

Who Cares?

Creative Responses to Social Obligations – A Dialogue Series

Social Entrepreneurship: A New Face for Civil Society?

A dialogue with Charles King

September 12, 2003

(proclaimed “Social Entrepreneurship Day” by the City of Vancouver)

Nonprofits are using a teaspoon to move a mountain while the other side has a bulldozer. We may feel good about what we are doing, but it doesn't help us move the mountain... Moving the mountain is about accruing power, and in our social system, accruing power is all about accruing wealth. Social entrepreneurship gives us a way to achieve the wealth and power needed to change the system.

– Charles King

This dialogue brought together leading social entrepreneurs from BC, Canada and the United States to explore the meaning of social enterprise, identify best practices, and consider the implications of social entrepreneurship for civil society. The keynote speaker was Charles King, the current chair of the Social Enterprise Alliance in the United States, an organization devoted to building sustainable non-profits through implementing earned income strategies. Charles became involved with social enterprise through his experience as a founding member and Co-President of [Housing Works](#), a community-based non-for-profit in New York City that provides diverse services to homeless people who are living with HIV/AIDS.

CHARLES KING

Beginning with a definition, Charles King explained that social entrepreneurship is about not-for-profit organizations using earned income strategies in order to become more self-sustaining and even self-sufficient.

To put his remarks in context, Charles started by sharing some of his life story. Ordained as a Baptist minister, he was working with an African American congregation when the AIDS crisis began. He was deeply disturbed by the silent denial with which an otherwise caring community responded. The situation forced him to confront his own sexual orientation and he left the ministry, but not before setting up an AIDS outreach program.

Eventually moving to New York, he was attending law school when he discovered ACT UP and joined this dedicated group of AIDS activists. People were beginning to appear on the streets holding signs saying, “Homeless with AIDS, Please Help.” It was 1989 and, on average, being homeless in New York with an HIV diagnosis meant having less than six months to live. Homeless organizations didn't want to deal with AIDS, and AIDS organizations didn't want to deal with homeless people. As a result, the 12,000 homeless people living with HIV/AIDS in New York City had access to less than 200 units of housing.

Charles and other members of ACT UP tackled the problem, educating themselves, lobbying, staging demonstrations. After more than a year of effort, they got a commitment from the city to build 60 units of housing. Striving for more, the group backed a candidate for mayor only to see him take office and immediately reverse his position on housing homeless people with AIDS. Disheartened, the group held a meeting where one member said, "If we want to see these people housed we're just going to have to do it ourselves."

Social Entrepreneurship

Housing Works opened its doors a year later with the mission of delivering housing and comprehensive services to anyone living with AIDS. "We didn't require people to stop using drugs to get housing," Charles said. "Our line at the time was dead addicts don't recover."

Housing Works had a government contract but they knew it wouldn't last. They also recognized that active drug users, homeless people, and people with histories of incarceration who are living with AIDS and HIV are not a sexy constituency when it comes to raising money. One of their supporters suggested they open a thrift store and promised to underwrite it with \$100,000, so Charles found himself drafting his first business plan. He projected that if they did \$20,000 in sales in the first three months, they would break even. The store opened and did \$20,000 in sales in less than two weeks. The organization now runs four thrift stores.

Independence

Social enterprise gave Housing Works the independence to develop programs and services that government and private philanthropy would not fund. Charles gave the example of a group of clients who demanded a job training program that would guarantee them real jobs with good benefits. It was the early 1990s and the AIDS cocktail was not yet available. Housing Works went to every government and private source of job training dollars and were told, "Why would we waste our money training people when they're just going to die?"

Housing Works believed that training people to work and giving them jobs also gave them a reason to get up in the morning and be a part of society. They used profits from the thrift store to create a job training program and now over a third of Housing Work's 375 staff members first came through the door as homeless people looking for help.

Another example came up in the discussion after Charles' talk. To facilitate real estate development, Housing Works has set aside a fund that acts as a down payment for new housing projects. When an ideal property comes on the market, instead of rushing to pull together several revenue streams before the property sells, they use their discretionary fund and then organize revenue streams afterwards.

Today, Housing Works is the largest AIDS service provider in the US, serving about 5,000 people a year and providing everything from housing and primary care to job training, a needle exchange and nutrition counseling.

“We’ve developed what we call a healing community,” Charles said, “a place where people can belong, give, contribute; a place that is truly self sustaining and consequently life sustaining for the people we serve.” He noted in the discussion afterwards that their business approach and the community they’ve created have merged in surprisingly positive ways.

Financial Sustainability

Housing Works has a budget of \$30M a year and of that roughly 80 percent is earned income, the sources include rent and third party reimbursement; their four thrift stores do \$8M a year in sales at a 33 percent profit margin. They have a used book café in Soho, a food service business, a property management company, and a lobby company.

The organization has weathered financial difficulties and, Charles maintained, they’ve only been able to survive because of social enterprise. Housing Works biggest challenge came in the wake of 9/11. Within six weeks of the attacks, New York lost 80,000 jobs, most of those among people who were already living on the margins like housekeepers, busboys, waiters, and shoe shiners. By the end of September, Housing Works’ food and hunger network reported a 57 percent increase in requests. By November, nightly stays in shelters approached an excess of 30,000 people. Budgets for city agencies were cut by 15 percent; the state forced through \$500M in cuts to social services; and philanthropic contributions to not-for-profit organizations dropped by over 50 percent.

“Clearly,” Charles said, “these are not the best of times.” But even in the best of times, he said, it can be hard to persuade government and private philanthropy to provide funding.

New Paradigm for Nonprofits

Charles believes not-for-profits need to change the way they generate the capacity to carry out their mission by adopting a new paradigm based on social entrepreneurship and sustainability. He spoke about the need to shift social services from a culture of dependency to a culture of possibility. Making the resources available to not-for-profit organizations so they can equip themselves for this paradigm shift is key to changing the world.

A critical aspect of this shift is changing the relationship between not-for-profit organizations and governments so that not-for-profits stop going to governments begging for resources. Fear of offending their source of funding stifles the advocacy work that nonprofits should be doing. Charles has seen this relationship change when not-for-profit organizations come to government as equal partners with their own resources to offer and say, “Ok, let’s talk about how we can do business together to solve the problems in our community.”

Sometimes trying to eliminate injustice can feel like trying to move an entire mountain, but instead of having a pickaxe and a shovel it feels like nonprofits are using a teaspoon. Charles believes that social enterprise gives nonprofits better tools, but warned against becoming complacent because of this new strength, saying that what’s needed next is

getting the bulldozer on the other side of the mountain to stop piling the rocks ever deeper. He gave the example of Housing Works successful job development programs, and reflected on the fact that large businesses in his city and across the country can cut more jobs in one day than Housing Works can create in a lifetime.

Shifting the paradigm that defines how nonprofits operate is an essential step that leads to financial stability and independence. Shifting the paradigm, he said, will change the position of the entire not-for-profit sector in relation to government, the philanthropic sector, for-profit companies, and most importantly, the people being served.

“I don’t believe it’s a question of whether or not it’s right for every not-for-profit,” Charles said. “It’s a question of whether or not every not-for-profit is ready to take on the challenge.”

Risks

Charles identified four commonly perceived risks that create resistance to social entrepreneurship, and used them to further outline his vision of the new paradigm.

Risk 1: By filling the gap when governments cut back, nonprofits legitimate government pulling back even faster.

Advocacy, Charles said, is how to ensure government maintains its accountability in the provision of human services. Housing Works has been active in advocating for their clients, and Charles said that when government knows the organization is going to be speaking in the public forum, they have more leverage. As well, Housing Works is involved in policy round tables with other not-for-profits and politicians, and Charles sees providing input to public policy discussions as an important responsibility for nonprofits.

Risk 2: If a nonprofit succeeds at social enterprise, a for-profit company can come in and compete.

Charles maintained there is nothing inherently better, more efficient, or better equipped about a for-profit company than a not-for-profit organization: the problem is that a for-profit may be better capitalized. “Part of our agenda is changing the mindset so not-for-profits have access to the capital they need. We need people to stop thinking of funding as charity and start thinking of it as financing. We need to get government, foundations, and corporations to see themselves as making an investment that has a real economic and social return that can be quantified – and that means that we in the not-for-profit sector need to start developing tools that can quantify that return.”

Risk 3: Changing the organization’s identity may result in a loss of donors, volunteers and other stakeholders.

Stakeholders need to be educated to the vision that when a not-for-profit is bringing in its own revenue, it is stronger and more capable of fulfilling its mission.

Risk 4: Changing the not-for-profit paradigm will make organizations totally reliant on their own resources and judgment for success.

“I honestly think it’s a good thing,” Charles said. He embraces the suggestion that nonprofits need to think about themselves as the firm and start changing the way they do business so it’s clear they’re willing to take the risk, take the responsibility.

A Challenge

Charles asked everyone to consider how they could be a part of the social enterprise movement, challenging that it is time to stop talking, start shifting the paradigm, and help change the world. Several of the key elements required for successful paradigm shifting were identified during the discussion that followed. They included:

- **Capacity building:** Capacity is the first thing you need to have in place in order to access capital and use it wisely. Just as a bank wouldn’t give a loan without making sure a for-profit entrepreneur had the capacity to use money well, the same is true for nonprofits.
- **Capital:** The key here is educating the funding community, whether it is social investors or foundations, that it is better to make \$100,000 capital investment that will generate money over a lifetime, than to be writing \$20,000 grants every year.
- **Legitimization:** Business relationships with socially aware for-profit organizations can be useful in establishing the legitimacy needed to branch out into financial relationships with other companies.
- **Creative thinking:** Charles invited people to join the alliances of social entrepreneurs in Canada and the US. Both organizations do a lot of peer learning with members who are willing to share their mistakes and successes. Some members are also available as consultants on social entrepreneurship. There are even a few business schools which are beginning to offer social enterprise training.

* * * * *

Charles King is Chair of the US-based Social Enterprise Alliance, and Co-President of New York City’s Housing Works Inc.

* * * * *

References and Resources:

- [Social Enterprise Alliance](#)
- **Canadian Social Entrepreneurs Network**
- [Canadian Centre for Social Entrepreneurship](#)