

Social Capital Conference

Conference: SoCap Europe

Panel Topic: Refining Your Revenue Model

Panel Description: Social financing advisors speaking on business/nonprofit structuring to maximize opportunities for fundraising and effective use of hybrid nonprofit/forprofit structures.

Moderator & Panelists:

Mark Cheng, Chelwood Capital & Ashoka

Jeremy Rogers, Big Issue Invest & Chelwood Capital

Design, Methodology, Approach: Query of audience for challenges faced and discussing case study of one social enterprise.

Main Panel Discussion Points: The name of this session was a bit of a misnomer. This session was conducted as a workshop, taking into account the situations faced by audience members. These included nonprofits seeking to expand their earned-income strategies, startups determining their legal structure, for-profits seeking to set up nonprofits, and hybrid organizations with unique approaches.

The panelists ran through a basic set of pros and cons associated with nonprofit and for-profit structures, as well as philanthropic and investment capital. Challenges discussed included instances when nonprofit donors fear they are supporting the profits taken by investors in a linked for-profit. Particular attention was paid to hybrid structures such as Community Investment Corporations in the UK and the L3C legal structure now emerging in the U.S. The deficiencies of both of these new structures were discussed, and it was the view of the panelists that with specific exceptions for small, truly community-based organizations, these structures combine the worst, rather than the best, of both worlds.

The panelists asked the audience about the approaches that they have identified for achieving their organizations' goals. One audience member shared the structure that they were creating under French law to finance housing for the elderly; this included a complex ownership structure in which a nonprofit would inherit assets from the for-profit, creating a lasting endowment.

Finally, Mark Cheng went through a case study of an organization with which he had worked, which started as a nonprofit sourcing jewelry from Brazil and putting profits towards educational projects in Africa, and then set up a for-profit to conduct the trading operations. This was done by licensing the brand of the nonprofit to the for-profit, with revenue passed from the for-profit to the nonprofit in the form of licensing fees. This, along with a variety of safeguards, gave the nonprofit effective control over the for-profit, while keeping clear which revenue streams were going where.

Outcomes & Analysis: This session illuminated that while there is no single structure to combine commercial and social goals that has emerged as a clear best approach, there are a variety of approaches that could work to advance hybrid organizations. The approach that Mark Cheng spent the most time on, of a nonprofit that licenses IP to a for-profit, is one that holds great promise. The IP that is licensed can take many forms, and wherever a nonprofit's brand and mission is what drives revenue for a for-profit, this becomes an effective limitation on the for-profit from straying from the wishes of the nonprofit which originates it.

At the same time, it appears that initial attempts to enshrine hybrid organizations in new legal structures has not been successful, at least from the experiences of these social financing consultants. Further work must be done to refine CIC or L3C models if they are to achieve the goal of making it a simple proposition to set up an entity that has commercial operations which are intended to benefit a social or public goal.

Finally, the variety of legal regimes was illuminated by the example from France. The success of a given legal structure hinges ultimately on the perceptions and tolerances of investors, donors, customers, and beneficiaries. Whether or not a nonprofit has been corrupted or a for-profit hamstrung by a social mission, if these external audiences perceive this to be the case, an effort to create a hybrid organization will likely be a failure.

Keywords: Hybrid structures, revenue models, social enterprise structure, L3C, CIC

Paper type: Review of conference panel.

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