



Spring 2009

*“...social enterprises are for-profit
or nonprofit businesses
whose products and services
address the major unmet
needs of society...”*

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An in-depth look at affirmative businesses, social enterprises that provide real jobs, competitive wages and career tracks for people who are physically, mentally, economically or educationally disadvantaged

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The portfolio approach

Roberts Enterprise Development Fund (REDF)

By Mona Abdel-Halim

ROBERTS ENTERPRISE DEVELOPMENT FUND (REDF)

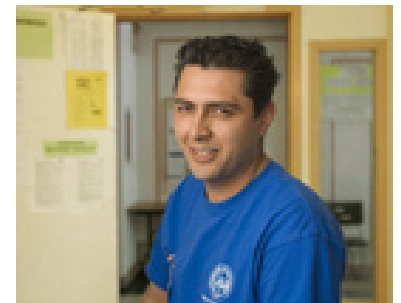
San Francisco, California
www.redf.org

George Roberts made his fortune during the 1970s and 1980s as a founding partner of KKR, a pioneering private equity firm specializing in leveraged buyouts – then turned his attention to people at the opposite end of the economic ladder.

Searching for a way to empower individuals confronting daunting barriers to employment, he founded the Homeless Economic Development Fund (HEDF) in 1990 and later transformed it into the Roberts Enterprise Development Fund (now known as REDF) in 1996. To date, REDF's past and present portfolio companies in the San Francisco/Oakland Bay Area have employed more than 3,300 people, with a goal of 4,300 by 2010.

The Fund began as part of a family foundation jointly established by Roberts and his wife Leanne. Their first task was to discover the most effective way to provide employment for individuals marooned outside the economic mainstream. Research soon zeroed in on revenue-generating businesses run by nonprofits because they already understood and were providing services to the individuals they would employ.

Much like its neighboring venture capital firms in Silicon Valley, the Fund sculpted a system to provide support and guidance for a chosen portfolio of companies, this time comprised of nonprofits running businesses employing people previously seen as difficult to employ.



After conversations and experimentation with dozens of nonprofits, REDF settled on a portfolio of five nonprofits (Rubicon Programs; Juma Ventures; Golden Gate Community, Inc.; Healing Kidz/Youth Industry; and Community Vocational Enterprises) that housed and managed several social enterprises which grew roots in various industries from food service to landscape service. Youth Industry eventually went out of business and was replaced by Community Gatepath in 2001, and REDF later added four more nonprofits in a second portfolio. All told, the nine surviving nonprofits currently operate 12 social enterprises.

These investments in money and human capital were some of the first of their kind, and, under the leadership of the Fund's first Executive Director, Jed Emerson, helped create the field of venture philanthropy.

THE LEARNING PROCESS

Success has not come easily or overnight. The companies in REDF's "original portfolio" were painstakingly chosen from 40 candidates during an 11-year period from 1990 to 2001. All the candidates were nonprofits

Roberts Enterprise Development Fund (REDF)

dedicated to “reducing poverty through employment,” had a social enterprise in its early stages, and were seeking leadership and guidance.

Throughout the early 1990s HEDF made \$6 million in early stage grants to the 40 nonprofits, which were hand-selected by Roberts and Emerson. The HEDF staff consisted of just one person, Emerson, who helped grantees with hands-on assistance whenever possible.

Many of the businesses started during the early days of the Fund did not succeed, but REDF’s willingness to be honest has set it apart. In 1996, the organization published a 400-page report by Emerson and Fay Twersky titled *New Social Entrepreneurs: The Success, Challenge, and Lessons of Nonprofit Enterprise Creation* which microscopically detailed insights into HEDF’s early investments. Numerous additional publications have followed in subsequent years; they are available free of charge at <http://www.redf.org/from-the-community/publications>.

Emerson and Twersky developed case summaries for 17 of the original 40 and in-depth case studies about the following five:

- **Rubicon Programs, Inc.:** An employment resource center started in 1973, Rubicon provides affordable housing and employment, as well as job training and other supportive services for homeless individuals who have disabilities. Rubicon initially received a \$10,000 grant from HEDF in 1990 for its building and grounds maintenance service. At that point, the service had \$88,000 in annual sales, but, with the support of HEDF, from 1991 to 2003 sales revenue increased to \$3 million per year. Today, Rubicon operates two social enterprises, Rubicon Bakery and Rubicon Landscape Services, which produce the bulk of Rubicon’s \$7.9 million in earned revenue. Thus far, a total of 1,024 people have received workforce services and 353 have obtained jobs.



- **Juma Ventures:** Juma Ventures began in 1991 and had previously been known as Larkin Business Ventures (LBV), created by Larkin Street Youth Center, a resource center for homeless youth directed at one point during its history by Emerson. LBV’s first ventures were Ben & Jerry’s vending carts in the Marina district of San Francisco. Since then, Juma has developed and operated eight social enterprises where youth have received jobs and business skills training, saving money for college and other purposes. For more than a decade now, in partnership with Centerplate, Juma has operated the concessions for ice cream, coffee and nuts at the Giants baseball and 49ers football games in San Francisco, where each year about 100 youth work as vendors at AT&T Park and Monster Park. In 2006, in a new partnership with Aramark, Juma launched concession operations at the Oakland Coliseum during professional baseball and football games and in 2007 began expanding nationally with a variety of other partners, first to San Diego, then to Washington, D.C. Juma youth to date have earned more than \$1.4 million in wages and Juma’s social enterprises have generated more than \$9 million in earned revenue. During 2007, earned revenue covered 46.3 per cent of the organization’s \$2.93 million in total operating expenses.

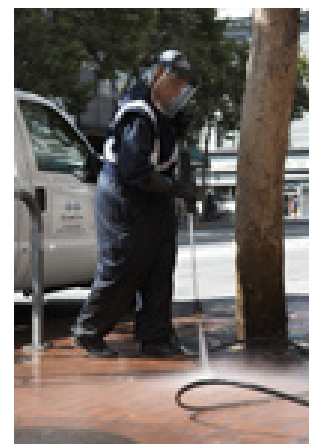
Roberts Enterprise Development Fund (REDF)

- **Healing Kidz/Youth Industry:** Created in 1991, Healing Kidz built training centers that provided vocational skills for endangered youth in fields such as welding, bicycle repair, ceramics and various other art-related areas. Initial funding from HEDF came in the form of a grant to develop a business plan for a revenue-producing social enterprise. Subsequently, in 1995, HEDF provided Healing Kidz with an additional \$20,000 grant to open its third social enterprise. Healing Kidz merged with Youth Industry in 1996 and continued to grow. However, despite its success, Youth Industry closed its doors in 2001 because of management succession difficulties, divesting its businesses to other nonprofits (one of those businesses, Pedal Revolution, became part of New Door Ventures – *see below*). At the time it closed, Youth Industries was nine years old, operated five businesses, had a staff of 35 and trained an average of 100 homeless youth per year.
- **Oak Street House:** Launched in 1981 by Golden Gate Community, Inc. (GGCI) as a resource center for the poor and homeless in the Haight Ashbury and Western Addition neighborhoods of San Francisco, Oak Street House was designed to provide crisis care to GGCI clients. Due to complications with organizational structure and culture, early enterprise planning proved difficult, which led Oak Street House to seek HEDF’s consultancy in the late 1980s. However, even with assistance, Oak Street House’s efforts to venture into social enterprise never came to fruition, although other businesses started by GGCI proved successful (*please see New Door Ventures, below*).
- **Central City Hospitality House:** Central City Hospitality House (CCHH) was created to serve the low income people who found themselves homeless after moving to San Francisco during the “Summer of Love” in 1967. CCHH began with an arts program and soon expanded into other areas such as the publication of its newspaper, *The Tenderloin Times*. CCHH first approached HEDF in 1992 to help write a business plan for a social enterprise. Unfortunately, from 1994 to 1996, as CCHH failed to meet sales goals and its management became overtaxed, HEDF found it increasingly difficult to maintain the relationship.



Two other nonprofits – Golden Gate Community, Inc., now known as New Door Ventures, and Community Vocational Enterprises – joined Juma (www.jumaventures.org), Rubicon (www.rubiconprograms.org) and Youth Industry in REDF’s first formal portfolio, and Community Gatepath replaced Youth Industry in 2001:

- **New Door Ventures** (www.newdoorventures.org): Despite its failure to launch Oak Street House, Golden Gate Community, Inc., now known as New Door Ventures, today manages a series of social enterprises which include a national screen-printing and embroidery company called Ashbury Images and a bike shop called Pedal Revolution. Earned revenue of \$1.49 million in 2007 covered 50.8 per cent of the organization’s total operating expenses.
- **Community Vocational Enterprises** (www.cve.org): CVE’s mission is to provide opportunities, training and support to individuals with psychiatric disabilities and it operates two cafes, provides clerical services and industrial maintenance engineers, and runs a driver/messenger business. Earned revenue of \$830,301 during FY06 covered 27.7 per cent of the organization’s total operating expenses.



- **Community Gatepath** (www.gatepath.com): The organization operates several social enterprises, including employment and staffing services, production services, and landscape services. Total earned revenue of \$9.9 million during FY06 represented a net profit of 7.6 per cent over the organization's total operating expenses of \$9.17 million.

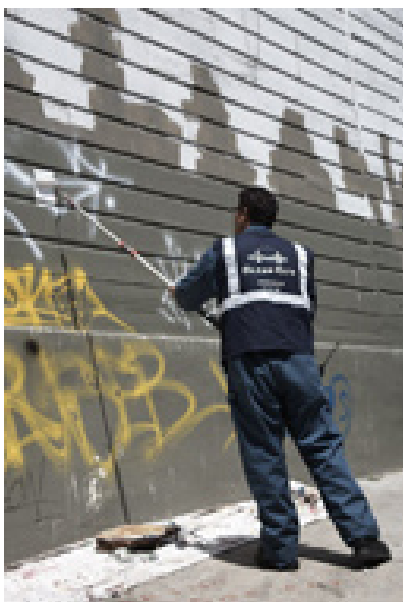
SECOND PORTFOLIO

REDF's second portfolio is comprised of four nonprofits:

- **Community Housing Partnership** (www.chp-sf.org) – a San Francisco community development corporation providing assistive services to the formerly homeless
- **San Francisco Clean City Coalition** (www.sfcleancity.com) – a community-based organization which works to clean, green and beautify San Francisco
- **San Francisco Conservation Corps** (www.sfcc.org) – an organization that provides career and educational development to at-risk young adults
- **The Society of St. Vincent de Paul of Alameda County** (www.svd-p-alameda.org) – an organization that has provided emergency assistance to homeless and low income people since 1938



LESSONS LEARNED



With each new nonprofit, REDF has had to learn to adapt its methods. In addition to dealing with businesses that employ people across a wide range of barriers to employment, there are also large structural differences among the individual social enterprises. A few rely on government set-aside contracts, although most social enterprises started through HEDF and REDF receive no preferences for contracts or sales. Some are franchises, some grow out of a nonprofit's programs, and some allow employees to own a share of the business in addition to receiving wages.

Each company faces different obstacles, but what they all seem to have in common is the need to figure out how to balance their expertise about their clients (their employees) with the need to focus attention on the business itself so employment opportunities can be preserved and expanded. Over the years, REDF has become a national expert in this arena, providing a system for quantifying results and helping each organization leverage its core competencies to work towards a better set of well-defined goals.



TRANSPARENCY

Helping nonprofits explore earned revenue strategies has led to considerable trial and error, which has required REDF to maintain an abnormally high level of flexibility and transparency, key components to its success.

All those involved recall the air of openness and creativity constantly demanded by Roberts from the very onset of the organization. Whether HEDF/REDF became a success or a failure, Roberts wanted the organization to learn from both the positives and negatives, which created an environment fueled by a determination to evolve for the sake of clients and customers. The Emerson/Twarsky book in 1996 was only the first of many public disclosures released by REDF about the positive and negative experiences of its portfolio companies.

REDF's current President, Carla Javits, points to the influence of Emerson for "imbuing the organization with transparency and honesty." That commitment to honesty has largely shaped REDF's culture, establishing an unspoken moral code that has bled into the management styles of the nonprofits and social enterprises it advises.

It also led to a major change for REDF itself. The mandate for candor caused the Board and staff to focus on its own internal structure, self-examining its relationship with the family foundation that helped it get started. This led REDF to the decision to break off on its own in 1996, becoming an independent 501(c)3 nonprofit.

This was a risk, because it meant refocusing time and effort toward fundraising (REDF's total operating expenses for 2007 were \$2.2 million), but it also allowed for creating a wider base of support. The change became a turning point, forcing REDF to forge an independent identity and resulting in a greater empathy for the struggles faced by its portfolio companies.

STRATEGIC PARTNERSHIPS

The companies in REDF's current portfolio are generally more mature than those that joined the original portfolio. REDF's work is now focused on helping companies in both portfolios explore options for expansion, in part because it recognizes that helping existing companies grow is one of the best ways to create new employment opportunities for the primary people it serves, its portfolio company employees.

One of the most powerful strategies for expansion has been brokering strategic partnerships for its portfolio members with private sector companies. Cynthia Gair, REDF's Managing Director of Programs, says "strategic alliances are becoming more of a focus."

An early example of an advantageous partnership that influenced REDF to seek out others was the long-term partnership Juma Ventures forged with Ben & Jerry's. As a result, Juma began operating a retail store and staffing concession stands at major league baseball parks. Over time, the concession business became so attractive that Juma shut down the retail store and is currently focusing its national expansion on the concession stand business.

Another productive strategic alliance came about when REDF partnered its janitorial portfolio company Community Vocational Enterprises (CVE) with ServiceMaster International (SMI). REDF, wanting to establish an industry mentor for CVE, sought to help SMI break into the San Francisco janitorial market by partnering the two organizations, going so far as to send principals at CVE to SMI's Chicago headquarters. The relationship has now lasted for several years.

One of the reasons REDF is emphasizing partnerships with private sector companies is to build bridges for portfolio company employees who have skills that are readily transferrable to the for-profit realm. Another is to help the affirmative businesses in its portfolio diversify their base of customers.

These types of partnerships have become even more common with the growing interest among private sector companies in infrastructure and “green” jobs. As a result, they have been increasingly eager to partner with REDF portfolio companies in order to tap into their expertise and experience in these areas.

THE LARGER MISSION

Among REDF's most ambitious goals is a desire to encourage the growth of both the social entrepreneurship and venture philanthropy fields, and nearly 20 years of experience have established REDF's reputation for superior methods of portfolio development and evaluation.

As Javits admits, REDF's approach “does not result in the fastest or cheapest route,” but it is a strategy that has proven to be successful in employing people with severe barriers to employment, and REDF continues to share its inner workings with others, a strategy that has considerably enhanced its credibility, especially among social investors.

One of the ways it works toward this larger mission is by continually developing and sharing its Social Return on Investment (SROI) and “social outcome” measurement tools (www.redf.org/learn-from-redf/publications), which have been adopted by numerous other venture philanthropy funds and consultancies.

Finally, a large source of REDF's success over the years has been the dedication and knowledge of its staff members. The organization has steadily accumulated the expertise necessary to intimately guide its portfolio companies. To make sure its knowledge base has a ripple effect, REDF has created the Farber Program, training leaders who will effect social change by exposing them to the operational and strategic workings of its portfolio companies, and instilling them with the high regard for openness, creativity and observed social returns that have allowed REDF to flourish alongside its portfolios. ■