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P-Centrum: Limiting Financial Returns for Greater Rehabilitation Success

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In cooperation with NESST and
P-Centrum.



p-centrum

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Social Enterprise Summary

NESST Venture Fund Portfolio Member Since: 2001

Sector: Drug use prevention and rehabilitation

Social Enterprise Activity: Sheltered woodcarving workshop

Target Percentage of Budget from Self-financing: 35-40% cost recovery for
workshop budget

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- 1 The term Civil Society Organization (CSO) is used herein to refer to the wide diversity of formally registered nonprofit, non-state organizations as well as community-based associations and groups which fall outside the sphere of the government and business sectors.
- 2 Please see a detailed definition of social enterprise in the "Self-financing and Social Enterprise" section.

Executive Summary

P-Centrum is a civic association operating in Olomouc, the Czech Republic founded in 1994 with the mission to prevent youth drug addiction and provide treatment, aftercare and reintegration programs for persons endangered by drug dependence. As one of the earliest civil society organizations (CSOs)¹ to address addiction-related problems in the Olomouc region, P-Centrum's wide-ranging services have grown to include primary prevention activities, outpatient counseling and treatment, as well as additional aftercare programs. In its early years, the organization constantly sought to develop activities to counter the growing problem of substance abuse, but attempts were restricted by limited funding from donations and waning government assistance. P-Centrum realized that it needed to generate some of its own income in order to sustain and further its impact.

In 2001, P-Centrum contacted the Nonprofit Enterprise and Self-sustainability Team (NESsT), seeking support for the development of a social enterprise.² NESsT is an international nonprofit organization that works to strengthen the financial sustainability and mission impact of CSOs. Through the NESsT Venture Fund (NVF), it manages a portfolio of high-impact social enterprises owned and operated by CSOs. P-Centrum wanted to turn its carpentry activity into an income-generating woodcarving workshop. Set up in 1998, the carpentry workshop provided a sheltered work environment for clients coming out of drug dependence, and was becoming an integral part of the aftercare program that provides services to help reintegration into society. Originally, the workshop was to provide therapeutic treatment for its clients. Later, P-Centrum realized that there could also be a market for the carved products the clients were producing.

With NESsT's assistance and direction, P-Centrum transformed the activity into a full-fledged woodcarving workshop: a social enterprise selling hand-made life-size wooden sculptures. Just after one year of operating the enterprise however, the organization had to face the challenge of balancing the venture's double bottom line of fulfilling a social mission with meeting its financial goals. With a structured entrepreneurial basis, the workshop now had orders to meet, which put strains on the clients at times, compromising the therapeutic objectives. As these social and financial goals became increasingly at odds with each other, internal tensions among staff also arose.

Eventually the organization managed to reconcile the two objectives by readjusting its original goals for its enterprise: reducing financial expectations of the workshop, decreasing the maximum number of clients participating in the workshop at any given time, altering product selection, and revising management practices to be more in line with the needs of the workshop.

This case study will analyze the challenges that P-Centrum faced and the solutions it explored in managing the double bottom line of social enterprise: bringing together the mission imperative with a financial one. The role of NESsT in the process will also be evaluated through a careful look at its cooperation. Finally, the overall impact of social enterprise on the organizational development of



P-Centrum will be assessed, also providing lessons learned for nonprofits in similar situations.

Section A. Background

A.1. Country Overview

Although a relatively new independent state in Central Europe, the historical and cultural underpinnings of the Czech Republic date back centuries to an oftentimes turbulent past. The precursor of today's state was the independent republic of Czechoslovakia, created in 1918 from previously Austria-Hungary controlled Bohemia, Moravia and Slovakia. After World War II, the country fell under the political influence of the USSR together with its Central and Eastern European counterparts. With the collapse of Soviet Union in 1989, Czechoslovakia regained its political independence. A few years later, in 1993, the country peacefully split in two in the "velvet divorce," creating the independent democratic states of the Czech and Slovak Republics. The Czech Republic joined NATO in 1999 and the European Union (EU) on May 1, 2004.

The Czech Republic is one of the most stable and prosperous of the post-Communist states of Central and Eastern Europe with GDP per capita reaching \$18,250 by 2006 (adjusted to Purchasing Power Parity). Rapid economic growth, low interest rates and the availability of credit cards and mortgages have led to an expansion of domestic demand and a steady rise in welfare. In 2005, the inflation rate stood at a mere 1.3%, while the unemployment rate hovered above 10%.³

A.2. Nonprofit Sector in the Czech Republic

Following the 1989 regime change, a vibrant and vocal civil sector developed parallel to the steady democratization of the country. According to the United States Agency for International Development (USAID), there were more than 55,000 registered NGOs in Czech Republic in 2005. USAID's NGO Sustainable Index⁴ report indicates that most Czech NGOs have well-defined missions that they try to fulfill through a wide range of activities. The country shares fifth place in terms of overall sustainability of the civil sector and is ranked best in terms of service provision (including rehabilitative care) of the 27 countries surveyed. Still, the report states that Czech NGOs often fail to sufficiently inform the public and generate widespread support for their activities, instead focusing limited resources on fundraising and other operational concerns. Many lack the capacity and funds to conduct market research and qualified needs assessments. In addition, they often lack human resources management and capacity-building skills, and most CSOs consider themselves too small to use strategic planning in their decision-making processes.

The lack of organizational capacity may be the result of the insufficient quality and often quantity of services to support CSOs' capacity-building at an affordable cost. A network of CSO information centers exist, but is mostly concentrated in Prague and a handful of other large cities. They provide information to CSOs,

3 The Economist Intelligence Unit and the Czech Statistical office (www.czso.cz).

4 The NGO Sustainable Index - available for 27 countries - is developed by USAID to measure the strength and overall sustainability of the NGO sector within a country. The index considers seven dimensions of the civil sector: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure and public image.



- 5 The PHARE program (Pologne, Hongrie Assistance à la Reconstruction Economique – Poland Hungary, Economic Reconstruction Assistance) is one of the main pre-accession aid instruments financed by the European Communities to assist the applicant countries of Central Europe in their preparations for joining the European Union.
- 6 The Section “Self-financing and Social Enterprise” is drawn from multiple NESsT publications, www.nesst.org/publications.

organize training programs, and offer legal and financial consultations, but the services are not always of high quality and are often unaffordable to CSOs and/or difficult to access outside large cities. Moreover, training for CSOs does not cover all fields, and there is a lack of qualified trainers in areas such as CSO management, fundraising, strategic planning, self-financing activities including social enterprise, and board development.

An enabling legal environment for CSOs is generally in place, although certain deficiencies persist. The term “nonprofit organization” still remains undefined. As a result tax regulations are not as favorable to CSOs as in various neighboring countries of the region. Also specialized legal expertise and assistance for CSOs is rather limited and mainly available only in large cities.

Domestic donations from foundations, companies, and individuals are now increasingly critical as most major foreign donors have concluded or are phasing out their post-transitional assistance, while PHARE⁵, and more recently, EU Structural funding are becoming available. Corporate philanthropy is on the rise in the Czech Republic, although continues to develop very unevenly. Major firms – often multinationals – mainly support visible youth or recreational activities, more so than activities aimed to alleviate problems of marginalized groups. At the same time, smaller, domestic companies lag behind in the area of corporate philanthropy. Nevertheless, some Czech CSOs have succeeded in diversifying their funding sources and decreasing dependency on any single donor, not last by operating social enterprises to self-finance the organizations’ activities.

A.3. Self-financing and Social Enterprise⁶

The terms “self-financing activities,” “social enterprise activities,” and simply “enterprise activities” are used to refer to various CSO revenue-generating strategies. Self-financing activities include fees for services, product sales, use of hard assets, use of soft assets, membership dues, and investment dividends and are used by CSOs to generate revenues to supplement external donor funding. The terms “social entrepreneur” and “social enterprise” have been used in a range of contexts and may refer to individuals or entities that pursue social change through earned income or business activities or simply to individuals or entities that use innovative methods to advance social change but that are not necessarily generating revenues. In its work, NESsT uses the former definition of social enterprise, but specifies that a social enterprise is a planned activity that has a high potential for advancing social change and generating untied revenues for the organization.

Table I summarizes the different self-financing strategies for earning income. P-Centrum has adopted the “Product Sales” model. It is important to remember, however, that no single self-financing or social enterprise strategy is the “right” model. Each model has its place. The applicability of each is context-specific and sometimes more than one can be used.



Table I: Types of Self-financing Strategies

<ul style="list-style-type: none"> - <i>Fees for services</i>: contracting work for paying clients in the public or private sector (e.g., providing consultation services to businesses or local government); - <i>Product sales</i>: selling the products of a project (e.g., books or publications), reselling products (e.g., in-kind donated items) at a marked-up price, or producing and selling new products (e.g., T-shirts, handicrafts); - <i>Use of "hard" assets</i>: renting out real estate, equipment, or other physical resources when not in use for mission-related activities; - <i>Use of "soft" assets</i>: generating income from patents through licensing agreements or by endorsing products with the CSO name or reputation; - <i>Membership dues</i>: raising income by collecting dues from members or constituents of the organization in exchange for some product, service, or other benefit (e.g., a newsletter, a magazine, or discounts on CSO products or services); - <i>Investment dividends</i>: earning income from investments either passively, through interest from savings accounts or mutual funds, or actively, by trading on the stock market or engaging in debt swaps.

Taken from Lee Davis, Nicole Etchart, Brian Milder and Cecilia Jara, *Risky Business: The Impacts of Merging Mission and Market*, NESsT, Santiago, 2003, page 22.

Moreover, the business that the nonprofit engages in does not necessarily need to be central to the organization's mission. See Table II for a spectrum of product or service /customer relevance to organizational mission.

Table II: Spectrum of NGO Self-Financing Activities

PROGRAM ACTIVITIES	RELATED TO NGO MISSION		UNRELATED TO NGO MISSION	
	EXISTING PRODUCT/SERVICE EXISTING CUSTOMERS	NEW PRODUCT/SERVICE EXISTING CUSTOMERS	EXISTING PRODUCT/SERVICE NEW CUSTOMERS	NEW PRODUCT/SERVICE NEW CUSTOMERS
Services specified in the NGO charter, bylaws, mission	Earned income directly from the NGO's program activities	New products/services offered to the existing NGO constituents	Extension of the mission-related activities of the NGO to new paying clients	New product/service to new paying customers (unrelated/ancillary business activities)
<i>Example:</i>	<i>Example:</i>	<i>Example:</i>	<i>Example:</i>	<i>Example:</i>
Environmental Education NGO offers public education seminars and publications	Environmental Education NGO charges fees for its educational seminars and charges for its publications	Environmental Education NGO opens vegetarian restaurant and environmental products shop	Environmental Education NGO offers cleaner technology seminars/ consulting to businesses	Environmental Education NGO opens Internet website design studio

Taken from Lee Davis, Nicole Etchart, Brian Milder and Cecilia Jara, *Get Ready, Get Set... Starting Down the Road Toward Self-financing*, NESsT, Santiago, 2004, Guidebook, page 19.

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A.4. Legal and Regulatory Environment for Self-financing and Social Enterprise

An enabling legal environment for CSOs is generally in place, although certain deficiencies persist. Registration of CSOs is fair and easy, but the term “nonprofit organization” still remains undefined, which makes it difficult to clearly interpret and apply laws such as the VAT (value-added tax) legislation. Specialized legal expertise and assistance for CSOs is rather limited and mainly available only in large cities.

Tax regulations are not as favorable to CSOs as in various neighboring countries of the region. Most CSOs (with the exception of foundations and funds) are allowed to engage in economic activities, so long as proceeds are used for statutory purposes. Income from statutory activities is generally tax-exempt, while donations, grants and subsidies are tax deductible. Any other income is completely exempt from income tax up to 300,000 CZK (approx. EUR 10,000 or USD 13,000 based on October, 2006 exchange rates). Above this rather low threshold, 30% of the total income can still be deducted from the tax base, but total deductibles are not to exceed 1 million CZK (approx. EUR 35,000 or USD 44,000). After all reductions are taken into account, the standard 24% income tax rate applies.

In terms of sales tax, CSOs involved with social services, health care and education are exempt from the output VAT (they do not have to collect VAT, but pay VAT for their purchases). For other types of CSOs, the 2004 Law on VAT lowered the revenue limit to one million CZK (approx. EUR 35,000 or USD 44,000), above which they must register in the system and collect and administer VAT at 19%.

These regulations have put additional financial burden on CSOs engaged in income-generating activities as they do not distinguish between nonprofit (social) and for-profit enterprises.⁷ Earlier legislation granted VAT exemption depending on the type of organization and not the type of activities. Furthermore, since NGOs have to report income and expenses for each individual activity separately, they may face a greater income tax liability despite the tax base reduction than for-profit entities, which are able to offset earnings from one event with losses from another.

A.5. Substance Abuse in the Czech Republic

The most recent report of the European School Survey Project on Alcohol and Drugs (ESPAD) published in 2003 and also corroborated by the Czech National Monitoring Centre for Drug and Drug Addiction (National Focal Point; NFP) states that Czech youth have the highest rate of lifetime cannabis usage of EU countries (43.6%, see Exhibit 2). The study observed increasing acceptance of illicit drug use in several groups of young people and found that in 2003, approximately 82% of adult population admitted that drugs present a serious problem in the country. The report listed changes in family structure, the growing economy and purchasing power, and the increase in public tolerance for drug use as the main contributing factors to the alarming drug use statistics of the Czech Republic.

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As part of the pre-accession to the EU and in response to the alarming drug addiction problem, the Czech government adopted the 2001-2004 National Drug Policy Strategy in 2000 and the 2005-2009 Policy Strategy in 2004. These strategies are based on a multidisciplinary, scientific and balanced approach between drug supply and demand reductions, and rest on four main pillars: primary prevention, harm reduction, treatment and rehabilitation, and repression.

8 USAID 2004 NGO Sustainability Index Report for Czech Republic.

Table III: Pillars of the 2001 – 2004 Czech National Drug Policy

Approach	Demand Reduction			Supply Reduction
Pillar	Primary Prevention	Harm Reduction	Treatment and Rehabilitation	Repression
Description	Activities focused on prevention of drug use or postponing the first encounter of children and young people with drugs	Activities focused on decreasing health and social damages on drug users	Activities focused on treatment and social reintegration towards abstinence or reduction in drug use for drug users who freely decided to live without drugs	Set of legal measures and activities to suppress the supply of drugs

This drug use prevention policy views rehabilitation and aftercare services (the kind P-Centrum engages in) as necessary in order to maintain treatment efficiency as they reduce the risk of relapse and facilitate social reintegration.

According to USAID⁸, the majority of the treatment and aftercare programs in Czech Republic are implemented by civil society organizations. In 2006, the NFP (www.drugy-info.cz) lists 21 facilities nationwide specializing in aftercare and rehabilitation services, of which more than 70% are managed by nonprofit organizations. P-Centrum is the only such facility in the Olomouc region. Nevertheless, despite yearly increases in domestic and international funding, the capacity and availability of structured outpatient and aftercare programs have continued to be insufficient throughout the country. According to the NFP approximately 95,000 persons that abuse drugs were registered in patient files of outpatient facilities in 2003, but only half were undergoing active treatment. The availability of substitution centers and aftercare programs continues to be poor; the majority of them are located in large towns and therefore inaccessible to potential patients from small towns or villages. Under such circumstances, the unique and pioneering work of P-Centrum remains a highly needed program and national model.



9 The Czech Statistical office (www.czso.cz) and www.drogy-info.cz.

Section B. P-Centrum

B.1. History, Mission and Objectives

P-Centrum (originally named Sananim Olomouc) is a nonprofit, non-governmental civic association founded in 1994 in the town of Olomouc in the Czech Republic to counter the growing drug addiction problems of the region. As the nationwide statistics of drug abuse and related social problems worsened,



One of P-Centrum's therapy rooms.

Olomouc region, situated in the eastern part of the country in the province of Moravia, (Exhibit 1) was no exception. Still, while being the sixth most populous of the 14 Czech regions with six percent of the total population (approximately 635,000), the region received only four percent of the total state and regional funding earmarked for drug-related programs in 2003, ranking it in eleventh place in terms of per capita funding.⁹

P-Centrum's mission is to provide services in the areas of prevention, treatment, rehabilitation, and social reintegration for persons endangered by drug and alcohol abuse. P-Centrum's committed and professional staff of social workers

and therapists believes that the most effective way to prevent and reduce drug addictions is through education and primary prevention. While the organization only offered primary prevention programs at first, as demand for drug addiction treatment grew, P-Centrum soon expanded its services to also include rehabilitative treatment, outpatient counseling, and aftercare programs. As a result, the full spectrum of P-Centrum's service offer aligns closely with the demand reduction components of the Czech's National Drug Policy mentioned earlier.

Table IV: P-Centrum's Programs Align with Czech National Drug Policy

Approach	Demand Reduction		Supply Reduction	
	Primary Prevention	Harm Reduction	Treatment and Rehabilitation	Repression
P-Centrum Activity	1994 – Primary Prevention Program 1995 – Child Daycare Center 2003 – Gallery 'U Mloka'	1995 – Outpatient Counseling and Treatment	1998 – Aftercare Program -Sheltered woodcarving workshop -Sheltered housing	



Primary Prevention Program

P-Centrum initiated its program in 1994 with the purpose of supporting children in their ability to form their own opinions, reflect their feelings, interests, and differences about using drugs. The complex preventive program visited by school groups as well as families is based on experiential teaching methods providing a safe environment for discussions and role playing games with their peers as well as adults and experts. The aim of the program was and continues to be educating and providing resources for children so they can form a healthy value system which leaves no substantial space for drug use. The program deals not only with illicit substances, but also includes legal drugs with a focus on preventing alcohol and tobacco abuse.

Child Daycare Center

The center was created in 1995 to complement the Primary Prevention Program. The Center helps and supports children with behavioral disorders – psychosocially deprived, ill-treated and abused children. The clients of the program are primary and secondary school pupils – aged 7 to 15 – who are pushed out from normal peer groups or otherwise ignored and as such exhibit high-risk behaviors such as substance abuse, petty crimes, aggression or running away from home. The youngsters are normally referred to P-Centrum by their family or school. The aim of the program is to provide a safe haven for these children and equip them with better social and communication skills; self-awareness and awareness of others; stress management ability; and other skills, in order to avoid their placement in treatment homes or psychiatric wards and by so doing enhance their chances of reintegrating into their surroundings.

Outpatient Counseling and Treatment

P-Centrum started offering outpatient counseling and treatment services in 1995. The service is aimed at clients from the Olomouc town and region who have addiction problems related to drug or alcohol abuse or gambling. The goals of the program are to motivate clients to change their lifestyles; stop or at least reduce their substance use, improve their social environment, and maintain relationships with peers. Services include therapeutic sessions, motivation trainings, psychiatric care, counseling, healthcare referral service, and substitution treatment.

Aftercare Program

The aftercare program was developed in 1998. The purpose of the program is to facilitate social reintegration of clients into society after successful residential addiction treatments. It is necessary in order to maintain the effectiveness of previous treatment as it reduces the risk of relapse and facilitates social reintegration.

Prior to entering the aftercare program, clients must be drug-free for at least three months and have successfully completed psychotherapeutic treatment.



Typical aftercare clients suffer from severe health problems (e.g. Hepatitis C), have limited or no work experience, and have complicated family and social relationships. A majority of the aftercare clients have only finished basic school, are indebted, and often have been in prison for drug-related crimes.

Their support program consists of structured activities. It includes intensive therapy – individual therapy and counseling and group therapy sessions, sheltered work - such as the woodcarving workshop - and work counseling and leisure time activities. P-Centrum also provides sheltered, drug and alcohol free, supervised accommodation.

The overall goal is for clients to successfully reintegrate into society: remain drug-free, maintain at least part-time employment and have friends that do not use drugs; or at least stay away from their previous lifestyle of crime and addiction. Although the aftercare program was originally focused on clients that are endangered by drug abuse, alcohol abuse clients have been accepted to the program.

Sheltered Woodcarving Workshop

The sheltered woodcarving workshop is an integral part of the aftercare program. It provides clients with the opportunity to acquire standard work habits (regular attendance, time management, responsibility, creative outlet, daily routine, new skills, etc.) and education in traditional craft skills. The workshop provides occupational therapy and helps clients build self-esteem, giving them an opportunity to produce tangible wooden products. In addition, the workshop helps clients return to normal lifestyles and reintegrate into the labor market.

Only aftercare clients who had little or no prior work experience are referred to the woodcarving workshop. Clients must also be older than 18 years old due to safety concerns and Czech employment law. Workshop clients are employed by P-Centrum and receive wages slightly above the minimum wage. The sheltered workshop is a short-term service. Clients stay there for a maximum of six to nine months in preparation for the transition to independent living. P-Centrum believes that this short period provides sufficient time for workshop clients to develop work habits for employment in the regular labor market, as the goal of the workshop is to support social reintegration and not to provide long-term employment.

Sheltered Housing

The sheltered housing is located on the top floor of P-Centrum's facility. Clients can rent beds at a subsidized rate of 1,500 CZK (EUR 53.00 or USD 67.00) per month which is 40% lower than the market rental rate. As part of the social reintegration mission and to recover a portion of the costs, P-Centrum decided not to provide free shelter, encouraging clients to work and be responsible for rent.



Gallery 'U Mloka'

P-Centrum started operating an art gallery in 2003 to raise awareness of drug and alcohol addiction and promote their services in treating people endangered by drug and alcohol abuse. By opening its facility to a wider public, P-Centrum also hopes to reduce the stigmatization of people who use the facility for specialized services as well as provide a safe environment for people to seek further counseling. The gallery is a place for informal meetings, visual arts displays, and musical and literary activities of young people. Inside the gallery, there is a small teashop, operated by student volunteers. P-Centrum sees the gallery as a center of local community and an effective vehicle of education through art, breaking barriers and improving tolerance to diversity. P-Centrum also considers the gallery as part of its self-financing strategy.

B.2. Social Enterprise Development and Operations – The Woodcarving Workshop

The sheltered woodcarving workshop originally started as a carpentry project in 1998, when P-Centrum moved its office to its current location. The organization hired its aftercare clients to produce the furniture for the new premises. The clients did a very successful job, and even started to create their own designs – small sculptures or decorations. The clients demonstrated to others, and more importantly, to themselves, that they could create value while also learning new skills and earning a livelihood. The work experience bolstered their self-esteem, enhanced their sense of responsibility and self-reliance, and even improved their physical health through regular exercise.

Realizing the integrative as well as therapeutic benefits on clients, P-Centrum sought to create a sustainable and long-term program out of the carpentry project and decided to turn the activity into a regular woodcarving workshop, able to eventually generate its own revenues. The woodcarving workshop regularly encountered financing problems, however, partly due to the regular ebb and flow of donor funding and partly because some of its costs were not the type of costs that are typically covered by regular grant funds.

As government subsidies and grants to support the workshop had been critically below the required budget, P-Centrum needed to generate additional funding to continue operating the workshop. Seeing the beneficial impact of the woodcarving activity, the Olomouc municipality – already a supporter of P-Centrum programs - placed an order for sculptures for the city's newly planned wooden playground in 1999.¹⁰ P-Centrum then realized that there could be a viable market for the workshop's products and services. The organization began attending trade shows and exhibitions to market its products and sold sculptures to municipalities and private customers in an ad hoc manner. Nevertheless, P-Centrum continued to focus its fundraising efforts on securing donations, government grants and subsidies. However, the possibility to operate the workshop in a more business-like fashion had emerged and P-Centrum was on a constant lookout to improve its operations and finances.

10 The cooperation between P-Centrum and the Municipality continues untarnished ever since. In the *Stanford Social Innovation Review*, Summer 2006 issue, Olomouc Mayor Martin Tesarik attested that the results of P-Centrum's work can be seen and felt in his economically challenged city. "The wood-carving workshop substantially increases the client's chance to succeed in getting a job in the face of the competition on the labor market." The city continues to donate around USD 36,000 annually to P-Centrum.



In early 2001, P-Centrum staff members attended a NESsT social enterprise workshop. Since the organization was already selling its products, staff felt excited by the social enterprise concept and the potential of NESsT's structured support to professionalize the self-financing of the workshop. P-Centrum decided to conduct a feasibility study and prepare a business plan in response to NESsT's call for proposals.

B.2.1. NESsT and the NESsT Venture Fund

NESsT operates the NESsT Venture Fund (NVF), a venture philanthropy fund which provides both technical and financial assistance (on a case by case basis) to CSOs in Latin America and Central Europe to plan, launch, and develop their social enterprises. Social enterprises developed and supported through the NVF should demonstrate potential to be innovative models that can be replicated for maximum impact.

The NVF is designed to demonstrate that:

- CSOs can strengthen their organizational sustainability and mission impact through social enterprise.
- Through a careful and well-planned enterprise development process, CSOs can reduce the risks of social enterprise and increase their chances of success.
- Funders can play an important role in supporting CSO financial sustainability.

NESsT uses the experiences and lessons of the NVF portfolio members to drive the development of the field by providing role models, replicable case studies and best practices. The process consists of two distinct, sequential stages:

Stage 1: NVF Early Stage Portfolio (feasibility of the social enterprise idea)

During five to seven months of intense cooperative work, NESsT provides on-going technical assistance and consulting advice to guide CSOs through the evaluation of their prospective social enterprises. The amount of assistance provided is approximately 30 full-time workdays. CSOs are provided with tools and training in organizational readiness for social enterprise, business plan development and sustainability planning. This assistance both helps to professionalize the CSO, and to evaluate the feasibility of the proposed enterprise. Each step in the process builds upon the previous one to deepen the level of analysis culminating with the development of a business plan. CSOs are assessed at the end of each stage to determine if they will advance to the next and are expected to take the initiative to push through the entire process.

Stage 2: NVF Later Stage Portfolio (launch and implementation of the social enterprise)

Organizations that are selected to join the NVF later stage portfolio receive tailored multi-year (three to five years) support combining strategic, managerial, and financial support from NESsT and its collaborating team of business experts and partner institutions. The amount of technical and financial assistance provided by



the NVF to later stage portfolio varies according to the needs of each organization and depends on the levels of human and financial resources available by NESsT each year, but tends to average 30 full-time workdays per year. Typical amounts of financial support range from USD 1,000-10,000, with an average of USD 5,000. NESsT works with each portfolio organization to ensure that it meets the enterprise development, social change impact, institutional development and financial sustainability goals established in the planning process. Over the period of time that CSOs are in the NVF, portfolio members develop the ability to operate their enterprises independently and in a sustainable manner.

At both early and later stages, NESsT is assisted by members of its Business Advisory Network, who offer their knowledge and skills on a pro bono basis to members of the NVF¹¹.

B.2.2. Early cooperation between P-Centrum and NESsT

With NESsT's guidance, P-Centrum assessed the long-term viability of operating the woodcarving workshop as a social enterprise, through the rigorous NESsT Venture Fund enterprise development and due diligence processes. Together they thoroughly evaluated the venture: its product line; the target markets; competition; human resources, operational and financial needs; social impact; potential risks and mitigation strategies, as well as the venture's impact on the organization both in terms of mission and financial gains. It was the first time that P-Centrum had to critically evaluate its organizational readiness to run an enterprise, or create business and sustainability strategies in a structured manner. Due to the novelty and required special skills of this experience, the plans and documents were mostly prepared by then Economic Manager of P-Centrum, Pavel N. – who had background in sales and marketing and hence was in the best position to understand the concepts. This however meant that the rest of P-Centrum staff was not closely involved in the planning process.

P-Centrum set ambitious goals for the woodcarving enterprise. Based on the 2001 operating budget for the workshop, P-Centrum placed this cost-recovery target at 60% of total operational expenses, worth about 900,000 CZK (EUR 29,300 or USD 28,000) for 2002. The social goal was to increase employment in the sheltered workshop at any given time from six to ten clients within five years, with wages at least 20% above the minimum wage. The organization was not aiming to fully finance the workshop for two main reasons. First, since the social enterprise had a very significant therapeutic component (standard work habits and skills, regularity, improved health, etc.), P-Centrum was certain that it could always secure partial funding for its operations from grants and donations. The organization had been receiving subsidies from the Ministry of Labor and Social Affairs (MOLSA) and the Labor Office that subsidized the employment of marginalized groups or workers with decreased working capabilities. This grant allowed P-Centrum to pay for the salaries of the workshop foreman and three of the workshop clients. Still, additional funding needed to be secured for the remaining operational expenses.

11 Network of businesses and business professionals who donate their time to support the NESsT Venture Fund portfolio and that in some instances make investments in portfolio organizations for a social return.



The woodworking workshop at P-Centrum.



The other reason for an only partial cost-recovery target was the specific nature of P-Centrum's employment model that viewed work for its therapeutic value as much as for its income-generating potential. Employing beneficiaries not only meant bringing in a stream of untied revenues, but it also provided integrative and therapeutic benefits to clients. This meant incurring additional "social costs" such as close ongoing supervision and coaching of the clients as well as lower productivity levels due to their limited labor capacities. As a result, P-Centrum realized that it would be extremely difficult to fully recover costs of the workshop and decided on a hybrid funding-scheme which would include a subsidy component.

As for the target market of the venture, P-Centrum thought its primary customer would continue to be municipalities. However they also planned to diversify their customer base to include private customers. The product mix included life-size custom-designed sculptures and benches shaped like dachshund dogs. P-Centrum planned to produce the benches in an assembly-line manner to achieve higher efficiency. It also planned to offer after-market maintenance services.

Although there were local woodcarvers in the Olomouc region, they were no direct competitors to P-Centrum, as they either focused on different types of woodcarving commissions (art restoration or unique sculptures for public areas); targeted different markets (one woodcarver had 90% of his customers from Prague and was not oriented towards Moravian customers); or had insufficient capacity (one or two carvers only) for larger commissions such as playground orders. In terms of pricing, P-Centrum initially intended to price its products below those of comparable products in the markets, believing that a lower price might capture more customers. However, seeing that P-Centrum produced high quality wooden sculptures with unique designs, which would normally even carry a price premium, NESsT suggested the organization set a higher price, more comparable to the usual market rates.

To minimize the negative implications of a potential failure of the venture, P-Centrum also assessed the potential enterprise and mission risks and came up with mitigation strategies together with NESsT. In the likelihood that P-Centrum was ever forced to shut down the enterprise, the plan was to help workshop clients search for new job, offer volunteer opportunities, and allow clients to use the sheltered housing free of charge, or refer clients to other aftercare treatment facilities in Czech Republic.

The careful planning process culminated in a business plan, which was reviewed and endorsed by NESsT and members of the NESsT's Business Advisory Networks (BAN). By the end of 2001, P-Centrum became a member of the later stage NVF portfolio.

As a member of the portfolio, P-Centrum gained further access to the expert strategic, managerial and financial support and guidance of NESsT. P-Centrum also received its first Venture Grant of USD 10,000, which was spent on further tools and equipment, training, as well as marketing and promotional events. Communication and exchange was regular and tailor-made: P-Centrum



participated at trimesteral capacity-building workshops and received one-on-one consulting support on a quarterly basis. These opportunities served to discuss progress made against specific performance indicators and to identify core skills and capacities that needed to be further developed to meet the specific needs and conditions of P-Centrum's social enterprise. By the end of each year, P-Centrum also developed a performance management plan and a budget for the next year including a request for next year's funding from the Fund. NESsT assisted P-Centrum to develop its product mix, pricing and sales strategy; streamline internal processes and systems and also funded the creation of a multi-language product catalog, and the design of a new website.

In exchange, P-Centrum had to commit to implement and continuously use the Performance Management Tool (PMT)¹², designed to monitor and manage the development of its social enterprise with goals and indicators in four main areas: enterprise performance, social impact, financial sustainability, and organizational development.¹³ Furthermore, P-Centrum committed to attend NESsT's workshops and exchange its know-how and experience with other CSOs in the NVF portfolio.

Section C. Management Challenges

C.1. Growing the Enterprise and Managing the Double Bottom Line

By the end of its first year of implementation (2002), P-Centrum employed a total of ten clients, 50% of which successfully went on to obtain a job in the labor market. The woodcarving enterprise more than doubled its self-financed ratio from 16% to 36% (Exhibit 3). While an important achievement, this still remained below the originally envisioned 60%. During that year P-Centrum worked to further develop an appropriate sales strategy, pricing structure, clear production capacity and appropriate product mix. P-Centrum decided to diversify its products from the originally planned lawn furniture items and stand alone sculptures such as the dachshund bench to the construction of playgrounds. The organization believed this would raise the awareness of the enterprise among the local communities and municipalities quickly.

P-Centrum had initial success with its marketing efforts and accepted orders to construct two playgrounds for Olomouc municipalities. Playground projects however proved time-intensive, weather-dependent and required significant human capital. Because sculptures for the playgrounds were custom-designed and were much larger in size, they also often had to be completed on site. Clients had to spread out and work individually to complete different tasks around the playground, a change from the assembly line system they was originally planned.

In order to meet the deadlines, the organization had to ask and encourage the workshop clients to work overtime and also sometimes over the weekends. At first it seemed that working overtime might in fact benefit workshop clients as it simulated a real-world situation. According to the Foreman, the workshop clients were also receptive to the idea as they could earn extra money.

12 The Performance Management Tool (PMT) was developed by NESsT for use by the members of the NESsT Venture Fund (NVF) portfolio. The PMT helps enterprises develop and monitor their social and financial goals against established benchmarks. The Tool is based on NESsT's extensive work with portfolio members. The basic framework considers social enterprise development as the driver for social impact, organizational development and financial sustainability.

13 For detailed impact in these four areas, see Section D: NESsT's Value-Added and the Social Enterprise Impact.



"When I started, I tried to communicate the necessity to earn money and self-finance the workshop. But soon after, I started to realize the conflict between serving our clients and becoming profitable..."

– Miloslava C., Economic Manager 2003-2005, during an interview in April 2006.

Just one year after P-Centrum launched the woodcarving enterprise however it began to transpire that the two objectives of the venture – mission and financial based – may potentially come into conflict. Having recently recovered from drug-addiction, most workshop clients lacked a regular structured routine in their lives, had limited or no previous work experience, and often suffered from complicated health, family and social situations. Because of these unique characteristics and needs, the workshop was limited by the type of products it could offer and the number of clients it could employ at any given time.

This problem was not initially foreseen as the sheltered workshop had been previously running smoothly as an aftercare program activity. P-Centrum soon learned however, that the normal business assumption that increases in labor hours or manpower would lead to an increase in production proved to be invalid and inapplicable to its enterprise.

Within weeks, overtime work started to take a toll on the workshop clients and the organization. Decrease in therapeutic effectiveness was observed as clients were not able to concentrate or attend required therapy sessions. Some workshop clients became ill due to mental and physical stress. On several occasions, workshop clients were not able to attend or were late to the required group sessions because they had to finish the assigned tasks at the workshop. The Foreman in fact observed decreases in overall productivity with overtime work. Also, as the number of workshop clients and their hours increased, the Foreman needed to spend more time on training and supervising new clients; therefore decreasing the individual attention he could give to each of them. Due to financial constraints, P-Centrum could not hire an additional supervisor, however.

As market demand began to increase, operational constraints grew and P-Centrum found itself in a real dilemma. On the one hand, it became increasingly clear that if indeed the workshop was to operate according to the dictates of the market, that the increased workload would compromise the therapeutic value of the sheltered work environment. The clients would have to produce under strict deadlines in order to honor all contracts. Doing this, however, would put the beneficiaries under undue stress and undermine the therapeutic goals of the workshop. Given its commitment to maintain the therapeutic benefits of work and promote the reintegration of clients, P-Centrum could not allow this to happen.

On the other hand, not bringing in a minimum level of revenues from the enterprise could jeopardize the whole endeavor. P-Centrum now had entered the real market, had orders to fulfill and clients to satisfy. Maintaining production levels was critical to enterprise success. Also, given the fact that P-Centrum would have to fundraise for any proportion of the workshop's budget not covered through self-financing, the real challenge now lay in finding the right and realistic balance between financial and mission goals without severely compromising either.

NESsT advised P-Centrum to concentrate on products with a higher profit margin, i.e. smaller items. These were easier and faster to produce and customize



if needed, had a higher profitability and even provided a more immediate sense of accomplishment for clients. The revised production mix was a combination of dachshund benches, smaller sculptures, and now only one playground project per year. In order to successfully shift its product mix however, P-Centrum needed to diversify its customer base and concentrate less on large playground projects.

2003 accordingly saw P-Centrum redirecting its marketing efforts to reach out to wider target market that included individuals as well as other public institutions. Besides covering certain workshop expenses, P-Centrum used NESsT's second tranche of funding of USD 10,000 to develop a multilingual catalog and other marketing efforts. The organization increased its presence at exhibitions and fairs, sought contacts and meetings with municipalities, schools, hotels, etc.

With the help of NESsT BAN member Dan L., P-Centrum was even able to enter the Prague and Brno markets, with a higher concentration of well-off individuals and thus a better paying potential for lawn furniture. During that year, P-Centrum also obtained an EU Certification¹⁴ for one of its larger sculptures, the Spring Swing. The certification allowed P-Centrum to position the product as a high quality item complying with all required safety standards and further assured existing and potential customers of the quality of P-Centrum products.

In 2003, P-Centrum was able to hire a total of thirteen clients – three more than the prior year - and 51% of clients successfully went on to obtain a job in the labor market –maintaining the level of the previous year. In terms of financial performance, the enterprise was able raise the price of the dachshund bench by seven percent and recovered 32% (527,743 CZK in income; or EUR 17,000; or USD 19,000) of the workshop operational costs, still in the range of the previous year's actuals. Despite this price increase, for the second year in a row P-Centrum fell short of the desired target of 60% cost-recovery. The shortfall came partially from continuing capacity constraints and partly from the extensive marketing reorientation campaign. Although the latter resulted in an increased market demand from individuals, capacity issues resurfaced and P-Centrum struggled to meet production targets and delivery deadlines.

As a result of the pressures and conflicts generated by the underlying dilemma of how to balance earning with treatment, the general atmosphere and work environment of the organization started to deteriorate. Tension between staff who viewed the social mission – rehabilitation and therapeutic value – as its priority and those who viewed income-generating potential as its priority led to organizational conflict. Moodiness and quarrels increased amongst workshop clients and between clients and staff. Therapists and social workers had to dedicate more time to provide additional counseling sessions for the workshop clients. There were different and often opposing motives of the Foreman responsible for scheduling clients' workload, therapists responsible for conducting the therapy sessions, and the Economic Manager responsible for meeting sales targets by the deadlines.

Acting under what he often felt were contradictory objectives, the Foreman had to ask workshop clients to stay late and complete the assigned tasks, as their

14 The EU Certification is required for large sculpture designs to ensure that they are safe for children. The certification must be renewed every three years.



productivity declined. In a vicious circle this in turn led to decreased production and lowered morale. The therapists observed the deteriorating effectiveness of treatment and asked the Director, the Foreman, and the workshop clients to reduce overtime work. At times, the Economic Manager felt unable to fully convey the underlying necessity of self-financing and sustaining the enterprise to the social staff and the Foreman of the workshop. The problem was further exacerbated by changes in key leadership positions of the organization. (See below, "Changing Leaderships" section)

"When I started, I tried to communicate the necessity to earn money and self-finance the workshop. But soon after, I started to realize the conflict between serving our clients and becoming profitable..." – Miloslava C., Economic Manager 2003-2005, during an interview in April 2006.

Seeing that capacity issues persistently caused production bottlenecks, NESsT suggested increasing the capacity of the workshop. Employing regular workers (not clients who needed additional supervision) was suggested. P-Centrum did employ two "outsiders" who were serving their civil service and at times contracted part-time regulars. It soon became apparent however that "mixing" regular workers with clients defeated the primary purpose of the workshop: providing a sheltered work environment with special individual supervision and therapeutic purpose.

Seeing that even despite trying various alternatives the initial financial goal proved unrealistic, P-Centrum revised its financial goal to 40% cost recovery for 2004. During this year, partly from attempts to increase the workshop capacity, P-Centrum concluded that the optimum number of clients in the workshop at any given time with regular hours of work (and their given conditions) was around four. Accordingly, one of its social goals was also revised, limiting the number of clients to four at a time in order to maintain therapeutic effectiveness while also achieving higher production efficiency.

P-Centrum re-developed its website and explored an innovative new fundraising/sales hybrid where foundations or corporate sponsors could buy the products to donate to schools, public parks or kindergartens. By buying P-Centrum's products at auctions or through direct order and donating them to schools, donors would help support a social cause and community development – and also benefiting P-Centrum's social purpose business.

In 2004, P-Centrum used the USD 3,300 of NESsT unrestricted funding to obtain additional EU certifications and purchase further equipment for the workshop. This year, P-Centrum developed new designs of small indoor sculptures and secured permanent display at hypermarkets and garden centers in Prague and Brno. It continued to professionalize the enterprise by developing on-line catalog for the workshop. They maintained the number of clients employed during the year at 13. This year the enterprise recovered 30% (384,870 CZK; or EUR 12,000; or USD 15,000) of the workshop's costs and obtained EU certifications for another two sculptures.

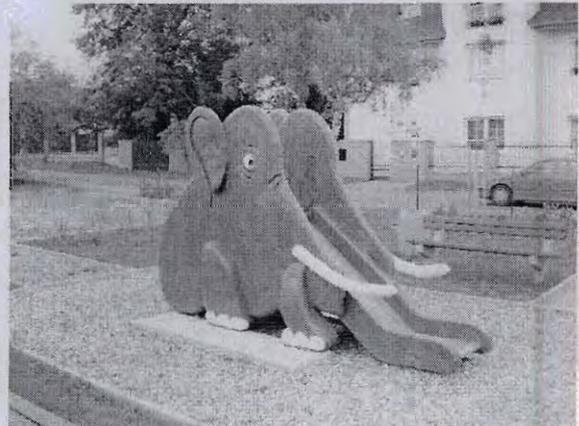


By the end of 2005, having received funding and capacity building for three consecutive years, P-Centrum would exit the NESsT's Venture Fund (NVF) portfolio. Before this happened however, the organization had to resolve the ongoing issue of balancing the tensions between achieving social and financial goals. After observing the decrease in therapeutic effectiveness, the staff felt that they were failing the very people they were committed to serving. Following the exploration of various options and even going through internal conflicts resulting in staff changes, they all came to the same conclusion. The ultimate goal of the enterprise was still to achieve the social mission - supporting workshop clients in reintegrating into society - and the decision for overtime work as well as inclusion of outside workforce was revoked.

In 2006, P-Centrum continued to experience difficulties to achieve the originally envisaged 60% cost-recovery threshold, so they again set the minimum level of revenue target the workshop was supposed to reach at 400,000 CZK annually (EUR 14,000 or USD 18,000), or approximately 35-40% of the workshop's operating budget. Lowering the original plan of recovering 60% of the workshop operational cost to this level from now on seemed a much more realistic and less burdensome (at least in terms of production and sales) goal which also allowed maintaining therapeutic effectiveness. This of course also meant that fundraising efforts had to make up for the remaining percentage.

In order to stabilize market demand, P-Centrum continued with the revised product mix concentrating on smaller items with higher profitability and also kept playground projects to one per year. Realizing that they were not fully able to meet increased demand coming from urban well-off individuals - as their revised marketing strategy was indeed producing increasing orders - P-Centrum again decided to concentrate on its immediate region and municipalities and public institutions as the main target customers. The organization re-focused marketing efforts towards building long-term relationships with schools and kindergartens and partnerships with hypermarkets and garden centers. At NESsT's suggestion, P-Centrum revamped its workshop catalog to include a full range of color photos and product descriptions. P-Centrum determined that it was more cost-efficient to market to municipalities because this way the organization could rely on their existing contacts and reputation. In addition, municipalities would also indirectly help P-Centrum to market its products by encouraging schools and kindergartens to purchase them.

To further smooth out the fluctuation in operation and production, P-Centrum also started accepting people who were serving drug-related alternative correctional sentences to work in the workshop. If orders still exceeded the production capacity of the workshop, P-Centrum would not ask workshop clients to work overtime but rather hire former staff or workshop alumni to help complete the orders. Neither of these strategies undermined the sheltered nature of the workshop.



An elephant slide made in P-Centrum's workshop for a children's playground.



C.2. Changing Leadership

Further complicating a resolution to the production versus treatment issue were repeated changes in the management of P-Centrum. The founding director of P-Centrum, Dusan D. and the first Economic Manager, Pavel N., worked in tandem to develop the workshop and later on to turn it into a social enterprise. They were both aware of the therapeutic and financial potential of the venture, but could not foretell where the compromise point between these two goals would meet. 2003 saw the first leadership transition, with Radmila H. coming in as new Director, and Miloslava C. taking over from Pavel N. as Economic Manager. The new Director had more background in economics than her predecessor, but no previous experience in the nonprofit sector. Accordingly, the new Director together with the Economic Manager put more emphasis on achieving the financial goals to ensure continued operations and managed the organization in a more business-like manner. The organization's structure and reporting system became more hierarchical and the staff compensation structure was also modified.

"I felt that my work was ruined. The new Director did not understand our purpose and focused on making money. I wanted to leave..." – the Foreman during an interview in April 2006.

At the same time, the new Director did bring her previous business expertise and contacts to P-Centrum, which was instrumental at the time given the decision to shift marketing efforts and enter urban markets, targeting individuals and corporations.

Nevertheless, staff felt that the organization became less transparent and internal communications suffered. The Foreman and some of the therapists felt they had lost a sense of purpose, were unmotivated, and wanted to leave the organization. However their commitment in serving the clients convinced them to stay and continue their work.

"I like working with wood and people. This is the best job for me because I can work with wood and also help other people..." – the Foreman during an interview in April 2006.

In 2005, P-Centrum went through another leadership transition getting yet another Director as well as a new Economic Manager. It was the second major leadership transition at P-Centrum within two years. The third Director, Dagmar K. had CSO management experience with a background in counseling and therapy and had worked at P-Centrum in the past. The new Economic Manager, Bozena V., came from a marketing background and had no experience working in the third sector. Miloslava C., the previous Economic Manager who cultivated an excellent relationship with all staff, was invited to join the Board of Trustees.

It was the first time that P-Centrum had a Director that had prior management and counseling experience in the nonprofit sector. Because of her previous work experience at P-Centrum, she was familiar with its past organizational challenges



even though she new little about the social enterprise itself. Nevertheless, she felt that it was necessary to set clear organizational vision and priorities for the enterprise.

"We know that the workshop will never be completely self-financed. It has to be social enterprise but primarily social only then enterprise. Our social mission must be met first."
– Dagmar K., Director, during an interview in April 2006.

The third and current Director has worked towards addressing and mitigating organizational conflict of balancing the tensions between achieving social and financial goals. To make sure the therapeutic value was not compromised, the financial goal was maintained at a conservative minimum threshold of 40% recovery per year. If the workshop had insufficient production capacity to complete the sales order, P-Centrum would outsource the work to local professional woodcarvers or hire former staff or workshop alumni to help complete the order. This way the sheltered nature of the workshop could be maintained as the former would do P-Centrum orders in their own workshops while the latter were familiar with the sheltered work environment having been through it themselves and could even provide further motivation for the current clients.

After years of internal dilemmas that also translated into friction amongst personnel, and exploring different operational alternatives by trial and error, the staff and board members now believe that they have found the optimal solution in which both financial and therapeutic objectives can be meet simultaneously without tipping the balance.

"We were like a pendulum. We went from one end with the first Director who focused on social mission to another end with the second Director who focused on financial goal. With the third Director, we have found our place..." – a therapist during the interview in April 2006.

C.3. Transforming Organizational Culture

As P-Centrum operated the enterprise, the organization slowly experienced changes in its culture. The staff started to develop an entrepreneurial mindset and attitude towards the concept of generating income to further the organization's mission. With experience in launching and operating the woodcarving enterprise, in 2003 P-Centrum went on to establish the Gallery 'U Mloka' where the organization also set up a small teahouse to self-finance the gallery. The gallery and the teashop enterprise are operated by student volunteers. P-Centrum believed that the teashop fulfilled the social goal of the Gallery in raising awareness of P-Centrum's mission and services by opening the facility to the wider public. P-Centrum also made it a policy to have a self-financing component in the revenue mix of every new activity it would launch in the future.



Section D. NESsT's Value-Added and the Social Enterprise Impact



A P-Centrum client at work in the sheltered workshop.

P-Centrum approached NESsT in 2001 seeking support to turn its woodcarving activity into a self-sustaining enterprise. NESsT has been instrumental in expanding the workshop and building the strategic, managerial and operational capacity P-Centrum needed to operate it. Initially, NESsT guided P-Centrum through the process of evaluating its organizational readiness for social enterprise, of setting and clarifying mission and financial goals, and researching and writing a feasibility study and a business plan. With NESsT's tailor-made capacity-building, planning and financial support, P-Centrum evaluated the viability and long-term sustainability of the planned enterprise; studied the market demand and competition; built a separate workshop and improved the production process; revamped financial management systems, and developed initial product mix. NESsT also provided the unrestricted funding that was crucial in launching the enterprise.

In order to reach the expanded venture's original goal of 60% cost recovery, P-Centrum developed a strategic plan including marketing and sales strategy, professionalized its cost and risk management as well as marketing efforts, and harmonized the venture's mission and financial bottom lines under NESsT's guidance. At the launch of the enterprise, P-Centrum adopted the NESsT Performance Management Tool (PMT) in order to set goals and indicators and to track and manage the process of enterprise development and implementation.

Since the launch of the social enterprise, the workshop has seen an increased number of clients with an increased rate of reintegration and a correspondent drop in relapsing beneficiaries. The product mix as well as customer base have been diversified. The organization consolidated the development of a committed staff, and improved its governance structure. A balance between business and mission-driven mindsets has been reached: priorities that at times seemed conflicting in the past have been reconciled. Furthermore, P-Centrum successfully diversified its revenue base and with additional donors gained through increased national and international visibility, improved reporting and monitoring capabilities, and management capacities. Almost five years of NESsT's individualized support prepared P-Centrum for autonomous operation and facilitated the organization's smooth exit from the NVF portfolio in 2006.

* Co-financing leveraged by NESsT from other donors invested directly in the social enterprise.

Table V: NESsT Investment

Capital	USD	24,872
Capacity-Building	USD	48,300
Leveraged Capital*	USD	6,172
TOTAL	USD	79,344



Enterprise Performance

Highlights:

- increased cost-recovery of the workshop from 16% (2001) to around 40% by 2005;
- expanded production capacity and diversified product mix;
- expanded market to larger cities including Prague and Brno;
- obtained EU certifications of safety and quality for several products.

Entering target markets

The initial target markets were municipalities that primarily bought P-Centrum's products for schools and kindergartens, as well as for residential playgrounds. As the business developed, and following the advice of NESsT and one of its business advisors, P-Centrum decided to explore the markets in larger cities, like Prague or Brno. From 2003 on, P-Centrum's new products, including the smaller pieces, appeared in garden furniture stores and shopping malls, which provided more visibility and sales opportunities. NESsT advice was instrumental in designing a product mix (focusing on smaller items) and a high quality catalog that reflected this.

Marketing strategy

P-Centrum developed long-term relations with 30 schools over the past years and is now also selling products to schools and kindergartens through cooperation with municipalities (district of Olomouc). The organization also successfully targeted individuals and later on corporations through innovative strategies. Its auctions, where individuals or companies could bid or pay for its products to donate to schools and kindergartens, brought in additional revenue and also improved local philanthropy.

Product and service quality

P-Centrum has uniformly managed to maintain higher quality products than that of competitors. The organization has improved a great deal in terms of product line and positioning, coming up with innovative products and additional services to customers, such as maintenance and renovations of outdoor statues. P-Centrum has also managed to get EU certification for many of its products.

Financial management system of enterprise

There have been significant improvements in the financial management systems, mainly accomplished with NESsT's close assistance. P-Centrum implemented income statement templates, as well as the Performance Management Tool, and continues to use them. The PMT allowed P-Centrum to evaluate each product type and modify product mix to increase profitability.

Financial goals

During the past three to four years, P-Centrum management has been constantly tracking financial performance and checking it against annual performance goals as well as the original goals set out in the business plan. As mentioned earlier, revisions in sales and revenue projections were made due primarily to capacity issues that arose from the specific conditions of the workshop's clients and the prevalence of the therapeutic objectives.



"We know that the workshop will never be completely self-financed. It has to be social enterprise but primarily social only then enterprise. Our social mission must be met first."

– Dagmar K., Director, during an interview in April 2006.

Even though overall figures remained under projections, there was an increase in sales volume over the years. The initial goal of 60% cost-recovery was revised to 40% and is planned to be maintained at this level. The management views this as the maximum attainable level without compromising the treatment potential of the sheltered work environment. Both therapeutic and productive efficiency is higher than hoped for, even with this smaller number. Sales figures stabilized around half a million CZK (in both 2004 and 2005) or about 6-7% of total organizational revenues.

Risk mitigation

An ongoing risk for P-Centrum's operations is the cost-recovery nature of the enterprise. The organization continuously needs to raise funds to cover workshop expenses. Therefore P-Centrum constantly seeks out ways to cut costs, for example, by looking for employment subsidy programs. There is consensus that management has an increased awareness of potential risks, as shown by the fact that they have already identified a potential funding gap after the expiration of a current European Social Fund grant. The organization's ability to anticipate and mitigate against potential risks has increased.

Social Change Impact

Highlights:

- more than doubled number of clients working in enterprise from six in 2001 to an average of 12-15 by 2005;
- percentage of youth who successfully reintegrated into society and found regular employment after leaving the workshop reached 50% by 2003 and has remained around and above that figure ever since. Given higher numbers of clients in the workshop, this meant an absolute increase in employment levels;
- percentage of clients who abandoned their previous lifestyles of crime and addiction has reached and stayed around 85%.
- increased visibility and acceptance of people with drug problems through workshop as well as other activities inspired by its success.

Achievement of mission goals

P-Centrum strongly believes that the workshop achieved its mission goals: it increased the rate of successful reintegration of clients into society, as well as provided beneficiaries with new skills, which help them reintegrate in the regular job market. Approximately 10-14 clients work in the workshop each year for periods of three to six months maximum. P-Centrum has also been able to provide wages that are 15-30% above the minimum wage for its beneficiaries, exceeding another original goal.

"It started as a hobby eight years ago. It is like gardening. Someone brings you a damaged flower; sometimes it blooms again or may wither away. The best aspect of the job is when a particularly tough client comes back after three or four years, and he is completely on his feet. He has a good job." – a therapist during an interview in April 2006.



Expanding programs

The workshop has had wide impact throughout the organization and especially the aftercare program. Workshop clients participate in the primary prevention program by talking to children, or help out with renovations at the center. Funding no longer needed for the workshop was used to develop and co-finance additional services for the primary prevention program.

The success of the workshop and the proven ability to manage a social enterprise encouraged P-Centrum to launch another self-financing venture: Gallery U Mloka. The workshop as well as the teahouse-cum-gallery contributed a great deal to the overall visibility and approval of P-Centrum, as well as the de-stigmatization of drug addicted people.

In addition to these direct effects, the organization also benefits from increased public relations, and new contacts and networking. P-Centrum has even gained new donors who first encountered the organization through the workshop's products. A recent grant (see below) won at a European Union tender to finance personnel expenses at the workshop for the next two years, also includes financing for other aftercare programs, such as a computer literacy course for P-Centrum's beneficiaries. In addition, P-Centrum recently extended the aftercare services to young people with alcohol addiction.

Promoting systemic change

The workshop demonstrates that youth coming out of drug addiction can also be creative and productive members of their communities. The positive image that resulted from P-Centrum's social enterprise led to changes in the public's attitude about what drug addicts can achieve and contribute to society.

While P-Centrum continues to be the only organization in the Czech Republic which runs a primary prevention as well as a successful aftercare program with a sheltered workplace for recovering addicts, the model serves as an outstanding example for many other CSOs that work with similar populations or other disadvantaged groups. P-Centrum accordingly places significant emphasis on disseminating their experience, best practice and lessons learnt.

Institutional Development

Highlights:

- revamped financial systems and improved performance monitoring, projections and cash-flow;
- improved human resources management and governance structure, attracting and retaining key staff;
- increased strategic and planning capacity integrating all elements of P-Centrum's wide array of services;
- introduced sustainability policy requiring new programs to have a self-financing component in revenue mix.



A cat bench at an Olomouc park.



Infrastructural development

In terms of infrastructure, the workshop strengthened the organization by securing several assets. The workshop has another building on long-term lease with the local government as well as numerous tools and equipment to help run the workshop smoothly. The old venue for the workshop – adjacent to the P-Centrum building - was converted into an activities room for the primary prevention program.

Human resource management and governance structure

P-Centrum's social enterprise also made a huge impact on stakeholder relations. P-Centrum has significantly strengthened relations with its donors (old and new) and the municipality (see footnote 9). Human resource management has undergone major changes too, becoming more flexible and performance-oriented. Two main goals have been articulated: 1) retention of quality staff and, 2) increase in staff satisfaction and team stability.

Recently P-Centrum switched to renewable defined-term contracts for most staff members, retaining the long-term regular employment contracts only for a few key staff members. This way the organization is able to pay higher salaries to both workshop staff as well as organizational staff, while also reducing fixed costs.

Motivating staff and fostering personal development is key to P-Centrum's future: Employees are sent to seminars or the organization supports them in their studies (two employees are now pursuing university degrees with organizational help). Three key former staff (among them the first and second Economic Managers) were invited to the Board to continue contributing their skills and experience on P-Centrum's behalf. Half of the seven-person board consists of people who have had management experience at P-Centrum and are familiar with the organization and its operational challenges. The Board has also achieved a balance between members with business and nonprofit backgrounds

Organizational culture

Thanks to the woodcarving workshop, P-Centrum has become more efficient and entrepreneurial. It has become a policy that each program has to have a self-financing component in its revenue mix. The organization learned to use management and financial tools not only to monitor its performance but also to think strategically and plan long-term. The organization started using the PMT and developing strategic plans for other programs as well. In 2003, P-Centrum was able to put its entrepreneurial skills to use by establishing the teashop enterprise to contribute to the financing of the Gallery.

Internal communications

The organization also realized that it needed to increase collaboration and communication among staff, management and the board to better understand and manage the relationship between sales, therapeutic treatment, and the workshop clients. The therapists hold a weekly joint meeting with the Economic Manager, the workshop clients and the Foreman to assess the progress of workshop clients from all relevant angles. The meeting serves to provide updates on upcoming workload and clients' work-related rehabilitative progress on the



one hand, and progress on their therapeutic treatment on the other. The Economic Manager provided updates on sales and marketing efforts as well as overall financial progress of the enterprise.

Financial Sustainability

Highlights:

- adopted a sustainability principle whereby every activity is to have a self-financing component;
- increased number of donors from 15 to 23, including municipalities, individuals as well as corporations;
- generated own income that is used for funding operational expenses or as collateral for future, major grants;
- dependence on government sources has been reduced from 70% to 55% of organizational revenues.

Diversification

Even though the original financial goals of 60% cost-recovery for the workshop had to be revised downwards, the self-financed component of the organization's budget has increased. Eleven to twelve percent of the organization's revenues now comes from self-financing, about half of which comes from the sales revenues of the workshop; the rest from the gallery, lecture fees in the primary prevention program, and the children's center (parents pay fees for camps).

The organization's funding mix has also become more diverse. The number of donors has increased from 15 to 23, and NESsT business advisor Dan L. became the first private investor of the enterprise. One new donor, an insurance company, decided to fund the primary prevention program after having seen the products of the woodcarving workshop. Because P-Centrum was able to secure the necessary collateral from its own income, the organization successfully applied for a large European Social Fund (ESF) grant in 2005, which covers – among some other aftercare program costs - expenses to employ 24 clients over two years. The grant, at 2.5 million CZK (EUR 84,000 or USD 105,000), provides full funding for the workshop for this period. This way any sales revenue over the organization's own committed part (250,000 CZK; or EUR 8,400; or USD 10,500), can be used as extra unrestricted revenue by P-Centrum. The ESF fund also allowed P-Centrum to increase the wage of workshop clients to 20% above the minimum wage as originally planned.

Dependence on government sources (Ministries) has simultaneously been reduced from about 70% to 55-60% of organizational revenues as the funding mix diversified. A condition for the continued support of Ministries is the certification of services, a process that P-Centrum is currently undergoing.

Asset building

As a result of revenue from the enterprise the workshop could renovate old equipment and was able to acquire new equipment, including blacksmith's tools and a furnace to manufacture in-house the wrought iron and metal parts of sculptures. Furthermore, P-Centrum purchased new computers, furniture and



furnishing for the sheltered accommodation at the center. Plans for the future include buying a building, which would be used for expanded sheltered accommodation for clients.

Financial management

As already mentioned, the NESsT PMT and other financial planning tools were used to evaluate feasibility of new projects that the organization has considered undertaking. Indirectly, as financial information was readily accessible, P-Centrum was able to reduce time required for grant writing and improve the organization's chance of obtaining grants. This ability also proved instrumental in applying for and successfully getting funds from the European Union's Social Fund.

Section E. Summary

Bringing a business to profitability is difficult under any circumstances. Experience suggests that it can even be harder in the case of social enterprise. In general, a for-profit enterprise has the single and most important goal of generating profit. On the other hand, a social enterprise must meet both social and financial bottom lines, particularly in an employment model, that employs the very beneficiaries of the CSO. P-Centrum's social enterprise is a classic example and as such demonstrates vividly the potential difficulties and solutions in such circumstances.

The workshop's operational constraints brought to light the tensions between social and financial goals. P-Centrum faced the dilemma of compromising treatment effectiveness and relationships with the beneficiaries versus compromising relationships with its customers and the reputation of its enterprise and the organization. The key challenge lay in finding the right mixture of therapy and income-generation without compromising either objective.

NESsT's assistance and ongoing consulting helped P-Centrum to balance the double bottom line. Together the organizations recognized that the financial goal of the woodcarving enterprise was limited by the impact of workshop clients' unique characteristics and NESsT advised P-Centrum to explore a different product mix and marketing strategy. NESsT also encouraged P-Centrum to price its products higher than comparable products on the market while focusing on building its reputation as a high quality hand-made wooden sculptures producer.

P-Centrum was ambitious when it set both its financial and mission goals for the workshop. The organization remained attentive to the challenge of meeting both goals and eventually decided to readjust them. Organizations, especially the ones that plan to employ their own beneficiary group, should set clear but flexible goals that can later be adapted to the realities of the business while also taking into account special circumstances of employing clients.



More importantly, there should be organizational consensus behind the basic underlying assumptions and primary objectives of the venture, so that strategy can be fine-tuned to keep the common vision intact. To achieve this unity, more emphasis needs to be placed on involving all key staff in the enterprise development process, to make sure everyone develops ownership over the planned venture.

Furthermore, cost-recovery models also require more careful and conservative planning. In this case, every penny below planned income would increase the need to find sources of funding that could otherwise be used for other purposes.

In the case of P-Centrum, the normal business assumptions were not applicable to its enterprise. Increasing demand did not necessarily translate into increased production and in turn into increased sales. However, a strong commitment to achieve its social mission and NESsT's guidance led P-Centrum to evaluate other alternatives to grow its enterprise.

Challenges that could threaten the sustainability of the woodcarving enterprise are still evolving. P-Centrum's ability to stay vigilant of external pressures and develop strategic plans is crucial in mitigating these risks. To counter potential challenges successfully, P-Centrum, like any other organization planning on launching a social enterprise, had to adopt a holistic approach to its sustainability: strengthening both the management team and the board; clarifying priorities in light of a realistic assessment of the market; improving overall organizational efficiency and capability; diversifying financial resources and stakeholder relations, and balancing social and financial perspectives.

Social enterprise can no doubt help CSOs further their missions on many levels. Through the enterprise, P-Centrum has not only directly benefited its clients but also succeeded in changing public perception of the organization and drug addiction. Further, NESsT's enterprise development support equipped P-Centrum with the skills and tools necessary to sustain its enterprise and further its mission impact after exiting the NVF portfolio. P-Centrum has learned to manage risks and has built a strong and lasting team that will ensure its long-term sustainability.

"We are ready, you taught us everything." – Dagmar K., Director during an interview in February 2006.



Exhibit 1: Map of the Czech Republic with Olomouc



Exhibit 2: Cannabis Use Amongst School Population (aged 15-19)

Country	Cannabis Use (%)
Czech Republic	43.6
Slovak Republic	35.5
Hungary	35.5
Germany	33
Belgium	33
Slovenia	28.3
United Kingdom	27
France	21

Source: European School Survey Project on Alcohol and Drugs (ESPAD), 2003.



Exhibit 3: **Self-Financed Ratios of P-Centrum's Woodcarving Enterprise**

