# A glossary of useful terms

## KEY TERMS

**Entrepreneur:** A person who organizes, manages and assumes the risks of a business enterprise. Starting with nothing more than an idea or a prototype, entrepreneurs have the ability to take a business to the point at which it can sustain itself on internally generated cash flow.

**Social entrepreneurship:** The art of simultaneously pursuing both a financial and a social return on investment (the "double bottom line").

**Social entrepreneur:** An individual who uses earned income strategies to pursue social objectives, simultaneously seeking both a financial and social return on investment. Said individual may or may not be in the nonprofit sector.

**"Earned" income:** A *quid pro quo* arrangement in which there is a direct exchange of product or service for monetary value. "Earned" income for a nonprofit does *not* include such things as corporation or foundation grants, government grants or subsidies, contributions from individuals, or in-kind donation of products or services. Most earned income strategies mounted by a nonprofit are designed to cover more of a social program's cost, not necessarily to make a profit. The one exception is a social purpose business venture *(please see below)*.

**Sustainability:** The ability to fund the future of a nonprofit through a *combination* of earned income, charitable contributions and public sector subsidies.

**Self-sufficiency:** The ability to fund the future of a nonprofit through earned income *alone* rather than having to depend in whole or in part on charitable contributions or public sector subsidies.

**Social purpose business venture:** An earned income strategy designed to directly address a specific social problem and simultaneously make a profit.

**Affirmative business:** A social purpose business venture created specifically to provide permanent jobs, competitive wages, career tracks and ownership opportunities for people who are disadvantaged, whether it be mentally, physically, economically or educationally; employees have included people who are developmentally disabled, chronically mentally ill, recovering substance abusers, former convicts, visually impaired, physically challenged, members of inner-city minority groups, and others.

**Nonprofit entrepreneur:** An individual who pays increasing attention to market forces without losing sight of the organization's underlying mission.

**Entrepreneurial nonprofit:** A nonprofit that seeks to match its core competencies with marketplace opportunities in order to simultaneously generate more earned income and expand its social impact.

## OTHER IMPORTANT TERMS

**Cause-related marketing:** A business relationship in which a for-profit and a nonprofit form a partnership that results in greater sales for the for-profit and a financial return for the nonprofit.

**Cause-related purchasing:** A business relationship in which a for-profit company either purchases supplies or finished piecework from a nonprofit or uses the nonprofit as a distributor.

**Core competency:** The proven programs or demonstrated expertise possessed by a nonprofit or any other organization. These competencies become the primary source for entrepreneurial endeavors.

**Core values:** The fundamental beliefs that define an organization and dictate the decisions of its members, who will not depart from them regardless of the temptations of the market.

**Critical success factors:** The three or four elements that determine whether a specific type of business will succeed or fail. The factors differ depending upon the type of business and include such things as quality, price, convenience, volume, marketing muscle, transportation and employee training.

**Double bottom line:** The ultimate benchmark for a social purpose business – the venture must simultaneously deliver both a financial and social return on investment.

**Entrepreneurial partnerships:** Strategic alliances formed by a nonprofit with corporations, small businesses, government agencies or other nonprofits that are rooted in earned income strategies or a social purpose business venture.

**Entrepreneurial strategic planning:** A process by which a nonprofit organization simultaneously analyses each of its programs – and its entire portfolio – from both a social purpose and an earned income perspective. The goal is to identify and expand the organization's most effective and needed programs and to either productively dispose of or eliminate its more peripheral programs. *(See "organized abandonment")*

**Environmental forces:** The uncontrollable forces (demographic, sociological, technological, political, regulatory and so on) that have a positive or negative effect on a business. Although it is not possible to control them, it *is* possible to convert these forces into opportunities or to minimize their negative impact by identifying and attending to them in advance.

**Fee-for-service payment:** A payment made in exchange for delivery of a specific unit of service. Payment may be made either by the person or the organization receiving the service or by a third party such as an insurance company or a public sector reimbursement program such as Medicare or Medicaid.

**Financial return on investment:** The part of the "double bottom line" concerned with the cash flow, profitability, balance sheet and other financial results necessary for a business to succeed. The necessary results will differ depending upon the type of business and the desired results may be substantially different for a social purpose business venture.

**Innovators, entrepreneurs and professional managers:** All three are needed during the evolution of an entrepreneurial organization, but in sequence – and few people possess more than one of the three sets of skills. Innovators develop and field-test prototypes; entrepreneurs turn those prototypes into businesses; and professional managers develop and install whatever infrastructure is needed to secure the future.

**Market push/market pull:** If an organization starts with its current products and services and then tries to find somebody willing to pay for them, it will be trying to *push* itself into the market. That may work for a while, but not indefinitely. However, if the organization starts with its potential customers, discovers what they need and then builds it, the customers will *pull* the organization into the market and significantly increase its chances for long-term success.

**Mission-driven product or service businesses:** Social purpose business ventures that generate revenue from the actual delivery of products or services to clients, although payment may come from a third party such as a government agency or entitlement program or a private insurance company; examples include assistive devices for people who are physically disabled or personal services for elderly people to help them remain in their homes.

**Organizational culture:** The (often unspoken) compacts that enable the members of an organization to understand why they exist, who they serve and how to serve them. The precepts of an organization's culture determine the perceptions and behaviors of its members, both positively and negatively. *(See "paradigms" and "paradigm paralysis")*

**Organized abandonment:** A term coined by Peter Drucker to encourage nonprofits to carefully analyze all of their programs in order to eliminate those that are no longer needed, are no longer competitive or are no longer in concert with the organization's mission. *(See "entrepreneurial strategic planning")*

**Paradigms:** A set of rules and regulations (written or unwritten) that establishes or defines boundaries and tells people how to behave inside those boundaries in order to be successful. *(See "organizational culture" and "paradigm paralysis")*

**Paradigm paralysis:** An inability to change the rules and regulations and therefore to change the perceptions and behaviors of an organization's members. *(See "organizational culture" and "paradigms")*

**Social purpose business sector:** The home of the social entrepreneur, where everything is driven both by a social purpose and by a desire to be as financially self-sufficient as possible. The sector exists in that space where the nonprofit sector, the for-profit sector and the public sector overlap.

**Social return on investment (SROI):** The non-financial returns sought by a social entrepreneur. These returns will vary depending upon the type of business activity. They could include the number of jobs created, the average salaries paid, the number of people served, the number of new products or services developed, the number of transfer payments eliminated, and so on.

**Unrelated business income:** Earned income derived from products or services that are not directly related to the charitable purpose of a nonprofit organization, including revenue-generating activities created principally from the organization's under-utilized assets (such as facility downtime) or as conveniences for its clients or patrons (such as gift shops, parking lots or cafeterias).

**Venture philanthropy:** The use by grant-makers and investors of certain principles traditionally associated with venture capitalists to either build the capacity of a nonprofit organization or to invest in a social purpose business venture. Key elements include long-term relationships (three to six years), development of business plans, provision of cash and expertise, and an exit strategy. Donors and/or investors make long-term funding commitments, closely monitor performance objectives through pre-defined measurement tools, and problem-solve jointly with the leadership team on a regular basis.