISIANA ARTWORKS:** offering products made or inspired by Louisiana artists and artisans. The Arts Council of New Orleans, New Orleans, La. [www.artscouncilofneworleans.org](http://www.artscouncilofneworleans.org)



Massarsky and Beinhacker loaded up the Partnership's Web site with resources in business planning, developed a rating scheme, distributed the applications to the evaluators and winnowed the 655 entrants down to 80. For the semifinalists they arranged business-planning workshops with professional consultants and MBA students in Boston, New York, Washington, Chicago, Raleigh, N.C., and San Francisco. The semifinalists then submitted working drafts of their business plans, which were cross-reviewed by 40 evaluators. Each semifinalist received extensive feedback.

In February 2003, 20 finalists were selected; each was given six days of access to a consultant and two Yale management MBA students to refine their business plans and develop PowerPoint presentations. A month later, the final products were delivered to seven judges. And a month after that, the winners were announced at the awards ceremony in New York. The ceremony capped a two-day, sold-out conference that featured a score of master classes and workshops headed by Goldman Sachs executives, Yale School of Management professors and leaders in the philanthropic community, as well as a keynote address by former Senator Bill Bradley, now a senior adviser at McKinsey & Company.

One of the most distinctive aspects of the conference, reflects Goldman-Sachs' Stephanie Bell-Rose, was that it "brought together people from business, academia, philanthropy and the nonprofit sector." Based on interviews with a cross-section of three dozen participants, both the competition and conference were generally viewed as major successes for the quality of the business plans showcased, the level of exposure brought to the field, the experience gained by the entrants and the professionalism

of Massarsky and Beinhacker, who pulled off the whole thing with consummate style and nary a snag. "What they accomplished in a year is mind-boggling," comments Greg Dees, a professor at the Fuqua School of Business at Duke University, who served as a judge in the competition. "It was an enormous undertaking executed extremely well."

There were eight winners, four receiving \$100,000 and four receiving \$25,000. In addition to El Puente, they include two nonprofit theater companies that have launched a national costume rental business; a Washington, D.C., food bank that has opened a catering company; and a rehabilitation center in Upstate New York whose disabled clients design and manufacture unique, die-cut greeting cards and paper. The dominant characteristic of the winners was their size: Although seven of the 20 finalists had annual budgets under \$1 million, only one of them—Scojo, which markets low-cost reading glasses in India—was selected as a winner. By contrast, four out of the five finalists with budgets over \$5 million won prizes.

As a result, some of the smaller organizations felt the competition placed a disproportionate burden on them. "I didn't realize we'd be going up against organizations much bigger than we are," says Jeff Zinsmeyer, executive director of the D2D Fund, which is developing an online system that will help banks extend Individual Development Accounts to low-income customers. "We ended up putting much more time into this than if we had done a series of funding proposals."

But all of the finalists, regardless of size, reported that the process was invaluable. "If business planning were easy, everyone would do it," notes Bennett Grassano of CompuMentor, which won \$100,000 to expand *Dis-counTech*, a business to distribute discounted technology products and services to nonprofits. "It's a lot of



work, but it forces you to think through your business with a level of rigor that you wouldn't do otherwise."

Larry Wood of Benhaven, Inc., which won \$25,000 to expand its business providing consulting to public schools that serve children with autism, says: "Before doing the financial forecasting, we didn't understand how much we would have to grow the business to make it profitable."

James Fruchterman, CEO of The Benetech Initiative, whose venture, Bookshare.org, makes books available online for people with visual and other disabilities, says the "sensitivity analysis" helped to "demonstrate which business assumptions were the most sensitive to changes in conditions." Benetech won \$25,000 to help support Bookshare.org.

For Cindy Arnold, from El Puente, the greatest benefit was psychological. "We came to value what we already knew. I mean, we've got Yale students telling us: 'Wow, you've got something here!'"

The students, consultants and judges who participated in the competition also reported positive experiences. "I actually got to apply all the skills we'd been trained in: finance, statistics, marketing. All the core competencies came up in the plan," says Laurie Geronimo, a second-year student from Yale's management school who assisted CompuMentor with its business plan.

Chandy Chandrashekhar, a vice president at Goldman Sachs who served as a judge, calls the experience an "awakening": "Hearing about unemployment in the Appalachian mountains or El Paso and then seeing people who are actually taking the time to create opportunities is wonderful. I felt quite valuable and useful. It behooves institutions like Goldman Sachs to do more of this stuff."

Daniel Helfman, a consultant who specializes in social ventures, says of his engagement with El Puente: "Working with Cindy, Rodrigo and both



Marias was a wonderful experience. They are *heroes*. And they have the potential to grow tenfold."

Without a doubt, the individuals in the least enviable positions were the judges, who had to select from an array of organizations working in a half-dozen fields. The judges had been instructed that the overriding criteria was: "Which ventures had the best chance to succeed as businesses?"

"What I looked for was: 'Does the plan anticipate variables that will come into play when you move to the real world?'" says Gary Mulhair, managing partner of Global Partnerships, an organization that assists micro-finance programs in Central America. "I looked for the fatal flaws—things that, if they don't go well, are likely to swamp the venture. And: Has anybody on the team actually done any of the stuff they propose?"

Despite the fact that the judges were told that the businesses were not required to yield "social returns," a number took their potential to do so into consideration. Barry Nalebuff, D.Phil., the Milton Steinbach Professor of Management at Yale, notes that the plans that most intrigued him were innovative models with the potential



Finalists (clockwise from top left):

SPRINGBOARD NYC: intensive summer program for aspiring young actors, singers, technicians and set designers, taught by industry professionals (here, composer/lyricist Jason Robert Brown). Musical Theatre Works, New York, N.Y. [www.mtwnyc.org](http://www.mtwnyc.org)

PROVIDENCE HOME MORTGAGE, INC.: brokers mortgages (as for the renovated house, shown) in the Kent County, Mich., area for low- and moderate-income families. Inner City Christian Federation, Grand Rapids, Mich. [www.iccf.org](http://www.iccf.org)

PEDDOCK ISLAND ECO-RETREAT AND FAMILY CAMP: environmentally conscious programming for day-trippers and overnight visitors. Island Alliance, Boston, Mass. [www.bostonislands.com/ia](http://www.bostonislands.com/ia)





Finalists not pictured:

**PLOUGHSARES NURSERY:** eco-friendly retail nursery; employment and training. Alameda Point Collaborative, Alameda, Calif.

**NATIONAL QUARTERLY HIV/AIDS SURVEY AND FOCUS GROUPS:** enabling subscribers to market products and services, plan health care and fulfill regulatory mandates. Partnership for Community Health, New York, N.Y. [www.pchealth.org](http://www.pchealth.org)

**VOLUNTOURS:** travel packages for vacationers who devote time to service learning and volunteerism. Los Niños, Chula Vista, Calif. [www.losninosinternational.org](http://www.losninosinternational.org)

**LIVE FROM NY'S 92nd STREET Y:** uses satellite broadcasts and the Internet to sell the Y's programming to nonprofits worldwide. 92nd Street Y, New York, N.Y. [www.92y.org](http://www.92y.org)

Go to [www.pewtrusts.org](http://www.pewtrusts.org) for related information on this story:

- *Enterprising Nonprofits: Revenue Generation in The Nonprofit Sector*, a report from the Partnership on Nonprofit Ventures.
- "Nonprofit Enterprise: Right for You?," an article summarizing the landscape of business ventures in the nonprofit sector.

to achieve major social impact. He cited the case of Scojo and its prize-winning business plan to sell affordable reading glasses to people in India who currently lack them. "The risk is: 'Why hasn't it already happened?' But that's the kind of risk you'd like to see social enterprises take."

Duke's Greg Dees adds: "What I would like to know from a nonprofit that's starting a venture to generate money is: 'How are they going to use that money?' I'd like to see every plan required to articulate the social impact. Let's make it an explicit part of the business plan."

**W**hile the competition succeeded in generating enthusiasm for social enterprise, even its chief proponents reiterated a strong note of caution. "This is a rich and exciting area—but also an area where one needs to tread carefully," says Oster. "We want tempering along with the enthusiasm."

Notes Stanley J. Garstka, Ph.D., professor in the practice of management and deputy dean of the Yale School of Management, who, with Oster, co-directs the Partnership: "The competition exceeded our wildest expectations, but ultimately its success is about these organizations being able to implement their ventures and make money. For that, the jury's still out."

One reason for the caution is that for-profit delivery mechanisms require a range of skills that are not yet prevalent in the nonprofit sector. Another is that the consequences of business

failure are more serious for nonprofits. If a normal business goes bankrupt, it is usually because the business failed to provide value. But a nonprofit that has highly effective programs may fail in business and, in the process, put its programs in jeopardy. In addition, companies have an array of financial services to turn to; social enterprises do not. And it is far from certain that foundations will be willing to accept the high failure rates associated with new business ventures.

In the meantime, the Partnership is closing out the second year of the competition. The 551 entrants have been whittled to 80 as they move toward the awards ceremony in May. Even in an improving economy, the question of wisely blending social and financial returns is no less urgent. The Partnership is looking to rope in more partners for the project itself. It also seeks to capitalize on the buzz created by the competition to help organizations (in Massarsky's words) "get a hearing before social investors and foundations."

In fact, one of the most compelling ventures showcased at the competition was the competition itself. It certainly met the success criterion set out by Mario Morino, chairman of Venture Philanthropy Partners, at the conference. Success in any undertaking, he noted, does not hinge on a plan—as soon as the ink is dry, the plan will change—but on the people who will execute it. Success, he said, comes from "the obsessive drive and compelling knowledge of the individual who will overcome walls, crawl over glass." ■

**The Yale School of Management-The Goldman Sachs Foundation Partnership on Nonprofit Ventures** is located at 560 Sylvan Avenue, Englewood Cliffs, NJ 07632. Its phone is 201.894.8950, and its Web site is [ventures.yale.edu](http://ventures.yale.edu).

*David Bornstein specializes in writing about social innovation. His How to Change the World: Social Entrepreneurs and the Power of New Ideas has just been published by Oxford University Press.*