

Success without Succession?

Reflections on the building & sustaining of social enterprise

BY MARTY DONKERVORT

Inner City Development Inc. (ICD) was established in the summer of 2002 to provide good jobs to people in Winnipeg's inner city who live in poverty and are marginalized by systemic discrimination. For more than four years, we have survived in the for-profit and market-driven sector, creating full-time jobs with average or better sector wages, benefits, education and training, career laddering, and a supportive work environment. The company has annual revenues of \$2 million and has reached financial breakeven. We are now expanding into other sectors.

Even by conventional business standards, we have beaten the odds against survival. To have done so with dual bottom lines – social and financial – is even more remarkable. Ask anybody. ICD is a successful social enterprise.

But can ICD be sustained? Will it grow and expand? Could it be replicated elsewhere? If the answer to some of or all these questions is “no,” or even “probably not,” can we call ICD a success? These are some of the issues now facing ICD, as well as social enterprises in general.

Building a social enterprise is hard enough. Finding ways to ensure its survival well into the future may be even tougher. Replicating its concept or structure or techniques in some other place is still more rare. Because so few social enterprises survive, these longer-range challenges rarely come into consideration. It's my belief that by reflecting on this problem of succession in a company like ICD, we get closer to the heart of what “success” in social enterprise is really good for.

Start-Up

In retrospect, ICD had a remarkably easy start-up. We began with dedicated staff, seconded from Community Ownership Solutions Inc., one of our founding organizations. Community Ownership Solutions is a community economic development organization



committed to creating quality jobs for low-income inner city residents. As its General Manager of COS,¹ I researched the concept for ICD, developed the business plan, identified the key shareholders, and located funding sources.

Our charmed start got an added boost from success in a national competition. ICD's first business plan, for a construction company, won one first place in a pan-Canadian competition held by Social Capital Partners, a social enterprise investment firm. In Social Capital Partners, our newly-minted subsidiary Inner City Renovation found itself funding, technical support, and a wonderful champion. As nonprofit housing organizations, four of our initial shareholders were able to provide work to Inner City Renovation from Day One.

Of course, there were plenty of challenges right from the outset as well. We had to find appropriate management, price contracts, and compete for work. We had to strike a balance between skilled supervisors and unskilled workers, help people make the transition from long-term unemployment or social assistance to full-time work, and provide employees with adequate support.

In 2006, Inner City Renovation now has 30 full-time year-round employees and has paid out more than \$2 million in wages and benefits to its employees. It has completed over 150 commercial and residential projects, including new buildings as well as renovations.

Managing Growth

Thanks to Inner City Renovation, ICD reached breakeven and is now debt free. We have a long list of satisfied clients and a solid reputation for quality and reliability, and can now look at new opportunities related to growth and expansion. After considerable market research, we established a property management division as a means to provide additional contracts for the renovation company and contracts for a new janitorial company.

So once again we had to go in search of appropriate management. The property management division now has a qualified and licensed property manager. Finding the right manager for the janitorial enterprise has been difficult, however.

ICD's continued success will depend on its staff, just as its start-up did. Macro factors play an important role, of course. There's no escaping the costs of fuel, materials, and the health of the construction sector has a whole. Analysis tells us to change institutions, procedures, and structures. But the key to the success or failure of a social enterprise seems to lie in staff leadership. This is true for funders, the board of directors, and for general confidence and credibility in the business community.

By its very nature, a social enterprise must constantly juggle multiple "bottom lines" – financial and social. Unique to social enterprise management is the inevitable tension between multiple core objectives. Although conventional enterprises may pay some attention to social or environmental issues, they most often do so as a way to improve their financial bottom line. They minimize costs related to environmental, human resource, or social issues in order to maximize short- and long-term profits.

In a social enterprise, such costs must be viewed in two lights. What is best for an individual employed by a social enterprise may not be in the best interest of the company. For example, providing time-off and support to employees dealing with childcare, family issues, addictions, mental and physical health, and the criminal justice system will not be in the company's financial interest. Yet such support will be very much in the company's social interest, as well as the best interest of the individual. Managers must find ways to address this tension.

The transition from start-up to mature enterprise creates a demand for new leadership. But succession is particularly problematic for social enterprises. When the time comes for the original entrepreneur to move on, it is very common for social enterprises to peter out.

The construction and janitorial sectors are harsh markets within which to juggle multiple bottom lines. Both are highly competitive. In the construction sector, the norm is project-based, seasonal employment, not permanent, year-round jobs with benefits. Most contractors subcontract out their projects.

Subcontractors usually are self-employed and therefore exempt from employment regulations and standards. The janitorial sector has a reputation for offering its workers poor wages (often based on piecework), no benefits, little training, and scant chance of advancement. It therefore employs undocumented workers, immigrants, and others trying to enter the local labour force.

The janitorial company, like Inner City Renovations (but without the construction company's preliminary list of potential clients), are anomalies within their respective sectors. Yet it is precisely the poor working conditions within these sectors that makes them attractive to social entrepreneurs: they seek to create better quality jobs for the people who build and clean our cities.

¹ See Marty Donkervoort, "New Breed: Community Ownership Solutions & the for-profit approach to community economic development," *Making Waves* 14,2 (summer 2003): pp. 15-17.

(photo, left to right) Inner City Renovation employees Dan Giesbrecht, Andrew Hall, Steve Stevens, Glen McKay, Chriss Missyabit, and Zach Hamilton. All photos in this article courtesy of Inner City Development Inc.

Integrating the two new companies into the parent company has had its own challenges. One of them is that credit lines and Workers' Compensation rates are based on the parent company. Therefore, credit is limited and shared among three companies and our costs are high. In addition, as General Manager of the parent company, I find my attention is now divided among its three operating units, resulting in longer hours and heavier workload.

Succession & Replication

The challenge in business growth is knowing when to say "enough" and focus on solidifying what already exists. A growth strategy may put the entire company at risk. Yet, as a social enterprise, there is both internal and external pressure to create more jobs for low-income people in the community.



Every enterprise rests on a combination of unique circumstances. What can be replicated are the factors fundamental to creating a successful enterprise: a committed & qualified entrepreneur, good partners, demand for service, available workforce, & support from local government programs for training.

The problem is that even if one person can get a social enterprise launched, they're unlikely to be the one to keep it in the air.

All new enterprises, conventional businesses as well as social enterprises, require an entrepreneur to champion them, providing leadership and commitment. But charismatic early leaders who excel in the energy to activate an enterprise rarely are able to institutionalize it as well: to bring to the enterprise the routines and systems that make all its functions, great and small, dependable and predictable.

Thus, in a very real sense, the transition from start-up to a mature and sustainable enterprise creates a demand for new leadership. But succession is particularly problematic for social enterprises – a black hole, in fact. There is neither a designated family member nor an existing business partner or stakeholder in waiting who can assume the leadership role. To put it bluntly, succession can mark the demise of a social enterprise.

I can recall only a handful of cases of social enterprises that have made a successful transition to mature sustainability. One is the Big Carrot, a high-profile and very successful worker co-op in Toronto's retail health food sector. The Big Carrot has been in business a quarter of a century. Mary Lou Morgan, founding member and first General Manager, provided the leadership, commitment, and passion for the co-op's first five years. Subsequent leaders were able to build upon the foundation she established.

When the time comes for the original entrepreneur to move on, it is very common for social enterprises to peter out. This is the crossroads in leadership to which ICD has now arrived. In the next few years I will approach retirement and start looking to explore other opportunities. Will ICD be able to find someone to lead it forward?

Although ICD has committed and talented management staff, no successor has been identified. A newcomer will not have the history and connection to the enterprise. They likely will lack experience in either social enterprise, or in construction, property management, or janitorial services. Yet experienced and senior social enterprise managers may not find the maintenance of an existing enterprise enough of a challenge. Whether novice or old-hand, they are unlikely to bring passion and commitment to ICD itself. Succession will inevitably become a major issue for ICD's Board of Directors.

Replication

Could ICD be replicated elsewhere? How successful is a social enterprise if it can't be replicated?

Every enterprise rests on a combination of unique circumstances that include demand for the product or service, market conditions at the time of start-up, available financial or technical supports, and an entrepreneur to develop the concept, launch

Photos: (above, from left) Inner City Renovation employees Larry Laberge, Bob Gregg, and (page opposite) Dale Missyabit.

the enterprise, and provide the required leadership and passion. Throw in funding, and you quickly see how such a unique configuration of circumstances, timing, and personnel can't be "ordered up." The absence of even one of these factors will adversely affect the new enterprise.

What can be replicated are the factors fundamental to creating a successful enterprise. These factors include having a committed and qualified entrepreneur to lead the enterprise, partnerships with shareholders like Community Ownership Solutions and Social Capital Partners, demand for service, available workforce, and support from local government programs for training. These factors then need to be modified to fit local realities and market conditions.

Several organizations have looked at franchising as a way to remove significant risk from social enterprises start-ups. Social Capital Partners is applying the franchising model to auto repair services in southern Ontario by taking a company-owned franchise and turning it into an employee-owned social enterprise. This approach removes some of the problems and uncertainties around starting up a social enterprise since the business has a history with satisfied customers and capable workforce. Even in this case, however, the key determinants of success – leadership and management – may not be in place and result in challenges for the new social enterprise.

The Meaning of Success

After over a quarter of a century in the field of community economic development, I am more enthusiastic than ever about the role of social enterprises. It is possible to start and sustain a social enterprise that manages to achieve both social and financial returns. ICD and companies like it provide proof that social enterprises can make a real difference, and can operate even in very low-margin, competitive market situations.



Résumé : Succès sans héritiers?

À Winnipeg, l'Inner City Development (ICD) inc. a l'allure d'un succès. Une de ses entreprises génère un profit en formant et en embauchant des Autochtones dans du travail de construction avec de bons salaires et bénéfices. D'autres filiales tenteront bientôt d'apporter les mêmes normes au travail de conciergerie et de gestion immobilière.

Toutefois, le Directeur général, Marty Donkervoort remet en question la viabilité de l'ICD à titre d'entreprise et sa capacité d'être reproduite comme modèle. L'ICD tente d'atteindre un mélange de buts et des capacités sociales et financières qui sont hors du commun pour les gestionnaires ayant de l'expérience dans le secteur compétitif de la construction. Le succès de l'entreprise est lié à un démarrage « sous une bonne étoile », aidé de partenaires possédant tant des ressources que de la patience. Sans cette convergence particulière de circonstances et de leadership, l'ICD n'aurait pas survécu à ses quatre premières années. Tous ces facteurs ont peu de chances de s'appliquer lors de l'expansion de l'ICD, lorsque Marty se retirera ou dans un autre endroit.

Qu'est-ce que les autres peuvent apprendre de l'ICD? Que la qualité des gestionnaires, partenaires et de la main d'œuvre potentielle est aussi importante pour l'entreprise sociale que la part de marché et que son succès peut être mesuré non en longévité ou en capacité de reproduction, mais dans la façon dont elle accroît les attentes des personnes à leur égard et à l'égard des autres. ■

One of the main ways social enterprises make a difference is by hiring employees excluded from the labour market by systemic discrimination, poverty, disability, illness, abuse, or some combination of these factors. The demographics of Winnipeg's inner city and particularly its North End are such that many of the employees of ICD's subsidiaries are Aboriginal. Few of them have regularly experienced full-time, year-round work. Because of their social location and personal histories, they must surmount many barriers to employment. After much trial and error, we have learned that the right balance in employees for Inner City Renovations is about 60:40, that is, 60% that have been excluded from work by these factors, and 40% that have not.

Employees in a social enterprise need much more than just a paycheck. In addition to fair pay, employees (particularly those challenged by poverty and systemic discrimination) need to experience respect, self-esteem, and a sense of belonging. We work hard at ICD to create a supportive team culture, providing regular opportunities for staff to socialize together, through sporting events or a night at the local billiard hall, plus a family weekend retreat held annually at company expense.

Just as employees need support, so does the manager. In one person, a social enterprise must find someone with the right blend of technical and management skills, as well as passion,

compassion, and leadership. Even under the best of circumstances, succession will come as a shock to a social enterprise. Likewise, despite the enthusiasm of some, I am dubious about the replicability of successful social enterprises. The complex circumstances to which some enterprises owe their success are hard to sustain through succession transitions, and replication is harder still.

The long-term importance of these businesses to the practice of social enterprise lies elsewhere: in the example they set to conventional businesses, to marginalized people, and to the general public of the possibility of economies based on a multiple bottom line. It is on people's expectations of themselves and of one another that enterprises like ICD have an impact that, while impossible to measure, extends well beyond the place and years in which they operate.



General Manager of Inner City Development Inc., MARTY DONKERVOORT was a founding member of the Worker Ownership Development Foundation and Co-op Work, a worker co-operative management consulting enterprise, and developed the concept and business plan for A-Way Express, a consumer-survivor courier business that still flourishes in Toronto. He has served as Director of Business Development for North End Community Renewal Corporation in Winnipeg. He is also a member of the Canadian CED Network (CCEDNet). Contact Marty at 204-589-1505 or mdonkervoort@icdevelopment.ca, and learn more about ICD at www.icdevelopment.ca.

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