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## WORKING PAPER

# DOING BUSINESS IN THE ENVIRONMENT OF NONGOVERNMENTAL NON-PROFIT ORGANIZATIONS

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## I. SCOPE AND DEFINITION

This working paper is to pay brief attention to a broadly discussed topic of entrepreneurship in the environment of nongovernmental, non-profit sector organizations of the V4 region. It is to shortly explain specific attributes of social entrepreneurship, to look at reasons as well as main areas of V4 NGOs economic engagement, and in the end, provide necessary advice on what to consider before entering the market and going “live”.



Since the word *entrepreneurship* is rather a broad and complex term, for the purpose of this paper we are refer-

ing to *entrepreneurship* simply as to “doing business”. Namely, when speaking of the entrepreneurial activity of NGOs we are to understand it as their “economic activity” (usually being licenced by state) that is performed continuously (at minimum repeatedly), is based on predominantly paid (not volunteer) work and by performance of which, the organization partakes in the market while undergoing economic risks inherent to business activities of regular commercial subjects. Unlike in the case of regular commercial subjects however, the entrepreneurial activity here does not need to follow the goal of profit maximization.

## II. HOW, WHERE AND WHY OF NGOS’ ECONOMIC ENGAGEMENT

Mainly and perhaps naturally, the enterprising NGOs, that are understood as operators in the social economy, focus their business activities primarily on delivering social impact. In such, their business activities could simply be understood as **purpose driven** where generated profits (if any) are further socialized in support of their public missions.

In this manner entrepreneurial activities of nongovernmental non-profit organizations are rather understood as a means to philanthropic ends where business fulfills a role of an effective vehicle in meeting identified societal goals. Here we list a few of such goals (and their whys) frequently pursued via NGOs business engagement<sup>1</sup> :

- *development of the service sector*

The service sector is often not adequately developed in the V4 countries, neither with regard to scope, nor its structure. In many localities it is represented by reduced levels of infrastructure that further limit human development. The social economy actors are many times successfully engage e. g. in development of local and regional tourism and in such bring in job opportunities and needed revenues.

- *development of social services*

In the long run, their scope and structure in the V4

countries are often inadequate and do not allow full performance of social assistance, which should focus more on providing individualised social work with socially disadvantaged clients. As a result of decentralization, the volume of social services has often been reduced rather than increased, and their capacity ended up insufficient for the effective performance of social assistance. V4 social economy actors regularly help meet less demanding social needs by means of expert therapeutic and social services, self-help activities and lay assistance under supervision.

- *strengthening of social inclusion and bringing new strategies of social assistance to those in need*, V4 social economy actors offer opportunities for the long-term unemployed, marginalized persons with difficulties in finding work and those with low skills. In such they enable social integration by means of creating work opportunities for specific groups. Even if such work often cannot secure an income sufficient to support oneself, to people involved in social economy programs, it offers a combination of income and social benefits. This way it could play a motivational function and minimize the number of people in financial/material distress by only being recipients of benefits.

<sup>1</sup> Drawn from and further elaborated on: G. Lubelcová: Social Economy: concepts, opportunities, risks. Sociology, 44, issue no.1, 2012.

- *development of local social potential*  
V4 social economy actors are often well prepared to build on the principles of self-help, social dialogue, and social cohesion in restoring social relations and social ties in the area. They are well equipped to revitalize select locations as a living social organism that is able to articulate its needs and mobilize local resources in order to satisfy them.
- *accelerating decentralization of competencies by authorities on the level of regional and local self-government*  
By decentralizing public administration, self-governing bodies gained competencies as well as duties to prepare and implement the concept of social and economic development of localities



and regions. However, the degree of competence, willingness and capabilities of these institutions to make socially responsible decisions is still limited. In such situation V4 social economy actors act as a means for linking concepts and programs with a focus on specific needs in the area.

- *environmental protection*  
V4 social economy actors often bring new and resourceful solutions to solving environmental problems at the local level. Knowing well their own area combined with the understanding of local developments and historical context the NGOs have the power and potential to introduce and often implement sustainable and effective solutions.



### III. SPECIFIC ATTRIBUTES OF A PURPOSE-DRIVEN BUSINESS

Stemming from the objectives being followed in combination with often exclusive areas of engagement (as documented above), the NGOs entrepreneurial activities necessarily carry specific attributes compared to regular commercial business activities. Such is indeed necessary if they are to meet their set purpose that many times aims at whole groups of populations, communities, environments often presented with complex and acute problems and challenges.

The foremost and primary attribute is 1) to serve an explicit social purpose to benefit community, a specific group of people, or the environment. Further, if the select activity brings in any profits 2) such are from their most part

reinvested to further the organizations' purpose. From the point of view of its management and governance the enterprising NGOs 3) make decisions that are not based on capital shares. This attribute usually refers to a unique principle of "one member, one vote" or at least to the decision-making process in which voting rights are not divided by share of equity investment. NGOs' business is thus 4) rather based on social ownership and 5) decision-making involves various parties or stakeholders (rather than shareholders) affected by the business activity<sup>2</sup>. Following the above mentioned attributes, we indeed speak of true social enterprises by the EMES<sup>3</sup> definition of a social enterprise that rests on meeting nine key criteria<sup>4</sup>.

<sup>2</sup> Defourny, J. a Nyssens, M., The EMES approach of social enterprise in a comparative perspective, 2012.

<sup>3</sup> EMES European Research Network - a research network of established university research centres and individual researchers whose goal is to gradually build up a European corpus of theoretical and empirical knowledge, pluralistic in disciplines and methodology, around "Third Sector" issues (<http://www.emes.net/>)

<sup>4</sup> To add the remaining four which have already been mentioned above: 6. economic activity producing goods and/or selling services, 7. minimum amount of paid work, 8. a significant level of economic risk, and 9. degree of autonomy e.g. independent from the state (the numbering does not correspond with the original EMES numbering).



Whether the enterprising NGO decides to meet all nine EMES criteria and become a social enterprise “by definition” is up to its own decision<sup>5</sup>. What is important at this point and what the enterprising NGOs have in common

though is the fact that they run their business with the goal of pursuing public good.

On the other hand, it is important to stress that by their business engagement the NGOs turn into regular economic actors present in the market often truly competing with regular commercial players; their success depending on their business acumen and understanding of market forces. On the outside, enterprising NGOs often look like and indeed behave as regular businesses whom they compete with, it is only on the inside where one can sense their distinct nature and learn of their ultimate social goals and objectives they pursue. In such, it is their hidden values and principles they operate on that makes them special and unique in their endeavour.



#### IV. TWO MAIN REASONS WHY NGOS GO INTO BUSINESS

To come back to the business activity itself we witness two main reasons why NGOs engage in doing business:

1. their business activity is primarily aimed at generating profits to serve as a complementary source of income applied to financing their mission (next to grants, subsidies, donations, member fees, etc.)
2. their business activity is a direct means or vehicle to fulfilling their purpose (e. g. work integration enterprises, etc.)

An example of the two different scenarios is as follows:

1. A community based organization running regular activities for the members of the community, among them children outdoor activities and workshops, senior programs, local sports, educational and cultural events, activities aimed at protection of local natural environment, etc. Activities of this nature are usually and for the most part financed from individual and corporate donations, municipal grants, member fees, and so on. Simply said, they are usually and for the most part financed from so called non-market sources. However, the organization might decide to open a local hang-out or coffee place where they serve tea, coffee, beer and/or healthy food to be sold to their lunch or evening guests. In such they decide to venture into pursuing an economic activity of a business nature (based on a definition of “doing business” in PART I) and gen-

erate market revenues to supplement their regular non-market sources of grant money, donations or members’ fees. Such is done with a sole purpose of helping the organization to become more financially self-sufficient and perhaps lower its dependency on public and institutional support based on the premise that the acquired revenues are from the most part socialized, in other words - used toward pursuing the organization’s mission and vision.



2. A work integration social enterprise (WISE) set up to provide employment to marginalized or disadvantaged groups of persons who find it difficult to get an employment in the open market. Within such enterprise is a vehicle to creating work positions for the above mentioned populations becoming a means to their present or future social participation via work integration. Such entrepreneurial activity fulfills the organization’s underlying social mission

<sup>5</sup> Such can be useful when considering tapping into public support schemes where meeting defined criteria is often required to make sure the applicant organization is indeed pursuing the public goal as its foremost objective.

already by being run in a financially sustainable manner regardless the profits made. *(Especially in the case of a work integration social enterprise it is many times notably hard to balance the social and economic requirements of a successful operation and for this particular purpose these enterprises many times settle with balanced economy or rather than talking profit they refer to surplus.)*

WISE however does not need to be the only example of an integrated entrepreneurial activity which by its own running (while of course being run well) fulfills the organization's purpose. Another good example is a case of an organization devoted to solving a problem of pollinators' decrease in the country. By commercially producing and selling so called



“weekend hives” they provide an easy entry into beekeeping for amateurs who, next to being able to provide for their own honey and perhaps honey-related products, bring bees such as pollinators to specific areas and in such allow for their pollinating of nearby trees, meadows, orchards, and so on.

One more example would be an endeavour devoted to protection of genfund of old and regional fruit wood species by processing their fruits into pasteurized or non-conserved musts which are sold in the open market. Private gardeners having their fruits collected and paid for thus keep the fruit trees, rather than turning their gardens

into nicely kept lawns, genfund of old and regional fruit wood is preserved together with the genetic diversity of the region.

## V. WHAT TO CONSIDER BEFORE GOING “LIVE”

Meeting a defined social goal is very much dependent on the success of an entrepreneurial activity the organization bet on fulfilling its social mission. Despite a number of good practice examples and a growing number of NGOs who venture into business activities, before going “live” we should always pose a question if enterprising is indeed and in every case the best and most effective tool in meeting the organization's purpose. Shortly, we are going to look here at a few things for the NGOs to consider before delving into a business venture:

1. In the case when the business activity is to primarily bring profits and in such complement the organization's income from the non-market sources such as grants, donations, subsidies, etc. it is very important to consider the following:

*The effectiveness of the use of financial and human resources to be engaged in preparation and pursue of the business activity versus having these invested to further the existing or conventional fundraising strategies.*

The truth is, few organizations really consider the two in comparison. The organization might have a good business idea that sounds attractive and shows signs of an integrated business activity (in unison with its mission) however unless the numbers are put on the table the organization might not realize the following:

**a)** the initial investment of organization's money and its people's time (which again is money) is so high that it would take years to bring it back to zero. Here we do not mean the break-even point but rather the actual return of initial investment had this been put up from own resources. To allow for high initial investment the business has to be profitable at a good margin, meaning the nature of the product and/or service should allow reasonable mark-ups to firstly break even and secondly to pay off the entry investment.

To consider the business idea the NGO must always ask: What if I invested all this time a money into a well thought out and performed fundraising strategy? Wouldn't the revenues be higher, quicker, more sustainable and at less risk than the ones from the business activity?

**b)** another important thing to consider when the business activity is to bring profits and in such complement the organization's income from the non-market sources is a potential mission drift. If pursuing the business activity that is not particularly in unison with the organization's mission and is mostly pursued as an income generator or simply said a money maker regardless the organization's predominant (purpose driven) activity there is a danger the

organization's focus might drift. When starting a business it is indeed necessary for the organization to shift its attention and focus toward the planned business activity, what is more, it needs to be realized that once put into operation the organization needs to constantly keep an eye on its business. Running a business requires full attention, creativity and problem solving skills to be applied on daily basis.

An organization that has put its sight on running a business has to become fully aware of their ability and most of all capacity to run simultaneously both - non-profit as well as business activities.



In both cases, scenario 1 and 2 it is important to consider the following:

1. At the beginning, "surprisingly" money often flows in a different direction – from the non-profit to business. Only later on, under the precondition the organization is being successful with its business operation the stream hopefully takes a reverse flow. This is very important to understand when 1) the organization is putting its own capital into starting a venture and 2) in running its daily operation it does not yet have access to outside financing and is left with using its own "non-profit" money. The reason why this is mentioned is that this can create an undue stress on the organization's financial resources and cash-flow – definitely one to seriously consider. Later on, the business venture might generate a big enough financial reserve on its own and gain an access to outside financing such as bank financing for example.
2. Especially for the purpose of future financing it is very important to consider the legal form the organization decides to utilize in running its economic activity.
  - a) Not all legal forms allow investment in form of equity since they are not based on shared capital structure. Such is especially true of most non-profit organizations which for this particular reason cannot have an investor enter the organization's venture and ask for corresponding share on capital.
  - b) Not all legal forms can attract a bank loan. Such is again especially true of most non-profit organizations which cannot offer the basic guarantee for most creditors since they don't dispose of a shared capital in the "company" and are thus failing to show the degree of liability for obligations the bank would consider proper.
  - c) Such can however be avoided by building a so called two-tier model/structure, where the NGO for the purpose of running is business activity sets up (for example) a limited liable company – LLC (should the law allow the organization to do so, which is not always the case) which becomes legal subject running the business operation. However, even in this case the LLC might have a problem accessing capital based on the fact it is owned by a NGO. Under such circumstances a physical person should in part own the company (at least 51%) to provide for the necessary guarantee. The profit distribution might not need to reflect the ownership structure and still 100% of profits (if such is wished by the organization) can be socialized for the purpose of fulfilling its mission.
3. While contemplating the business activity the organization should not avoid to consider the following:
  - a) preparedness of own staff to engage in business activity. One indeed has to learn and understand how to do business. The organization should in most cases consider a business educated person to run and manage its commercial operation.
  - b) It might not work well to turn own programmatic experts (on human rights, environmental protection or social services) into working on business-like financial projections, registering products onto e-shop platform or even help out in a carpentry workshop. Such might not go well with the employee personal and/or professional mission within the organization and at the end might negatively affect his or her internal motivations.
4. It is no less important to consider whether the economic activity the organization is to pursue does need to be of a business nature (see "doing business in PART I"). Sometimes the organization



has enough opportunity to provide for additional sources of income just by running non-business economic activities that are a natural extension of their non-profit programmatic activities such as publishing and selling their research findings or charging a fee to conference participants.

5. However, if the organization does decide for a business activity and especially the one of a number 2 scenario, it is important to keep in mind that full sustainability of its business operation does not always need to lie on its market revenues. A good sustainable business model might count on non-market sources to keep it up and running. It is important to say, that this is ok, while the non-market sources do come in regularly and their in-come is predictable

enough to build a sustainable business model. Simply said in mission or purpose driven business it is ok to adopt a multisource financing approach.



## VI. SUMMARY

Slowly but progressively, doing business by nongovernmental non-profit organizations in the V4 countries is gaining importance, legitimacy and power. Such is indirectly proved by gradual emergence of supporting infrastructure, not to exclude new or novelized organizational legal forms which allow bridging of philanthropy and economic activities as well as particular shifts in legal opinions interpreting select third sector legal norms to favour business approach.

Such is indeed an important development based on the fact that it is predominantly in the power and scope of nongovernmental non-profit organizations to bring en-

trepreneurial solutions to such problematic areas like social services, health, human rights or environmental protection.

The challenge remains however, and this is up to the NGOs own skills, to allow for proposed solutions to be sustainable in the long run while bringing the highest of quality in corresponding goods and services. Still, by exposing themselves to market forces and bringing in related revenues the NGOs are on a good path to such sustainability notwithstanding the inherent need for continual innovation that is a necessary prerequisite to any long-lasting, efficient and effective solution.