The Health Foundation of Greater Cincinnati is known for funding non-profit projects such as clinics, school-based health centers and other organizations that improve the health of people in the region. In the last decade it also awarded grants to some of these organizations for social enterprises. As defined by the Social Enterprise Alliance, these are ventures that advance a social mission through entrepreneurial, earned income strategies. Although this grantmaking ended in 2010, the Foundation learned much from this initiative. This is a summary of our experience.

**BACKGROUND**

During the past decade, mental health treatment agencies faced a dilemma. Agencies sought ways to provide more services and maintain quality while public funding decreased and demand for services increased. Several mental health treatment providers began to investigate starting social enterprises that increase unrestricted revenue for their organizations. However, providers found that starting a social enterprise can also take money and resources away from mission-related work until it can become profitable. Plus, like other ventures, social enterprises can take several years to become successful.

In late 2006, the Health Foundation issued a request for proposals for social enterprises. We expected organizations to start with a planning grant that produced a detailed business plan for a new social enterprise. After completing the business plan, grantees could submit a start-up proposal. We provided start-up funding for social enterprises in the form of grants and managed them the same way we manage other start-up grants. We hoped that providing grants would free the organizations to start businesses without undue pressure to maximize short-term return on investment.
or paying back a loan.

Between 2007 and 2010, the Health Foundation invested $1.7 million in this initiative. We worked with nine agencies. All but one started with planning grants. One agency had already completed a business plan. Of the nine agencies, five launched businesses with Health Foundation implementation grants. Four completed business planning, but elected not to start a business.

Because social enterprise was new to the Health Foundation and many of our grantees, we believed that it was important to provide expertise and substantial technical assistance. We hired a national expert on social enterprise to conduct formal workshops, provide individual project consultation and lead peer grantee group sessions. We also provided funds for grantees to attend a national conference on social enterprise.

The business models proposed by the grantees varied. Some wanted to employ agency clients and provide services. Others elected to market staff or organizational competencies in new ways. The businesses included:

- Property maintenance services
- Document imaging and destruction
- Human resources consultation
- Wellness training and services for small businesses
- Individual coaching and performance improvement

Only one of the grant-funded businesses survived after three years. This failure rate is a little worse than government statistics, which show nearly \( \frac{1}{3} \) of small businesses fail within the first two years, and only half survive the first five years. However, several of the mental health agencies retained components of the unsuccessful grant-funded businesses and brought in new, though limited, revenue.

**LESSONS LEARNED:**

**INVESTING IN SOCIAL ENTERPRISE**

Our primary insight is that social enterprise investing is not for the faint-of-heart. Social enterprises demand considerable time, money and energy and take much longer to be profitable than most people anticipate.

**WHAT WORKED**

- **Shared experiences:** Quarterly grantee group meetings served as a support system for the social enterprise grantees. The grantees shared contacts and learned from one another. This was a critical part of the process, and helped us capture grantees’ experiences, challenges and successes as their work unfolded.

- **Grants provided stability:** Providing grants to support social enterprises helped to remove much of the financial uncertainty that tends to be a burden on the planning and start-up phases of a new business.

- **More customer focus:** As a result of their experience with social enterprise, many agencies as a whole became more sensitive to their clients as customers, and began to think more critically about the revenue streams within their organizations.

**WHAT DIDN’T WORK**

- **Inexperience with failure:** While we hoped that providing support in the form of grants would give organizations “permission” to fail or adjust course, we quickly learned that grantees had a difficult time accepting the failure of their projects. There were many meetings with the program officer that were filled with anguish and tears.

- **Hard to change course:** Social enterprise grants are not typical grants. Initially we structured these projects the same way we structure most of our planning and start-up grants: we provided multi-year funding, required annual reports and developed an evaluation plan at the beginning of the project to track progress over several years. In retro-
spect, this was not the best way to think about the work or to manage the grants, because it did not give grantees (or the Foundation) enough impetus to make midcourse corrections. If we were doing this again, we might consider placing more emphasis on planning and feasibility, and encourage grantees to set incremental goals on a quarterly or semi-annual basis.

- **Grants too small:** We suspect that some of the grant awards were not large enough to support a social enterprise. Others did not provide enough unrestricted capital to give grantees the flexibility to change direction or respond to opportunities.
- **Projects too large:** Though all the business plans included a market and competitor analysis, most of our grantees would have benefited by launching at a smaller scale and testing their business models before committing time and resources to launching a full-scale business operation.
- **Support too general:** A start-up business will need many types of support as it develops. Rather than rely on one “generalist” consultant or expert, social enterprises will be more successful if they seek sources of expertise that match their specific needs.

**LESSONS LEARNED: STARTING A SOCIAL ENTERPRISE**

**WHAT WORKED**

- **Dedicated leader:** By definition, social enterprises differ from their nonprofit counterparts both operationally and philosophically. The strongest projects identified a dedicated person to lead the social enterprise effort in the agency. Often, these project leaders had different skills than those of their peers on the nonprofit side of the organization. For example, sales and marketing skills are particularly important for social enterprise managers.

**WHAT DIDN’T WORK**

- **Not enough analysis:** Most grantees overestimated the market size for their businesses. While all completed a business plan, many may have benefited from putting more time and energy into conducting an in-depth market analysis and feasibility assessment.
- **Slow to adapt to change:** A good business plan is important, but it is a starting point. Agencies must be able to make adjustments to their business model as the environment changes or new opportunities arise. Our most successful grantee was the quickest to change directions when the business started to falter, while many grantees whose businesses later closed were slow to make adjustments. They seemed locked on to one concept and could not see the need to exit or change. Many stayed too long in businesses that were not working.
- **Too dependent on one person:** Many of the grantee businesses were small and often dependent on one key sales person or skillset. When that key person left, the business collapsed.
- **Talented people hard to keep:** Start-up businesses are excellent incubators for talent. Many of the staff who were initially hired to manage these projects were able to leverage their experience to move into higher-paid positions in the for-profit sector. In order to retain talent,
it’s important for social enterprises to offer compensation and opportunities for advancement that are commensurate to the for-profit sector.

- **Recession:** Timing a new business is not always easy and it’s not possible to control everything. The Foundation’s social enterprise start-ups had just launched when the severe recession occurred. There is no doubt that many of our social enterprise grantees would have been more successful in a less hostile environment.

- **Mixed goals:** While employing clients helped some grantees connect the work of the social enterprise to their overall mission, it also complicated many of the businesses. Some grantees felt that it might be better to choose between making money or providing employment for clients.

- **Gaps in skills:** The grantees had gaps in marketing and customer service skills. These gaps made it hard for grantees to recognize when and how to make quick adjustments when circumstances affecting the enterprise changed.

The recession affected the Foundation as well as its grantees. As a result, several initiatives, such as further social enterprise work, were suspended.

Although the Foundation does not anticipate reactivating social enterprise grantmaking, its efforts in this area helped launch a broader interest in social enterprise in the community. Flywheel, Greater Cincinnati’s Social Enterprise Hub, was launched in 2011. Lead partner Suzanne Smith, who worked with some of our social enterprise grantees, credits the Health Foundation with starting the conversation about social enterprise in Cincinnati.

“When we were developing Flywheel’s business plan,” Smith said, “we deliberately reviewed the successes and challenges within the Health Foundation’s landmark work on social enterprise and embedded them into our business model. We believe that these lessons learned are a large part of why we have had such a good start in our first year.”

Funders interested in social enterprise should enter into the work knowing that many businesses fail, and funders should be prepared for turbulence. Social enterprises can generate income for nonprofits, but that is not guaranteed. Many factors affect the launching of a social enterprise. Nonprofits can influence some of these factors, but some are out of their control, such as the external economy. The capacity to rapidly make course corrections may be one of the key factors for successful social enterprises. Another key to success is the ability to develop a reservoir of talent that provides a strong base when an organization faces staff turnover.

We hope that the lessons the Health Foundation learned will help other funders and nonprofits as they consider social enterprise.