

Earned Income Strategies for Social Justice Organizations

by John Anner and Andy Robinson

May 2003

Executive summary

This report was commissioned by the French American Charitable Trust (FACT) to examine the readiness of social justice organizations to initiate or significantly expand their earned income operations, defined for the purposes of this study as mission-related commercial activities that generate revenue. One objective is to learn what programs or activities FACT may offer to grantees to assist them in efforts to build their earned income (EI) capacity.

Nineteen organizations were surveyed through interviews with one or more key leadership staff. The groups included

- Asian Pacific Environmental Network (APEN)
- Californians for Justice
- Center for Third World Organizing (CTWO)
- Citizens Coal Council
- DataCenter
- Ella Baker Center for Human Rights
- Enlace
- Environmental Research Foundation
- Environmental Support Center
- Food & Water / Wild Matters
- Labor Community Strategy Center
- Miami Workers Center
- Ms. Foundation
- National Organizers Alliance (NOA)
- National Radio Project
- Polaris Institute
- Progressive Technology Project
- SouthWest Organizing Project (SWOP)
- SPIN – Strategic Press Information Network

The results of the investigation indicate that FACT could play a strong role in fostering EI projects with grantees. These groups make up a cross-section of the social justice sector in the United States. Based on responses and requests from the surveyed organizations, **possible FACT activities could include:**

1. Commissioning an in-depth case study of a few social justice organizations that have been successful with EI (and perhaps a few that have not). Examples might include the Independent Press Association, Global Exchange, and the Fifth Avenue Committee.
2. Hosting a one or two-day training on the language, concepts, methodologies, practitioners and resources in the field of earned income. This would improve

- grantees' basic familiarity with the concepts and direct them towards places they can turn for assistance.
3. Creating a resource directory for grantees.
 4. Organizing a series of brainstorming meetings – either with a single organization or multiple organizations – to help participant groups think more broadly about their skills, assets and expertise, and how these could be harnessed to earn income.
 5. Preparing a curriculum based on *Selling Social Change (Without Selling Out)* and other materials, and offering an intensive training program for leadership staff and board members. This would allow grantees to develop useful skills, create the opportunity to seriously examine their own organization's potential, build an organizational consensus for change, and provide a working environment that can be helpful in creating and refining EI plans.
 6. Hiring or putting on retainer one or more EI specialists to work with grantees on internal capacity audits, business plans, marketing studies, staff development, etc.
 7. Creating a venture program at FACT offering PRI and/or venture capital funds, business planning templates, management consulting, legal help, and other necessary aspects of fully engaging grantees in the work.
 8. Taking on 4-5 test cases among grantees to showcase EI projects by offering significant financial and managerial assistance with a long-term commitment. In return, grantees would be required to share results and participate in assisting other organizations.
 9. Where appropriate, encouraging and supporting joint EI projects among grantees with an overlap of skills, programs, markets, and mission. This could include a special fund designed to underwrite the costs of joint ventures (and possible mergers that would arise from successful shared projects?)
 10. Helping to launch a new nonprofit – perhaps along the model of SPIN – to assist social justice organizations with earned income strategy and business development.

The larger goal of this study is to explore methods of diversifying revenue in the social-justice sector in order to allow the sector to thrive even when foundation funding is limited. Other potential benefits are described below.

Analysis

Earned income is nothing new among nonprofits. According to author and trainer Joan Flanagan, fees charged for services account for 42-45% of budgets of nonprofits other than religious congregations, but fee income is seldom used effectively by social justice organizations. With respect to the groups surveyed, here are the main conclusions:

Barriers:

1. The overall capacity of social justice organizations to take on significant earned income projects is very low.
2. The contemporary organizational culture of most groups – specifically, resistance to commercial activity -- will make it difficult to engage in earned income projects.
3. Nearly all groups undervalue their work in terms of its revenue potential.
4. Few organizations have staff people with direct experience managing revenue-generating projects.
5. Few organizations understand the normal range of business experience – rapid growth, debt financing and management, financial incentives and financially-based performance measurements for executive and line staff, boards of directors focused on revenue growth, competition, market surveying, failed ventures, etc.
6. Most respondents perceive that their primary audiences would be unable or unwilling to pay for their services, but have never asked directly. In other words, they haven't done any market research.
7. Most organizations surveyed are extremely conservative organizationally. Leaders and boards are highly risk-adverse.
8. Most organizations surveyed have little room for error, and cannot reasonably calculate risk factors. They do not have the ability to explain to a supporter, board member, potential contributor or investor the likelihood of success of a given venture, and do not have large reserves of money to cover mistakes.
9. Financial creativity is limited. Few organizations have used borrowed funds, only a few had received Program Related Investments, none had considered ways to use equity investments, and none had launched for-profit subsidiaries. Nearly all were unfamiliar with the concept of Unrelated Business Taxable Income.
10. Organizational ambition is limited. Mergers and acquisitions are unknown (they are rare in the sector), most groups are unfamiliar with strategic restructuring concepts, and organizational goals are expressed as a desire to maintain current size or grow incrementally rather than grow rapidly.
11. The salary scale is very low in many social-justice non-profits, which limits the ability of the organization to attract highly-qualified staff.

Positive factors and opportunities:

1. A strong majority of organizations surveyed were intensely interested in exploring EI possibilities.
2. Many, if not most, of the leadership staff indicated that they had made tentative forays into studying how EI could be incorporated in their financial programs.
3. Some organizations have more in the way of assets than they realize:
 - Many are funded by foundations that have PRI programs.
 - They have valuable brands that could be leveraged.
 - A surprising number have reserve funds that could be used for investing in small-scale projects.

- Nearly all have significant amounts of cash and other assets such as buildings, intellectual assets, goodwill, archives, unique content, artistic materials, etc. Most of these assets are not used to their full potential.
- 4. In some cases, leadership staff members are frustrated with the limitations of organization-building based on donations and grants, and are eager to explore new opportunities.
- 5. In a few cases, groups have made significant progress in getting ready for EI possibilities. They have studied *Selling Social Change (Without Selling Out)* and other materials, convened board/staff committees, completed organizational audits, etc.
- 6. In most cases, executive staff view themselves as entrepreneurial leaders who have made significant innovations in the work they are doing. This talent and leadership ability could be turned toward fostering EI projects.
- 7. The foundation funding environment is forcing groups to think differently about revenue, whether they like it or not.

Overall, the organizations surveyed focused on two requests: better education on this topic and help with business planning. The first is relatively easy to accomplish; the second is much more involved and expensive. Good-quality business consultants familiar with the social-justice sector are rare, and good business planning is very involved and time-consuming. (It's not unusual for a business plan to cost upwards of \$25,000 to \$50,000.) In the end, it's probably best for the plan to be created in-house to ensure a close match between what the plan examines and recommends and the actual needs, market position, organizational culture and capacity of the organization. However, few organizations have staff capable of producing a business plan, and therefore training and guidance will be necessary.

FACT could provide an extremely useful service by offering only the first form of assistance – education and training – and use this to test the willingness of grantees to take EI planning to the next level.

Limits of the study

This survey was limited by a number of factors.

1. *Small sample size.* The two authors contacted approximately 40 organizations and interviewed 19. While this is a significant percentage (38%) of FACT's total grantees -- 49 groups in 2001 -- it is still a relatively small sample of the social justice sector.
2. *Organizational bias.* Because most of the organizations in the survey are grantees of FACT (16 of the 19 surveyed, or 84%), the survey is skewed toward the kind of organizations that tend to be favored by FACT. These organizations may be more or less inclined towards EI activities than the sector as a whole. FACT tends to support organizations that do direct constituent organizing with low-income

- communities and communities of color. These organizations may be smaller, less well-funded and with fewer EI prospects than the sector as a whole or significant subsets; for example, the environmental movement. There are many published reports on nonprofits that have been successful with EI.
3. *Self-reporting*. In all cases, the authors of this report did not conduct independent investigations to verify reporting by the individuals interviewed. Thus, what is presented in this report as factual may in fact differ in quantity, emphasis and conclusions from a fuller investigation. For example, an executive director may report that the board of directors would strongly favor or not favor EI initiatives, but without interviewing several board members it is unwise to accept this result as accurate.
 4. *Single sources*. In most cases, only one or two people from each organization were interviewed. To get a fuller and more nuanced picture of the organization, it would have been necessary to interview at a minimum two or three staff, two or three board members, and others including community members, allies, foundation supporters, etc.
 5. *Author bias*. The authors of this report are heavily biased in favor of social justice organizations engaging in EI activities. Andy Robinson is the author of a recent book on the subject, *Selling Social Change (Without Selling Out)*. The book is a thorough, practical and detailed examination of earned income strategies for social change groups. John Anner is one of the most successful national practitioners. He founded and ran the Independent Press Association from 1996 to 2003, in which time the organization launched a number of successful ventures that will gross approximately \$7.5 million in 2003. Therefore, the authors may present a more favorable picture of the possibilities in the sector than might be justified.

Potential benefits of earned income projects

There are a number of potential benefits from earned income projects, which can be broken down into the following categories: *Diversification*, *Capacity*, *Culture*, *Scale*, *Opportunity Readiness*, and *Investing in the Future*.

- ┌ **Diversification:** An important potential benefit of EI is that it offers another source of revenue independent of the three principal unearned income sources, which are foundation and government funding and individual donations. While many organizations find that their access to grants reaches a plateau over time, and that tapping individual donors offers limited net revenue, the potential sources of earned income are practically limitless.

This diversification can be useful in a number of ways. First, if the diverse sources are mission-related, this strategy offers ways to expand programs without having to find new grants. Second, revenue from earned income is unrestricted and can be put to whatever use the leadership of the organization

wants. Many organizations complain that they can raise funds for programs but not for critical infrastructure and systems – never mind reserve funds, contingency funds, or working capital. Third, an organization with a number of revenue sources is protected against a sudden decline in any one source. Having practically all funds coming from foundations is a long-term recipe for disaster when funding goes into decline, or a nonprofit falls out of favor, or funding fads shift to a new issue. This concern was raised by nearly every organization surveyed in this study.

↳ **Capacity:** One powerful benefit of expanding EI within a social justice organization is the resulting increase in administrative capacity. Imagine a hypothetical organization that discovers that it has a knack for hosting events that bring in new members, build the public profile of the organization, expand the base of small donors, and expand the political base of the organization. After several years of trial and error, the organization has several staff with strong skills in event management, and – to build up their events management venture – they hire a new staff person specifically for his or her background as a professional events manager.

↳ **Culture:** Organizational culture in the social justice sector is hostile to commercialism and capitalism. Many staff members see themselves as warriors in a global struggle of “people versus profits,” or the social good versus the profit motive of business. But some organizations have found that this perspective limits the ability of the group to fulfill its mission. Taking on earned income projects can initiate changes in the organizational culture that allow the organization to embrace both generating revenue and fulfilling mission – what some practitioners call the “double bottom line.” (A “triple bottom line” that incorporates the environmental factors of doing business – *People, Planet, Profit* – has also been suggested.)

At the Independent Press Association, a frequent theme at strategy meetings was, “How can we leverage our mission to attain market share and make money?” The IPA found, through intensive practice, that the two things were intimately connected – a focus on mission allowed greater market penetration and therefore larger revenue, and the focus on revenue allowed the greater fulfillment of mission-related goals and objectives.

↳ **Scale:** With more money, you can do more things. Larger organizations have more power. This is perhaps not always true, but in most cases scale is a significant indicator of influence. Earned income offers a way to increase scale beyond the limits imposed by foundation funding and individual donors. In fact, some organizations find that substantial earned income results in larger grants and more donations, since both foundations and individuals prefer to contribute to successful, stable organizations.

- Opportunity Readiness:** Small groups with limited capacity and resources cannot take advantage of opportunities that fall into their laps, never mind actively seek them out. Earned income projects tend to assist in the creation of an entrepreneurial mindset and organizational culture that actively searches for new opportunities – whether financial, mission-related, or explicitly political. Also, careful management of EI builds organizational capacity and financial resources (not to mention an awareness of where to go for help, such as loans, to jump on opportunities when they arise) that allow organizations to take advantage of these opportunities when they pop up.
- Investing in the Future:** Few social justice organizations can think much beyond the current fiscal year, or perhaps a few months into the next one. As Caroline Williams, the CFO of the Nathan Cummings Foundation says, “Most nonprofits have limited capability to do anything except business as usual.” Transforming a group through aggressive expansion of earned-income projects can make investing in the future a matter of both necessity and possibility.

Respondent review: Identifying the best candidates

Social change groups – especially those participating in this survey -- often have the following characteristics:

- A high percentage of total revenue (generally over 80 %) from foundations.
- A budget that tends to reach a certain level (see below) and stay there for many years.
- The capacity to achieve noteworthy local accomplishments with a low overall level of resources.
- An inability to “go to scale,” that is, move from local victories to larger political achievements.
- A few long-term, highly-dedicated staff and rapid turnover in the rest of the paid employees.
- A very low level of administrative capacity. Having an MBA on staff, for example, is almost unheard of.
- A board of directors that self-selects for political compatibility rather than governing abilities or managerial competence.
- A close relationship between the executive director and a small group of progressive foundation program officers. This is most often a peer relationship, with limited performance accountability as would be common in a venture investment relationship.
- A staff skilled in program work, but usually uninvolved in revenue-generating activities.
- A general (and often unspoken) distrust of anything that smells like commercial activity, since commerce is generally equated with capitalism.

While many social justice organizations exhibit a profound sense of the political moment, and get amazing results with limited resources, few are able to capitalize on these achievements. These groups often achieve a sort of steady-state of either roughly \$300,000 - \$400,000 and five staff or \$800,000 - 900,000 and eight staff, give or take a few, and cannot move to a larger playing field regardless of the correctness of their political model.

Despite the barriers listed above, many groups have potential in this area. Strong favorable characteristics are sometimes balanced by equally strong negatives, but nearly all the organizations surveyed have at least the possibility of being successful with earned income projects if given the right kind of help.

Thresholds to consider when choosing candidates for earned income investment:

- **Financial.** A non-trivial amount – perhaps 20% or more of the organization’s budget -- can be raised from earned income once the venture is up and running.
- **Opportunity.** The organization can not launch an important program or initiative *without using* an earned income strategy. (Examples: NOA pension plan, CTWO mansion, Independent Press Association loan fund.)
- **Capacity.** The group has a strategy to boost internal capacity to manage the venture in a professional, systematic way.
- **Diversification.** Earned income brings in new money from new sources, opening the group -- and its mission, programs, and message -- to new markets.