Point of View

Social Enterprise 2.0
Moving toward a sustainable model

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IN 1994, JUMA VENTURES OPENED A BEN & JERRY’S
double bottom line basis. ice cream store in San Francisco that was designed not only to
make money, but also to provide jobs and training to disadvantaged youth. This social purpose venture was among the first
in a field that has since grown dramatically. Today, many non-
profit organizations operate similar social enterprises and
related earned-income initiatives. A recent Bridgespan Group
survey of nonprofit executives found that half of these prac-
titioners expected that earned income would play an impor-
tant role in their organizations’ future.

When we look back on the experiences of the last 12 years,
the vast majority of which are exceedingly positive, one
inescapable conclusion remains. The first generation of social
tele. The business models that have been developed during the first
majority of social enterprise ventures are small retail busi-
nesses – ice cream shops, thrift stores, restaurants, cafes, and
the like – that have not succeeded and never will succeed on a
double bottom line basis.

The primary problem is that the vast majority of these busi-
nesses are inherently small, often generating as little as $200,000
in annual revenue. Because they are small, they cannot create
a meaningful number of job opportunities and cover the incre-
mental training, management, and other costs associated with
employing an unskilled and disadvantaged workforce. With lit-
tle ability to grow business revenues, these social ventures
cannot reach a level of scale that provides sufficient revenue to
cover these additional “social costs.” Our experience at Juma
Ventures suggests that a social enterprise’s revenue needs to
approach $1 million annually to create a significant number of
jobs and to operate in a financially sustainable manner. Very
few retail businesses will ever approach this level of sales.

Most social enterprise pioneers chose to develop small
retail businesses because they were relatively simple to oper-
ate. They rightly expected that the introduction of a social mis-
SION into a traditional business would produce ample complex-
ity on its own. But like virtually all businesses that involve
minimal complexity, small retail businesses produce very low
profit margins. Operated on a purely for-profit basis, these busi-
nesses would do well to generate 5 to 10 percent net profits.
This margin is insufficient to cover the additional costs of the
social mission activities, as the incremental costs of employing
unskilled workers overwhelm these businesses’ natural ability
to generate income.

Walking the Double Bottom Line
Fortunately, the lack of success in social enterprises’ financials has been accompanied by remarkable success in their social mission objectives. The workplace has proven to be a highly
effective environment for delivering social interventions –
simply put, income-producing jobs in real businesses prepare
people for participating in mainstream society in ways that no
curriculum-based job training program possibly can.

The Roberts Enterprise Development Fund (REDF) com-
missioned a study starting in 1998 that, to date, includes nearly
1,000 client participants in five nonprofit organizations with
a combined 19 social enterprises. The study has found that 75
percent of participants retain their jobs over a two-year period,
with many transitioning into mainstream employment. In
addition, their monthly income triples, educational levels
improve, housing stabilizes, and criminal recidivism rates decline dramatically.

With these positive social mission results, one might rea-
sonably ask: “So what’s the problem? Isn’t the social mission
more important than the financial mission, anyway?” I agree
that the social mission of these organizations is primary, but
that sentiment alone won’t keep the doors open at all of the
struggling social enterprises that continue to survive today. The
problem is that the vast majority of these ventures, as they exist
today, are not sustainable. Unless these organizations develop
new models that enable social enterprises to deliver double bot-

tom line results, or find permanent funding subsidies for their
activities, their chances of long-term survival are not good.

Most social purpose businesses lose money and require
ongoing funding subsidies to support their operations. Unfor-
nately, these subsidies are not readily available. Although
foundations and individuals may support these organizations
in their early stages of development, practitioners cannot
expect to receive this support in perpetuity, because the appeal
of social enterprises to many of these donors is rooted in their

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In 1993, while an MBA student at Northwestern University’s Kellogg
School of Management, Schorr co-founded Net Impact, an organization
comprising more than 10,000 students at 115 business schools worldwide
that is dedicated to using the power of business to improve the world.
potential to become self-sustaining.

To attract the funding for overhead and other indirect expenses that social enterprises don’t begin to cover, as well as to enhance client services and outcomes, social enterprise practitioners have developed support services that supplement their employment programs and enable these organizations to attract grants and donations. In the best cases, these services complement the employment programs and are tightly integrated with them. In most others, this approach becomes a formula for a schizophrenic program design that lacks the focus needed to serve the target population effectively.

By setting a clear objective for financial sustainability from the outset, the players in this field created the expectation among funders that ongoing subsidies would not be required to support these ventures. Most social enterprises today continue publicly to proclaim the double bottom line as their goal and use terms such as “earned income” that misrepresent the financial performance of these enterprises. Meanwhile, virtually all of these enterprises lose money and have little hope of changing that trend. This dynamic perpetuates the expectation among funders that supporting these enterprises is unnecessary.

New Models for Sustainability

Today, the social enterprise field is at a crossroads. We can’t expect to operate our current enterprises as-is over the long term, so we must find new solutions to sustainability or face eventual extinction. There are two distinct options for moving in a direction that has the potential for long-term sustainability. The first is to develop new social enterprise business models that can scale to a size where they generate sufficient revenue to cover both direct and indirect business costs, as well as the incremental costs that are a function of the social mission. It’s a business truism that it takes revenue growth to mask operating cost inefficiencies, and the social enterprise approach will always have inherent inefficiencies.

The second option is to acknowledge that the vast majority of existing social enterprises will never generate sufficient net income on their own, and to develop stable, ongoing funding sources to subsidize the shortfall. When social enterprises are repositioned in this way, the argument can be legitimately made that they are perhaps the world’s most effective employment programs for people who lack access to mainstream employment opportunities. And when one considers that social enterprises often fund 80 to 90 percent of their total costs with revenue that the businesses generate, a compelling case can be made that these ventures are among the most efficient as well. For example, Juma Ventures was recently evaluated as “one of the most efficient programs in the city that have a strong, positive impact on its youth participants” by San Francisco’s Department of Children, Youth & Their Families.

I believe that a compelling case could be made for providing ongoing funding subsidies to sustain social enterprises. The challenge with this approach is in the communication and education process, because foundations, government agencies, and individual donors are not conditioned to support continual losses at social purpose businesses. This strategy would require a field-level effort to mobilize social enterprise practitioners to band together and build a case for permanent funding subsidies. A group such as the Social Enterprise Alliance and its large and growing membership base could lead this initiative.

Although both approaches are valid, Juma Ventures has decided to focus on creating new and more sustainable social enterprise business models. We have chosen this path because it maximizes our potential impact – both with youth participants, where we seek to serve thousands, and with practitioners, where we intend to create a model for scaling a social enterprise that informs the work of others in our field. In the past year, we sold our Ben & Jerry’s ice cream shops and elected to focus on the concession business we operate at Monster and AT&T parks in San Francisco (which host the San Francisco 49ers and San Francisco Giants). In 2006, we are expanding this social enterprise to Oakland, as the initial phase of a growth initiative that has the potential for national replication.

Although it is certainly true that I am an optimist by nature, I believe there is good reason to be enthusiastic about the future of social enterprise. This field is still in its very early stages of development – barely a teenager at this point – and I expect that the coming years will bring continued innovation and increasingly positive social and financial outcomes.