

# For-profit and nonprofit integration: The road to financial sustainability

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Participants take part in a small group discussion titled “Supporting early stage social enterprises” at the 2015 Clinton Global Initiative annual meeting. How can the private and nonprofit sectors work together cohesively? Photo by: Jayne\_Quan / Clinton Global Initiative

I recently attended an excellent session titled “Supporting early stage social enterprises,” at the 2015 Clinton Global Initiative annual meeting. Although the session was attended by leaders from the diverse worlds of nonprofit nongovernmental organizations, foundations and the private sector, there was a clear consensus in the room on the definition of a “social enterprise.”

The session defined a social enterprise as an entity driven by social impact and fueled by financial sustainability. Despite the agreement on what a social enterprise is, many were concerned about the implications of a social enterprise being either wholly for-profit or wholly nonprofit, especially in terms of that designation’s myriad effects on talent, funding, and establishing metrics for success.

This is a legitimate concern. How can a social enterprise that is nonprofit aim to deliver sustainable impact if it can’t achieve financial sustainability? And is it possible in the 21st century for corporations not to incorporate social impact as part of their core business strategy?

## **An integrated perspective**

My career path has taken me through the private sector, has seen me working in diplomacy, and in defense contracting, and has eventually landed me in the international development sector. This journey has given me a new perspective: that in every sector we need not just progression and growth, but occasional creative disruption to spark innovation and the evolution of sectors.

I have always been a firm believer that poverty cannot be solved without the private sector, while recognizing that the private sector alone cannot solve poverty. And it is

also my belief that we in the international development community have gained insights and introduced innovations largely attributed to the private sector. Over the past several years, we have seen many integrative models introduced that have required the involvement of both the private and nonprofit sectors, including as CSR2.0, inclusive business, impact investing, and more.

For-profit private sector organizations have begun launching their own nonprofit arms on a grand scale and this is no longer restricted to large multinationals, but also smaller firms. SparkPeople started a 501(c)3 nonprofit called SparkPeople Service. Hot Bread Kitchen in New York exemplifies a larger trend among social innovators toward creating hybrid organizations that primarily pursue a social mission, but rely significantly on commercial revenue to sustain operations. At the same time, there has been a growing attempt by nonprofits to professionalize their operations, introducing business models into their operations and not shying away from long-held negative views on profitability.

Despite these recent trends, more needs to be done to bring a financially sustainable mindset to the nonprofit sector. “Profit” should cease to be a dirty word in the social sector. To achieve sustainable impact, organizations must be free to reinvest their profits, or even decide not to do so. Many of my colleagues in the nonprofit sector have championed the need for actors from different economic sectors to work together to achieve sustainability, and have advocated for the importance of learning from our private sector partners along the road to achieving this goal.

This has gone beyond a mere philosophical recognition; it’s a very positive sign that nonprofit and for-profit collaboration and organizational transition towards models of financially self-sustainable social impact, are really starting to happen. Aside from a few early adopters, however, the field at large has not yet responded to this mental shift with changes to the internal structure of the nonprofit sector.

As stewards of the social impact sector — and in order to achieve long-term sustainability — it may be time for us to start asking some hard questions:

1. Are we ready to accept that there are as many compassionate people in the commercial sector, and that doing good is not the monopoly of the NGO

community?

2. Are we prepared to invite CEOs of for-profit companies to lead our operations?

Are we ready to call upon businesses to bring senior nonprofit leaders into the corporate sector?

3. Are we willing to pay our staff on par with the private sector, in order to attract top talent, and recognize that people making competitive salaries are not greedy? Are we ready to pay bonuses for high performers?

4. Are we ready to launch a commercial arm that can coexist with our nonprofit mission?

5. Are we able to assess the merits and benefits of merging with another successful NGO, at the right time?

6. Are we ready to insist on a new paradigm, one that works along with donors to ensure that fees and overhead structures are realistic, cover expenses, and enable nonprofits to grow reserves so necessary for sustainability?

7. Are we ready to step outside of our ideological dogma and keep an open mind about what is working and what is not?

8. Are we prepared to abandon projects when we can see results are not forthcoming?

Our funders — foundations, corporations, government agencies — are linked to our mission, and ultimately to our sustainability. Too often, dependent as we are on their generous support and partnership, we in the nonprofit sector are reluctant to engage in difficult conversations: when it comes to money; when things go wrong; sometimes until it is too late.

We need a larger, open discussion that helps the donor community also evolve, and ask themselves similarly tough questions:

1. Are you willing to move in a direction that results in paying indirect rates that truly give nonprofits a chance for sustainability, rather than maintain unreasonable standards, simply because that's the policy?

2. Are you disposed to rewarding nonprofit organizations when they exceed the expected outcome?

3. Are you equipped to openly discuss implementation challenges, and work with nonprofits to resolve them? Can you handle the truth?

4. Are you ready to join the few donors who are investing in startup nonprofits,

trusting in success despite the lack of a track record, and moving outside your comfort zone?

5. Are we ready? Is the industry ready to knock down the philosophical walls that have fundamentally divided nonprofits and for-profits all these years?

I believe we are. For me, these divides in nonprofit and for-profit ideology reflect a creative tension — like the different phases of my own professional and moral journey: not a war of words, but a productive discussion with the aim of finding a mutually beneficial outcome. I am optimistic about the future of development and further integration of the private and nonprofit sectors.

The challenges to this integration are immense, but I believe we are moving from an age of ideological constraint into a time when economic pragmatism — guided by a humanitarian ethos — will build bridges between previously disconnected sectors, populations and creeds.

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