Why Charities Are Launching For-Profit Businesses



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Kenton Lee was traveling through Nairobi when he had, as he says jokingly, “the only idea I’ve ever had.” He saw an orphan girl’s shoes that were way too small; someone had cut off the front so her toes could stick through. “Right there, I thought, *Wouldn’t it be nice if there were shoes that could grow?*” Then he went home to Boise, Idaho, developed a shoe that expands five sizes, and founded the nonprofit Because International — which today, 12 years later, has distributed more than 250,000 pairs worldwide.

And somewhere along the way, an unexpected thing happened. American parents started asking to buy his expandable shoes

for *their* growing kids. He saw the value of it: If he sold shoes, he might not have to do as many fund-raising dinners and golf tournaments. But he wasn't passionate about selling. "That's not what we do," he'd reply. "We're a nonprofit."

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Meanwhile, another nonprofit called Grameen Foundation reached a similar juncture. It had built an app to help Colombian farmers improve their productivity, and it worked in places without wi-fi. Other organizations asked if they could use it, which signaled to Grameen that the tool could be more useful as a business. But Grameen wasn't set up for that. It's a global nonprofit.

And meanwhile, yet another charity called Speak Your Silence was wrestling with the same quandary. Its platform provides in-person counseling to sexual abuse survivors. Years before the #MeToo movement, founder Matt Pipkin wanted to provide a version of this to companies, to help keep their employees safe from sexual harassment. But his board pushed back — they ran a *nonprofit*. "If you have a business and start a nonprofit, no one thinks twice," Pipkin says. "But if you start a nonprofit and then start a business, people think, *Wait a second.*"

That's beginning to change. All three nonprofits ultimately entered the moneymaking game. It is, they believe, the next phase of social entrepreneurship.

Over the past 10 to 15 years, business has become obsessed with *mission.* Companies like Toms, Warby Parker, and Feed built it into their brands, often with "one-for-one" models — every purchase triggers a corporate donation. Other companies have spun off entire nonprofit arms; Salesforce, for example, created the Salesforce Foundation. Then impact investing gained buzz, while new vehicles like the B Corp and L3C

arrived to give mission-driven ventures a legal structure.

But as for-profit entities embraced the nonprofit world, a movement also started in the opposite direction. “What we’ve seen in the past four or five years is nonprofits saying, ‘How can I adopt some of those entrepreneurial principles to make our impact more sustainable?’ ” says Thane Kreiner, Ph.D., executive director of the Miller Center for Social Entrepreneurship. Pat Walsh has seen the same as a cofounder of Classy, a social enterprise that creates online fund-raising software for nonprofits. “What’s new,” she says, “is in how creative they’re getting, including introducing innovative businesses.”

It’s not yet common to see nonprofits spinning off separate for-profit arms, but, says Kreiner, “I think we’re going to see more of that.”

The twist is not without its challenges. When an entrepreneur mixes mission and moneymaking, it means pursuing two goals that would seem to butt heads: In increasing profits, they’re often not focused on distributing those profits (and vice versa). Even when the charity and the company are separate, “you’re still at risk of having the businesspeople seeing the world one way and the nonprofit people seeing it the other way,” says Marya Besharov, Ph.D., associate professor of organizational behavior at the ILR School at Cornell University. “So you’re bringing together these historically separate ways of operating, and that’s hard to do.”

But not impossible.

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Lee, the creator of the expandable shoes, saw the tension

immediately. Some board members balked at launching a for-profit and quit in protest. “They equated anything commercial with greed and thought we were going to have a mission drift,” he says. “It was a lot of soul searching and ‘Why are we doing this? Is it about the money?’ ” But Lee and his president, Andrew Kroes, decided no; their hearts were in the right place. So in January 2018, they founded a benefit corporation, GroFive, to sell Expandals.

In doing so, they had to reckon with another big question: *How is this new organization structured?* “Figuring out your role relative to the nonprofit, as the leader of the for-profit, is very challenging,” says Besharov, the Cornell professor. How much can you run it like a traditional business? How much do you have to connect with the nonprofit’s mission? If you make it too separate, then why are you even tied to the nonprofit?

Lee decided to give his nonprofit the controlling share of this new company. Because International owns 51 percent of GroFive, and he owns the other 49 percent. (Between the nonprofit and Lee, they put in $100,000 of startup money to get it going.) Kroes became the company’s CEO. GroFive is now selling its first batch of shoes, with 6.5 percent of total revenue to be funneled back into the nonprofit.

At Grameen, the NGO with the app for farmers, the big question is about money. It created a new company to sell the app, called TaroWorks, which went through a Miller Center accelerator and is now raising capital. Some VCs view it as a regular company and want to see huge growth. Others see it as a nonprofit but don’t connect emotionally to its mission. “In research we call it an *identity challenge.* Like, who are you?” says Besharov, the professor. “Most people still want to categorize nonprofits and for-profits as either this or that.”

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Still, TaroWorks’ nonprofit origin has benefits. The Grameen connection opened doors to two big donors, who worked out a deal: Their contributions will decrease as TaroWorks’ revenue climbs. Already, TaroWorks is serving 60 clients, and its success inspired Grameen to spin off two more companies, including a female mobile money agent network business.

And Pipkin, whose nonprofit Speak Your Silence provides counseling to sexual abuse survivors, found a different way to move forward. He created a separate LLC called WeVow and now runs both endeavors. He hopes that WeVow’s eventual profits will enable him to personally donate to his nonprofit. It’s a lot to juggle, but he is pleased to have followed this path.

“Had I not been in [the nonprofit] space, I wouldn’t have been thinking about sexual harassment,” he says. “WeVow just never would have happened.”

And by running both, he says, he’s able to have more impact.

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