



Nonprofit
Enterprise and
Self-sustainability
Team (NESsT)

NESsT Case
Study
Series

Chile
December
2006

17

English

La Morada: The Challenges of Adopting an Entrepreneurial Culture in a Social Change Organization

A case study by the William Davidson
Institute at the Ross School of Business,
University of Michigan (WDI)



In cooperation with NESsT and
La Morada.



This case study was made possible thanks
to the generous support of the United
States Agency for International
Development (USAID) Office of Private
Voluntary Cooperation, Bureau for
Democracy, Conflict and Humanitarian
Assistance.

Social Enterprise Summary

NESsT Venture Fund Portfolio Member Since: 2002

Sector: Women's rights and advocacy

Social Enterprise Activity: Professional counseling services

Target Percentage of Budget from Self-financing: 100%

Copyright 2007 NESsT. All rights reserved.
DRAFT Case Study: Not to be distributed, cited, copied or referenced without permission of
NESsT.



USAID
FROM THE AMERICAN PEOPLE



1 Please see a detailed definition in the "Self-financing and Social Enterprise" section.

Executive Summary

The nonprofit organization La Morada operates in Santiago, Chile as a center for advancing women's rights. Established in the mid-nineties, one important division of La Morada is a psychological treatment Clinic for low-income women, many of them victims of domestic violence. During its early years of operation, the Clinic had become heavily reliant on donor funding. This funding began to dry up toward the end of the decade, and the Clinic increasingly found it difficult to make ends meet. The revenue and donor support the organization did receive was not enough to cover operating expenses. During this time, La Morada was undergoing significant personnel changes that only made this difficult situation all the more challenging.

La Morada solicited the help of the Nonprofit Enterprise and Self-sustainability Team (NESsT), an international nonprofit organization that works to strengthen the financial sustainability and mission impact of nonprofit organizations. With NESsT's guidance and support, La Morada began the process of preparing and transforming the Clinic into a full-fledged social enterprise.¹ The organization traditionally provided psychological therapy services at no cost to its low-income patients, while the social enterprise would involve expanding this service to higher income clients and charging fees to all clients based on a sliding scale. The management, strategy, and culture of the organization needed a transformation in order to successfully apply the knowledge and expertise that NESsT was providing. The Clinic went through two executive directors working with NESsT before a business plan was finally completed.

La Morada discovered that the push for change brought on by the social enterprise launch came primarily from the leadership who encouraged the staff and other stakeholders that the mission of the organization would not be compromised with a social enterprise initiative. It was imperative to obtain staff buy-in, as they were concerned that the business model might weaken the mission-focus of La Morada. During the business plan development process, La Morada hired an executive director who was able to bring about the cultural change that the Clinic needed to implement the social enterprise. The executive director emphasized to the staff that charging the low-income clients would not be unethical and that there would be minimal client resistance. The new director was able to motivate the staff and encourage them that the business model would in fact further the mission of the Clinic. Additionally, this leader was able to apply controls and procedures that the Clinic was lacking in order to run an efficient organization. The tools and guidance provided by NESsT during this transformation were also critical in ensuring its success.

This case study analyzes the challenges that existed at La Morada prior and during the implementation of the social enterprise and the internal changes that were required in order to successfully launch the enterprise. Additionally, this case study evaluates La Morada's relationship with NESsT and the role that the NESsT Venture Fund played in this transformational process. Finally, management and cultural lessons-learned are highlighted for nonprofits that are thinking of engaging in a social enterprise initiative.

DRAFT Case Study: Not to be distributed, cited, copied or referenced without permission of NESsT.



Section A. Background

A.1. Country Overview

Chile has experienced a wide range of political movements and pressures throughout its history. It was colonized in the sixteenth century by the Spanish conquistador Pedro de Valdivia, creating violent conflict between the indigenous habitants and the colonizing forces. Spain controlled Chile for several centuries until Spanish power was rocked by Napoleon Bonaparte's forceful usurpation of the Spanish throne. This change in power led to a nearly decade-long battle for independence from Spain, which was finally declared in 1818. The nineteenth century ushered in a period of a weak democracy, with frequent political struggles, culminating in a civil war in 1891.²

Coming into the twentieth century, a political tug of war grew between conservatives and leftists. After a narrowly won election of a Marxist president in 1970, Chile became highly polarized as the socialist government began an expansive program of applying socialist principles to economic policies, including price-fixing. In 1973, the Marxist government was overtaken by the Chilean General, Augusto Pinochet, in a military coup. For seventeen years, the Pinochet dictatorship controlled Chile, secretly kidnapping key political figures, torturing and executing thousands of dissidents, and committing numerous other human rights abuses.

The regime also overturned the Marxist economic reforms. Influenced by University of Chicago economic professors, Pinochet's economic advisors introduced a radical program of privatization, including cutting tariffs and government welfare. The Pinochet dictatorship began to weaken in the mid-eighties as in-fighting increased and relations with neighboring countries grew strained. Democracy was restored to Chile in 1990 after a narrowly won democratic election. Chile has since then experienced strong economic and political growth.³

A.2. Nonprofit Sector in Chile

There were few nonprofit sector organizations in Chile prior to the 1960s. Mainly fueled by the human rights abuses of Pinochet, the number of civil society organizations (CSOs)⁴ exploded in the seventies and eighties. There was a significant need for support services after the Chilean government slashed welfare programs. These organizations mainly emphasized meeting basic human needs (poverty reduction, human rights, education). The CSOs struggled in their infancy, as they were often ill-equipped and not well-mobilized. There was however, a reasonable amount of foreign investments and aid packages that was available to CSOs. As the social conditions improved in the nineties, CSOs began offering expanded programs that addressed indigenous rights, the environment, and drug addiction.⁵ It was also during this time that CSOs began to speak up about government policy changes toward the nonprofit sector. One major case for reform was the lack of transparency in the central government. For example,

2 <http://en.wikipedia.org/wiki/Chile/History>
Accessed March 15, 2006.

3 Ibid.

4 Civil Society Organizations (CSO) are those organizations outside of government and traditional business sectors that engage in non-profit, social-based activities, including non-governmental organizations and community associations.

5 Clewett, Elizabeth Rachel. *Constructing Civil Society in a Neoliberal Age: A Case Study of NGOs, GROs, and the Chilean state in the 1990s*. [Ph.D. dissertation]. United States – District of Columbia: The George Washington University, 2001, p. 8.



- 6 Stanziola, Javier. *Neo-Liberalism and Cultural Policies in Latin America: the Case of Chile*. International Journal of Cultural Policy, 2002 Vol. 8 (1), p. 32.
- 7 Etchart et al. *The Legal and Regulatory Framework for CSO Self-Financing in Chile* Santiago, 2002, p. 19.
- 8 Mangili Pelech, Jobanni. *El sector sin fines de lucro en el mundo: Oportunidades y desafíos para Chile*, Universidad Técnica Federico Santa María, published January 9 2006 in <http://www.diaripyme.cl>.
- 9 Irrázaval, Ignacio. *Estudio Comparativo del Sector Sin Fines de Lucro Chile*, ISBN 956-310-150-2, Santiago, Chile, April 2006.
- 10 The Section "Self-financing and Social Enterprise" is drawn from multiple NESsT publications, www.nesst.org/publications.

the government often took up to six months to grant a nonprofit incorporation status, but could easily take it away with little or no explanation.⁶

Within the past ten years, the central government has begun to introduce policy reform, but there is still much room for improvement. Nonprofits with a direct service or welfare mission have been granted a tax exemption from income tax. However, only a limited number of CSOs have been granted this exemption. In general, "community-based CSOs and those that work in areas such as human rights or the environment"⁷ are not included in this tax break.

The nonprofit sector in Chile is growing and a recent study cites a total of 83,386 civil society organizations in the country. In terms of employment, the sector accounts for 300,000 salaried jobs and more than 350,000 volunteers in 2006.⁸ Another study suggests that the sector employs 4.89% of the totally economically active population, which encompasses 160,259 full-time salaried jobs and 143,624 full-time volunteers. This same study indicates that the relative size of the sector can be demonstrated in terms of expenditures, whereby nonprofit organizations encompass 1.5% of GDP.⁹

Since the stabilization of the Chilean economy in the late 1980s and the subsequent improvement of the political environment, the amount of foreign aid to Chile has dropped significantly. The improved socio-economic conditions in Chile have prompted foreign donors to move on to countries in more need of assistance. International donations provided much of the nonprofit sector funding during the Pinochet dictatorship, but the withdrawal of this funding has left CSOs either searching for new funding sources or having to trim down their existing programs. In order to continue to exist in the future, Chilean CSOs need to find new ways to fund their social change activities.

A.3. Self-financing and Social Enterprise¹⁰

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. In the case of La Morada, the organization has adopted the "Fees for Service" model. It is important to remember, however, that no one 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 model can be used.

Table I: Types of Self-financing Strategies

<p><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).</p> <p><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).</p> <p><i>Use of "hard" assets:</i> renting out real estate, equipment, or other physical resources when not in use for mission-related activities.</p> <p><i>Use of "soft" assets:</i> generating income from patents through licensing agreements or by endorsing products with the CSO name or reputation.</p> <p><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).</p> <p><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.</p>
--

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

	<RELATED TO NGO MISSION		UNRELATED TO NGO MISSION>	
Program Activities	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



- 11 Etchart et al. *The Legal and Regulatory Framework for CSO Self-Financing in Chile*, Santiago, 2002, p. 20.
- 12 Centro de Análisis de Políticas Públicas de la Universidad de Chile, Julio, 2001.

A.3.1. Legal and Regulatory Environment for Self-financing and Social Enterprise

In Chile, the legal and tax environment provides minimal benefits for nonprofit organizations. As previously mentioned, welfare institutions are provided a tax exemption from income tax. This is the only exception. Those nonprofits that are not direct service or welfare organizations are subject to the same taxes as for-profit organizations: a flat 17% income tax and a value-added tax (VAT) of 19% on goods and services (sales tax). All commercial activities (term for self-financing used in Chilean law), including those belonging to nonprofits or CSOs, are required to pay a provisional monthly payment (PMP) based on the expected annual income. Since many CSOs have low levels of commercial activity, most of the PMP is returned at the end of the year. The VAT, though, is charged to all business activity, even income tax exempted welfare institutions. For example, a soup kitchen is required to pay VAT on the food it purchases, even though it is then distributed free of charge to its clients.¹¹ In short, the Chilean government offers minimal benefits in the way of tax benefits to promote the development of civil society. There are, however, no restrictions that prevent a nonprofit from selling products or services within this tax environment.

A.4. Domestic Violence in Chile

La Morada's social enterprise directly addresses domestic violence, a prevalent and serious problem in Chile with multiple repercussions on the well-being of women and children and overall society.

Violence against women and intra-family violence generates tremendous human, social and economic costs. In Chile, 50.3% of women have been victims of domestic violence inflicted by their partners at some point in their lives. This constitutes over half of the female population that is or has been married; of which 16% have experienced psychological violence and 34% physical or sexual abuse. Based on this research, it has also been established that 14.9% of Chilean women in partner relationships have been victims of sexual violence.¹²

In Chile, seven out of ten boys and girls experience physical or psychological abuse from their parents. Only 26.4% of boys and girls are spared violence of any type. 73.6% are victims of some type of violence, and 25.4% experience serious physical abuse with severe dangerous implications for the child (UNICEF, 2000). An alarming situation arises when one considers the rate of children that witness violence between their parents. In addition, data shows that there are 20,000 cases of sexual abuse per year in Chile, 90% of which occur to minors between the ages of 5 and 14 (Sernam, 1992). This same study indicates that in 75% of the cases, the person who inflicts the abuse is someone that is related to – or known by – the victim.

The costs of domestic violence for Chile represent a tremendous obstacle to the country's development. A comparative study of Chile and Nicaragua conducted by the Inter-American Development Bank (Morrison and Orlando, 1997), demonstrates the effects of violence on the income of working women. The



results show that women who are in situations of domestic violence receive wages that are greatly inferior to those received by women who are not in these situations. Depending on the type of violence experienced, the percentage of salary received by the women who are victims of violence is 40-64% of the income received by women who are not victims of abuse.

Another aspect that was measured in the study is the effects of domestic violence on the school performance of children - ages seven to sixteen - of women who are victims of this violence. In Santiago, parents in homes with domestic violence are notified in larger proportions that their children are having academic problems. The major differentiating factor in terms of academic performance is lack of discipline. Regardless of the type of domestic violence being experienced, children from homes with violence tend to have discipline problems in school in much greater proportions: between 33% and 40%, in comparison to 13% to 21% for those children who come from homes with no domestic violence (Morrison and Orlando, 1997).

In its 1993 Development Report, the World Bank estimates that nine million years of healthy life are lost every year worldwide due to rape and domestic violence, representing 5% of years of healthy life among women of reproductive age in developing countries. Mortality rates among women due to intra-family violence is worsened by fatalities stemming from homicide and suicide, and morbidity rates increase due to injuries, partial or total disability, as well as various medical profiles such as depression, anxiety, post traumatic stress, nutrition, drug abuse, and sexual and personality disorders.

There are various life-long consequences in the case of abused children as well. The exact profile of these consequences depends on individual characteristics, the social and family contexts, and the nature of the abuse. Nevertheless, common results are fatalities from homicides or suicides and morbidity from injuries, partial or total disability, and other symptoms including anxiety, and/or those that are depressive and/or behavioral in nature. Abuse of children can result not only in these symptoms, but can transform into severe developmental disorders.

Other international data demonstrate that 50% of incarcerated individuals have a history of domestic abuse during childhood, which confirms the important relationship between intra-family violence during childhood and the development of social transgression and crime.

The monetary and non-monetary costs of gender and family violence, like those associated with the demand for health, police and judicial services, could also be considered. Domestic violence creates social expenses associated with the decline in the productivity of working women and men - areas where no studies have yet been conducted but that would allow for a more precise accounting of the full impact of domestic violence.



Section B. La Morada

B.1. History, Mission and Objectives

La Morada was formed in 1983 by a group of women in Santiago, Chile as a center for feminist thinking and action. Their goal was to promote the feminist movement, including gender rights. In a strongly patriarchic country, La Morada is committed to reducing domestic violence and workplace discrimination while also promoting public policies that benefit low-income women. La Morada is one of the pioneer women's rights groups in Chile and is well-known for its strong impact within Metropolitan Santiago. La Morada is dedicated to promoting and developing a civil society that fully respects women. The organization accomplishes this mission through the following objectives:

- To question patriarchal power relationships
- To establish a non-discriminatory environment for women
- To develop the financial means of women and the community

La Morada operates several programs to further its mission. It is organized into three main divisions: RadioTierra (an AM radio station), a citizenship/human rights division, and a psychological treatment center. As La Morada became better

known in the community, women began showing up at the "house" (an affectionate name the staff calls the purple colonial style "casona" which houses their offices) looking for psychological help. The staff—trained professional psychologists—, were sympathetic and began to respond to this demand for psychological support.

As La Morada continued to see a rising demand for its psychological services, the organization decided to officially open a psychological therapy Clinic (El Centro Clínico y de Investigación) in 1994. The organization saw this program as a strong extension of its mission, a place where abused women are provided counseling and

psychological therapeutic treatment. La Morada also realized the potential of the psychological treatment to resolve the problem of violence and discrimination. Alongside the therapy, La Morada also began to disseminate findings from their practical work through publications, seminars and presentations, and to advocate on behalf of women's rights and health issues.

La Morada is registered as a nonprofit organization in Chile. As such, it is required to have certain oversight and structure. Overseeing La Morada is a Board of Directors and a general assembly. The general assembly is made up of 38 members that are responsible for evaluating and approving the budget. Every two years the general assembly elects five individuals to the Board of Directors. The directors are



La Morada's offices are located in an inviting colonial-style house in Santiago.



the political organ of the institution and are responsible for creating the budget and implementing the strategies of the organization. They are also responsible for managing the day-to-day operations of La Morada and making decisions related to organizational structure. The directors oversee the three divisions of La Morada. (See Appendix 1 for an organizational chart of La Morada.)

Today, the Clinic, informally called "El Centro de Salud" by staff and patients, operates with a very limited number of staff. There is a director, ten psychologists, four psychologists in training, and a secretary. Only the secretary is a full-time staff member. The Director has a half-time position, and the psychologists and the students are employed on a part-time basis. The students are not paid for their 10 months of service. However, the Clinic receives funding from the university (University Diego Portales) for the internship as reimbursement for the training the interns receive.

B.2. Social Enterprise Development and Operations in the Clinic

La Morada's funding sources have changed over its history. During the Pinochet regime, La Morada was able to secure international donor funding easily. With the fall of the Pinochet regime in 1989, this international assistance slowly began to leave the country and La Morada was forced to start searching for alternative funding sources. In 2002, La Morada recruited the help of NESsT. NESsT operates the NESsT Venture Fund (NVF), a venture philanthropy fund¹³ 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 implement their social enterprises.

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 social enterprise 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 ongoing technical assistance and consulting advice to guide CSOs through the evaluation of their prospective social enterprises. The amount of assistance provided is equivalent to 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

13 Venture philanthropy is a hybrid approach to giving that integrates the philosophy and practices of long-term investment and venture capital models of the for-profit sector with the grant-making principles of the nonprofit sector. Sometimes called "engaged philanthropy," the strategies of venture philanthropy combine financial "investments" in nonprofit organizations with additional capacity-building, mentoring, or management assistance to help nonprofits success in meeting their goals. Source: Davis, Lee and Nicole Etchart, *All in the Same Boat: An Introduction to Engaged Philanthropy*, Santiago, 2006, p. 2.

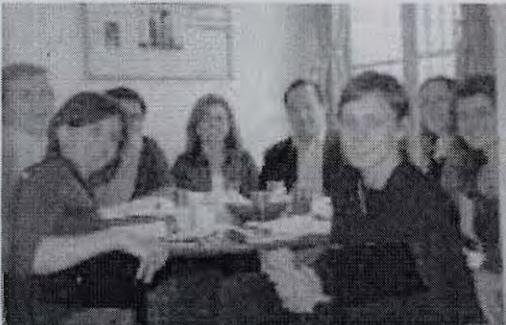


14 A network of businesses and business professionals who donate their time to support the NESsT Venture Fund portfolio. They also, in some instances, make investments in portfolio organizations for a social return.

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. NESsT's Enterprise Development Manager is assigned to work closely with the supported organization. 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 to NESsT each year, but tend to average 30 full-time workdays per year. Typical amounts of financial support range from USD 1,000-10,000 (EUR 800-8,000), with an average of USD 5,000 (EUR 4,000). 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.



The staff of La Morada and NESsT meet with members of the Business Advisory Network to review the business plan.

At both early and later stages, NESsT is assisted by its Business Advisory Network members,¹⁴ who offer their knowledge and skills on a pro bono basis to members of the NVF.

With the help of NESsT, La Morada went through the social enterprise development process from 2002 – 2003 and devised a business plan for the psychological treatment Clinic. Although the Clinic only accounted for 5% of the overall operating budget of La Morada at that time, it was deemed by the organization's Board to be most in need of NESsT's

support. In the early years, the Center had offered its services at no cost, and most recently had begun to accept symbolic payments from some its clients. The strong rising demand for the Clinic's psychological treatment services indicated that it would be possible to increase the number of clients and generate revenues to cover the Clinic's costs. The business plan expanded the Clinic's target market to include middle-class women who could afford to pay higher service fees and thus offset the costs of the lower income clients. The plan indicated that through a moderate growth strategy, the Clinic could break-even in year three of operations while increasing both its lower and higher income clients. NESsT helped La Morada in developing pricing, marketing and human resources strategies that would help the Clinic to meet these projections.

The business plan was completed at the end of 2003 and the social enterprise launched in January, 2004. The following objectives were outlined in La Morada's business plan. (See Appendix II for the timeline of the social enterprise



development and implementation process). The following sections outline the key components of the business plan developed by La Morada and NESsT.

Product Strategy Overview:

El Centro de Salud offers psychological therapy to improve the quality of life of its clients, both personally and professionally. In particular, the Clinic reaches out to lower income women in Chile. The business plan defined the service as treatment and therapy to individuals using a systemic psychoanalytical model from a gender perspective model. The Clinic does not offer group counseling sessions. The social enterprise consists of extending these services to paying clients across Santiago, particularly middle income women with monthly income levels ranging from approximately USD 350-1,000 (EUR 275-800), ages 13-50, from the north, west and southeast districts of metropolitan Santiago. In addition, the Clinic reaches out to university students, both male and female, also at middle income levels.

15 At the current exchange rate of CLP 520 pesos per dollar existing during the writing of this case study.

Table III: Target Market, La Morada Business Plan

Segment	A	B	C
Gender	Women	Women	Women and men
Age range	15-29	29-50	13-29
Location	North Santiago	East and North Santiago	North and Southeast Santiago
Monthly Income Level (Chilean pesos)	201,000	280,000-521,000	390,000-521,000
Description			University students
Volume	77,597	155,195	162,184

Price Strategy

The Clinic does not charge each person a flat fee, but varies the fee based on the client's ability to pay. La Morada charges its clients a price, per session, ranging from CLP 3,000 (USD 5.77; EUR 4.57)¹⁵ to CLP 15,000 (USD 28.85; EUR 22.87). For La Morada's lowest income clients, the fee of CLP 3,000 was still within reach. The final price charged is determined by the psychologist during an initial appointment.

The average price per session established in the business plan is CLP 8,400 (USD 16.00; EUR 12.70). In an effort to reach the lower income women who cannot afford the more expensive clinics, this price is significantly lower than the competition. This average price can, in some cases, be as low as half that of the competition. The strategy was designed to increase the quantity of middle-class patients served who were able to pay a higher rate, but a rate that was still lower than most private Clinics. In this way, the higher-income clients would cross-subsidize the lower income clients that pay less than the average fee. An average price would be maintained to cover the cost of operations. This pricing strategy was expanded when the Clinic increased the number of services offered to



include families, couples, adolescents and children as target groups. Family sessions, for example, are charged at a higher fee (CLP 15,000), thus increasing the average price per visit. The Clinic has also entered into partnerships with a local university and several agencies of the Chilean government where these partner institutions subsidize a portion of the fee. The total fee received by the Clinic is greater than would be received if only the client was paying.

Marketing Plan

The business plan outlined an extensive plan for marketing the Clinic and increasing awareness of the services offered. In the first year of the enterprise (2004), La Morada conducted a marketing campaign that introduced a new corporate identity and logo. NESsT sought the support of a member of its Business Advisory Network, the director of a well-known communications agency, who assisted La Morada with this campaign. The objectives of implementing this marketing plan were as follows:

- Increase the number of clients
- Attract middle-class clients
- Become known as a self-sustaining organization
- Position the Clinic as a standard and reference for quality and as a leader in forming professionals in the mental health industry
- Position the organization as a leader in human rights and gender discrimination.

The Clinic has had to overcome the image of being a low-cost provider and the misconception associated with charging significantly less than the competition. It was felt by some potential patients that the Clinic was charging less for their services to make up for a lack of quality. A word of mouth marketing campaign has helped improve the image of the Clinic. As more clients have discovered the high-quality services that the Clinic offered, the low-price equaling low-quality stigma has lessened.

Since this first year campaign, the Clinic has scaled back its budget for marketing efforts. The Clinic has been advertising through email promotions to local university students (including follow-up phone calls and emails), as well as through increasing word-of-mouth referrals.)

Sales Plan

One of the goals of the social enterprise was to expand services into markets that were not being reached by other psychological Clinics. La Morada would achieve this by disseminating information about the Center, building on its contacts and database, as well as through patients' word-of-mouth. University students are a market segment that La Morada began to pursue with the enterprise. A goal for the first two years of the five-year plan was for La Morada to enter into a partnership with a local university where the university would subsidize a portion of the cost of student treatment. Under the partnership, university students would receive treatment from La Morada that they would otherwise be unable to afford, were they required to pay the full fee. The university would subsidize a portion of the cost of treatment, such that the



student's share of the fee would be manageable. The total fee received would be CLP 10,000, which would also help increase the average fee received at the Clinic. La Morada did enter into such a partnership with the Universidad Academia de Humanismo Cristiano. La Morada planned to expand this operation with more universities by the end of year five. However, the Clinic was unable to find another university that was willing to subsidize the treatment of students. The other universities either had their own programs established or did not have the funding to subsidize student treatment. The Clinic is not currently pursuing expansion of this program. It is, however, looking at tapping into new similar partnerships with government ministries, labor unions and private companies to increase the number of clients.

Competition

The business plan identified that La Morada's competition came primarily from the health sector which is made up of public and private facilities. These facilities often provide treatment for a wide variety of issues such as psychosis, schizophrenia, drug addiction, and depression. Many organizations hold group therapy sessions and do not offer individual treatment. The Clinic's comparative advantage is that it specializes in treating women and charges a much lower price. The private facilities generally charge between CLP 25,000 and CLP 45,000 per session, on average four times higher than the price that La Morada aimed to charge according to the business plan. Additionally, the strong relationship La Morada has with universities allows it to have a competitive advantage with both clients and student interns.

La Morada has seen an increase in the number of students studying psychology over the past few years. The organization believes that this increase, along with the expected increase in demand of patients, will bring many new competitors into the market in the future.

Human Resource Plan

A team of six psychologists was contracted part-time (10-20 hours per week) to carry out their psychological treatment sessions (60% of their time) as well as coordination, outreach and public policy advocacy tasks (40% of their time). This human resource plan is significantly different than the one in place prior to the business plan where psychologists were paid on a per patient basis only and were not contracted on a half time salary. The new plan provides the team with a steady wage that includes a fixed amount or base salary for the outreach and advocacy tasks that each hold plus a variable amount based on the number and type (fee level) of patient hours completed per month. This strategy provides the team with security and motivation while at the same time ensures the Clinic that it has the human resources necessary to be able to offer ongoing services for its clientele. In addition, it allows them to commit time to advancing the field of mental health services for women, which is a key objective of the social enterprise.

Financial Plan

La Morada worked closely with NESST to develop its five-year plan to become sustainable. This plan called for increasing the average fee received per session and increasing the number of sessions sold per month. Projected revenues were



- 16 Patient capital describes forms of investment which are intended to achieve social benefits while also generating a financial return, but are neither a straightforward grant, nor commercial loan transactions. Examples of patient capital include grants that are tied to specific business plan objectives and soft loans with low or no interest rates or where the interest is deferred until certain objectives are reached.
- 17 Interviews, Valentina M. (Executive Director) and Mariana F. (Psychologist), March 29, 2006.
- 18 Interviews, Valentina M. (Executive Director) and Mariana F. (Psychologist), March 29, 2006.

to double by year two, increase by 20% in year three and remain the same in the following two years. Variable costs would follow a similar pattern, while operational costs were projected to remain relatively stable during the five year period. With this scenario, the Clinic would break even in year three. NESsT's financial investment would be used to close this gap and primarily to pay for the staff base salaries. Seventy percent of monthly revenues would be allocated for the variable component of staff salaries and the remaining 30% would be allocated to cover operational expenses. A reserve fund would be created to cover ongoing operating expenses in cases when staff was absent and unable to perform fee-based services.

La Morada has worked hard these past two years to meet and surpass its income projections. Prior to launching the enterprise, the Clinic generated approximately USD 35,000 (EUR 27,750) in income, but this has increased to over USD 61,000 (EUR 48,360) in just two years. NESsT provided patient capital¹⁶ of USD 10,000 (EUR 8,000) in year one and USD 7,000 (EUR 5,550) in year two to help cover income losses. Additionally, at the end of year two (2005), the Clinic's self-generated revenues through the sale of services and the internship program covered 91% of operational costs incurred that year. The remaining revenues came from several donors, including NESsT, and a substantially reduced amount came from the parent organization. In 2006, the Clinic expects to once again generate revenues to cover 91% of operational costs. This percentage represents an actual increase in revenues considering that starting in 2006 the Clinic assumed overhead costs that previously had been covered by the parent organization. In any case, the Clinic expects to cover all operational costs through self-generated revenues in 2006, reaching its business plan goal of breaking even, and no longer needing financial support from its parent organization or NESsT. Donor funds received starting in 2007 and onwards will be designated only for La Morada's other programs. (See Appendix 3 for a consolidated income statement for the Clinic.)

Section C. Management Challenge

As the La Morada management team admits, the Clinic had previously been run very casually. The staff did not keep regular hours; the psychologists came and went as they pleased. The hours that the staff did work were not recorded. There were minimal standards or processes for how the patients would be treated. Some patients were charged for the service, most were not. Additionally, expenses were not tracked. This "hippy"¹⁷ atmosphere was not conducive to quality patient care or to running an efficient business. The Clinic was not generating enough income to cover expenses, but, at the same time, there was a resistance to changing the model. As the Clinic staff joked about it in an interview, they had believed that business was for business people, not a socially-driven nonprofit.¹⁸ La Morada was forced to identify and address these challenges when working with NESsT on the business plan and completing the social enterprise development process.

The Board began noticing these problems at the Clinic as early as 2001. One key psychologist left because she perceived the Clinic to be managed poorly. This had



a large impact on the level of services provided since there were only five psychologists at the time.¹⁹ Donor funding was also drying up and it was increasingly difficult to make ends meet. In 2002, the Board of Directors decided to contact NESsT to see about improving the financial viability of the Clinic. No one at La Morada could foresee though, how long the social enterprise development process would take. Initially, the staff was excited about improving the financial situation of the Clinic. Their excitement turned to frustration after a number of months struggling through the early stage social enterprise development process.

The process of developing a feasibility study and business plan for the Clinic proved more difficult than originally anticipated. Despite training and one-on-one support from NESsT, the staff working on the enterprise development process found the concepts difficult to understand and assimilate. None of the Clinic's staff had ever conducted market research nor done a break-even analysis. Finding the right pricing strategy, that would be affordable to their clients, while meeting cost and revenue generation goals, posed difficult ethical dilemmas. Developing a fair wage structure, that would include built-in incentives to apply the higher fee rates, was also quite challenging for the psychologists.

During this process, many of the cultural challenges that the Clinic was already experiencing were exacerbated. There had been mild squabbles between the staff previously, but now the staff was polarized and fought passionately about the ramifications of charging their clients a fee for the services. Some of the psychologists believed that the clients and community would resist after so many years of offering a free service. They felt that the mission of the Clinic was best served by not charging a fee for the psychological treatment. NESsT staff saw these challenges and posed questions and made suggestions on the need to make important operational and cultural shifts. It recognized such struggles as typical of nonprofits who are considering business strategies.

The first executive director of La Morada, Svenska A., who had done much of the initial groundwork with NESsT, left the Clinic (due to professional reasons). Gabriela G., one of the team members, along with another staff member, finished the business plan and the rigorous due diligence documentation required by NESsT to enter the NVF later-stage portfolio. This second team could not arrive at consensus regarding some of the key concepts related to the business plan. The proposed pricing and salary structures, for example, were still not accepted by the full team. Several psychologists were talking about leaving. Furthermore, the Board was undergoing a significant reorganization process. Lastly, Gabriela G. had to temporarily leave the process for a few months due to her pregnancy.

The precarious situation was summarized in meeting notes written by the NESsT Enterprise Development Manager at that time: "Many changes have taken place during the last semester. The executive director left (had a meeting with her, she came to inform me in advance, was able to describe key points needed to keep work going). Two members of the psychology staff are leaving at the end of year because they were not seen as committed to the social change mission (they have been active in the

19 Interview, Mariana F. (Psychologist), March 29, 2006.



20 Interview, Juan Pablo I.
(initial NESsT Enterprise
Development Manager),
April 18, 2006.

feasibility study work). Gabriela G is on maternity leave until October; and the Board is changing. It has not been easy for them to organize and find time for the process with NESsT, but they see the value it has and they are not pulling out of the process. I have made many observations to the business plan all along the way. It has been frustrating because we have discussed many issues that were not (some still are not) represented in the business plan document, although they understand them. The good thing is that they send drafts and are willing to work on the points mentioned. Not so good is how hard it has been for them to introduce basic concepts. But they have made a very strong effort, worked extra hours, even during national holidays".²⁰

Given this scenario, the La Morada Board realized that a more fundamental change was needed to successfully launch the social enterprise. They needed someone who could lead the Clinic through a shift in organizational culture, moving away from a donor dependency mentality to a more business-oriented one. The Board decided to nominate Valentina M., previously on the General Assembly at La Morada, to take the vacant position as director of the Clinic. Valentina M. had become involved with the later phase of the business plan development process as interest within La Morada for implementing the social enterprise was waning. She pushed forward to implement the business changes specified in the business plan in a timely manner. The Board had been so

impressed with Valentina M's efforts that they hired her to be the new director of the Clinic.



The staff of La Morada.

Valentina M. accepted the position, but made it clear that she was not going to make changes for change's sake. In fact, she spent the first month in her new position learning how the Clinic operated, watching the employees, and formulating ideas of what needed to change. She worked with the staff to understand their jobs and the challenges they faced. After this self-imposed orientation period, she began to suggest and implement changes within the Clinic. Working with NESsT guidance, Valentina M. established procedures for how the psychologists would interact with the clients. She created a schedule for

the staff and began keeping timecards of hours worked. Receipts and expenses were tracked for the first time. In addition, Valentina M. diversified the services that the Clinic offered from just individual sessions to offering services for couples, families, teens, and children. This segmentation and the change in services offered were born out of Valentina M.'s background in family psychiatry (her field of specialization) and a natural evolution within the Clinic. These expanded services complemented La Morada's mission more so than the original



segmentation model that focused on middle-income women. Changes were not easy to implement, though. Much of the Clinic staff was stuck in a "one service only" mindset, and resisted this expansion strategy.

A key part of the cultural changes within the Clinic was with the staff. There were still a number of psychologists who resisted the cultural and operational changes taking place. These employees were not supportive of the changes that were being instituted, and were making it difficult for Valentina M. to create a core group of psychologists. Some of the psychologists did not want to deviate from the individual-focused therapy model they had used previously. Also, they continued to feel uncomfortable with charging clients for the services since it could potentially mean losing some of their lower income clients and result in mission drift.

Valentina M. made an effort to engage with these psychologists and give them an opportunity to adjust to the changes. After continued unresponsiveness and resistance to the changes, Valentina M. let these employees go. Although Valentina M. regretted having to make this decision, she began to see positive results after these staff members left and the changes she was implementing took root gradually.

Two years after the human resources shake-up within La Morada, the future now looks much brighter. The Clinic is seeing a rising demand for its services and has increased the number low income clients served. The relationship-oriented treatment (couples, families, teens, and children) currently comprises a significant portion of services provided. The Clinic has entered into several important partnerships that have allowed La Morada to reach new clients and increase the amount of revenue earned. It is working to establish new partnerships with insurance agencies, labor unions, and companies as well as to expand existing partnerships.

Another positive change, after much hard work by Valentina and NESsT together, has been the highly improved organizational culture and systems within the Clinic. The weekly meetings that the director holds with the staff have created a stronger unity between the psychologists. A more transparent salary disbursement process is now in place where team members continue to be paid on a per-patient basis but using the average fee charged by the Clinic and not the average fee of the patients seen by that particular psychologist. This more equitable system has reduced tensions significantly. Further, staff members team up to work on business, administrative and research/outreach tasks of the Clinic. The staff is committed to the vision of the Clinic and they feel they now have the leadership, team, and business focus to fulfill their mission. The defining turnaround for the Clinic was placing a director who understood the need for changes in the way the Clinic was operated and who fostered a new level of ownership on the part of the staff.



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

The NESsT methodology provided La Morada with a framework for systematic assessment at each stage of enterprise planning. NESsT provided support in developing policies that directly addressed staff concerns regarding mission or change in institutional practices. Through this process, La Morada's Clinic was well-positioned to implement the enterprise. With later stage support of the NVE, the organization would ultimately experience a marked increase in mission impact, institutional development and financial sustainability.

During the early stage social enterprise development process, NESsT tools examined and helped La Morada assess and develop strategies in four areas of organizational readiness for social enterprise. These included: 1) assessing risks to mission and institutional values and developing mitigating strategies to prevent deviation; 2) assessing stakeholder support and developing strategies to bring naysayers on board; 3) assessing and ensuring that the internal capacity—staff, infrastructure, culture and planning—necessary to undergo the process existed; and 4- assessing financial stability and ensuring that the organization had resources to pay the team of psychologists for a year in advance, so that it could undergo the social enterprise development process. Despite some concerns, NESsT deemed that La Morada was organizationally ready and together began to work in assessing the viability and developing the business plan for its social enterprise.

In spite of this assessment process, several cultural tensions surfaced within La Morada during this transitional period particularly around the concept of charging patients for services. Certain staff members felt very uncomfortable with this idea and resisted it. NESsT worked with the team to come up with a pricing mechanism that was responsive to La Morada's mission but that would begin to cover the Clinic's operational costs. The Enterprise Development Manager facilitated numerous discussions around this issue, and came up with the concept of an average price as a way to meet the double bottom lines of the enterprise. According to the business plan, the Clinic would aim to achieve this average price on a monthly basis, but could reach this goal by selling at a range of prices that were left to the discretion of each psychologist. In order to address concerns about losing low income clients due to their potential inability to pay, NESsT advised the Clinic to assure that at least 20% of clients were from this segment.

In terms of human resources, the team worried that by paying each psychologist according to the type of clients served, an inequitable system would be set up whereby those therapists that saw higher fee clients would earn more than those who saw lower fee clients. In this case, NESsT helped the Clinic come up with a mechanism that would pool the fees and psychologists would be paid according to the number of clients but not the type of client. In this way, there was an incentive to serve more clients, but no disincentive to serve lower income ones.



Certain members of the La Morada team that were working on the business plan felt that NESsT should have become more involved in developing the business plan itself. They felt that they were wasting time working on business concepts that the NVF staff could have completed in no time. Whereas NESsT was seeking a balance in its role between providing enough support to help La Morada successfully complete the business plan, while also letting the organization learn and grapple with the concepts on its own. In this way, the organization would gain the capacity to manage the enterprise in the future and face challenges when NESsT was no longer in a supporting role.

This is a classic problem for many venture philanthropy funds. A key aspect of the NVF methodology is to provide organizations with the tools, training and support they need to develop the business plan, but not to do the work for them. The latter would not provide much value-added for organizations who are trying to learn how to define and manage a socially-driven business. NESsT believes that organizations will be more successful in managing the business if they embrace and own the concepts and techniques during the business planning phase. So, although NESsT did help La Morada define some of these concepts for itself, NESsT kept a certain distance from the day-to-day tasks that were needed to complete the process.

Further, although NESsT relies on an engaged and hands-on approach in assisting with the development of a social enterprise, NESsT is not part of the internal management of the supported organization and hence, its level of involvement and decision-making is somewhat limited. So, for example, midway through the process of developing the business plan, the Board of La Morada decided to create a Committee to intervene in the process but NESsT was unaware of this decision. Given the tensions among the team, and the fact that progress was very slow, the Board assigned this Committee to provide a fresh perspective and help complete the process.

Today, as a result of this experience, NESsT has come to realize the importance of establishing a more formal relationship and of maintaining more regular communication with the executive directors and boards of directors of the parent organizations in the NVF portfolio. To do this, NESsT engages with these stakeholders early on and makes it a requirement for the executive director to be involved in the process. In addition, it has broadened its assessment of the overall organization at early stage. The revamped due diligence tool now examines five areas of institutional development at greater depth, identifying weaknesses and areas for further institutional strengthening. These include: 1- leadership (level of openness and ability to motivate the team); 2- governance (strong board involvement and support); 3- a human resources management system (open and equitable hiring and management practices); 4- a financial management system and transparency (financial tracking by funders and financial controls); and 5- internal and external communications systems (consistent and reliable practices). Important interventions in these areas are addressed during the early stage process, while the baseline is set for additional capacity building at later stage. By so doing, NESsT is fostering more fertile ground for the business skills and entrepreneurial mindset needed to launch the enterprise.



21 The NESST Performance Management Tool manages and evaluates performance in these four areas. 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.

There is no doubt that the hard work by the La Morada and NESST staff has allowed the Centro de Salud to improve greatly in the past few years. Since the launch of the social enterprise, the Clinic has expanded the types of services offered to include families, couples, adolescents and children. This has resulted in an increase in both the number and types of patients served at the Clinic. In addition, the Clinic has developed a committed staff, improved financial systems, and enhanced financial self-sufficiency. The balance between business and mission mindsets of the team has been consolidated. The methodology applied during the business planning phase has paid off in that the staff truly owns and manages the business. The current Enterprise Development Manager has a very positive rapport with the staff and there is great willingness on the part of La Morada to apply many of NESST's recommendations. In the last year, the organization has adopted the NESST Performance Management Tool to set goals and indicators and to track and manage progress in the following four areas:²¹ enterprise performance, social impact, institutional development, and financial sustainability.

Enterprise Performance

NESST and La Morada have worked together to develop key organizational goals and indicators. In general, NESST has pushed for financial and operational goals of the business, such as the increasing the average price paid per session and monitoring cash flow both of which have proved challenging for the staff. Progress has been made over the past two years in particular with the financial viability of the Clinic: average number of sessions per month has increased, as has the average price paid per session, expenses are tracked more closely; and use of space is closer to full capacity. There have been several new contracts signed with institutional partners, which have helped to increase the number of sessions provided at a higher price. The organization is now monitoring patient referrals as well as patients who complete the treatment successfully, both of which are increasing. This data measures mission impact and has shown a successful track record which in turn has enhanced the efficiency of marketing efforts. Valentina M. has played a key role in closely watching these indicators on the viability of the Clinic. By monitoring the financial aspects of the business, the social enterprise has become stronger and more likely to become sustainable.

Challenges to come include maintaining a continued increase in the average price charged, managing government contracts to avoid dependency on public sources, addressing the Clinic's limited space capacity, and monitoring growing competition brought about by public policy changes.



Table IV: **NESsT Performance Management Tool:**

**Goals and achievements for Year 2 (2005)
Social enterprise financial performance**

Goals/Indicators	Actual achievements
Attain the same average number of sessions provided during year 1: 229/month	On average, monthly number of sessions was 313.
Increase average price charged per individual session by 9.5%, from CLP 7,212 to 7,888	Average price was CLP 7,960.
Increase the share of patients in the highest paying range: CLP 10,000-15,000	First trimester: 20% Second Trimester: 17% Annual result: 27%
Keep costs under control	Costs in Year 2 were 9.3% lower than in Year 1.
Increase quality through implementing external supervision	Met. Weekly supervision for all teams plus external supervision every 2 weeks.
New indicator for quality of services: patients per year successfully completing treatment	23.5% (from total number of patients).
New Indicator for capacity used: Percent of total space capacity used for therapy sessions	60%
Increase the type of services offered	Started working with family and couples therapy.

Social Impact

The Clinic is a great extension of the organizational mission because its services improve the quality of life for women individually and in their relationships with others. In the past few years, Valentina M. has placed great emphasis on improving the quality and diversity of services offered at the Clinic. By implementing strong controls and spending more time in the development of the staff, La Morada has ensured a more consistent service for its clients. Secondly, the increase and expansion of services offered has allowed the Clinic to reach a wider market and have a greater impact on the quality of life for women in Santiago. Patients have increased from 161 in year zero (upon completion of the business plan) to 269 at the end of year one and to 348 at the end of year two, a

DRAFT Case Study: Not to be distributed, cited, copied or referenced without permission of NESsT.



116% increase overall. The number of patients from low income levels has remained greater than those of middle income levels overall, which demonstrates that La Morada has been able to strengthen its social impact as a result of its social enterprise. In addition, the organization has never turned away a woman who was unable to pay even a small fee.

Finally, the enterprise has also strengthened La Morada's position in the field of psychological services and training. The Clinic has spent more time on research and advocacy of women's issues at both the community and public policy levels since the establishment of more efficient time management skills and the use of a fixed salary component. At the same time, the internship program for psychology students is being consolidated, although the number of students has been reduced in order to maintain the quality of the program and avoid diverting staff time for supervision.

Table V: **Social Enterprise Mission Performance**

Goals/Indicators	Actual achievements
Increase number of patients receiving their services.	Increased the number from 161 to 348.
Increase number of patients successfully completing treatment.	Number reached 23.5% of total patients seen. (Not previously tracked).
Position the team to influence public policies and participate in the general debate on women's rights.	Participation in activities against violence including the organization of a seminar on legislation on workplace sexual harassment.

Institutional Development

The institutional development at the Clinic was an area that needed significant improvement before the launch of the enterprise, and one which has shown dramatic signs of progress. The predominant focus for the past two years has been to establish a reliable core psychologist team and to ensure that specific procedures, practices, and environment are established so that the Clinic can be effective in reaching its mission. The focus on these internal issues has paid off. The Clinic's culture has made a complete turnaround. The staff is motivated and enthusiastic about the future. They now feel confident that they have a self-financing strategy that is closely aligned with the mission.

The practice of paying team members a salary with a fixed component (with the subsidy from NESsT), as well as a variable one based on the number of sessions provided per month, continues and has proved effective. In addition, Valentina M. has instituted a shared system of responsibility, where team members share tasks and projects (e.g. sales and marketing) and hence feel greater unity and ownership of the Clinic



and the social enterprise. An important step is that the Board of La Morada wants to leverage the experience of the Clinic, extracting and applying lessons and practices to the rest of the organization.

Certain human resources policy issues still need to be addressed however, including the need for a reserve fund and replacement guidelines for staff absences. Furthermore, and perhaps most important, the Clinic is heavily dependent on Valentina M's leadership skills. There is a need to develop a strong management team that would alleviate this dependency and allow her to delegate her heavy workload on others as she trains them to fill leadership positions in the Clinic.

22 La Morada Annual Report, 2003.

Table VI: Institutional Development

Goals/Indicators	Actual achievements
Increase involvement of the Center in the parent organization's decisions	Perceived increased influence from the Clinic Director in the Board of Directors.
Consolidation of a stable team	Team is more consolidated with fixed salaries, clearly defined roles, more time for research and advocacy; Delegation of tasks from the Clinic Director to other team members has not been successfully achieved yet.

Financial Sustainability

The human resources and organizational culture issues were tackled concurrently with the financial challenges that the Clinic was facing. From a broad perspective, the goal in implementing the social enterprise within the Clinic was to create more untied revenues in the face of decreased donor funding. The social enterprise has served the Clinic well in this regard.

Within two years, the Clinic is now able to cover 91% of its operating expenses despite the fact that these expenses have increased due to costs assumed by the Clinic from the parent organization. This is a result of a significant increase in internally generated revenues through service fees; substantial cost reductions; and a small amount generated from universities for the student internship program. The clinic is on track for becoming fully self-supported in 2006, a significant accomplishment considering that over 50% of the budget had come from donor funding in 2003.²² In addition, the financial systems set in place are allowing management to monitor the current situation of the Clinic and make changes as necessary. The staff feels comfortable managing cash flow although the Clinic has not yet been in a position to establish a reserve fund.



Table VII: **Organizational Financial Sustainability**

Goals/Indicators	Actual achievements
Increase contribution of self-financing to cover costs (from 73% to 80%)	Increased from 73% to 91%.
Increased number of sources of funding	Four new projects.

Section E. Summary

There were management and cultural issues that existed within the psychological Clinic at La Morada prior to their involvement with NESsT, but these issues surfaced during the business plan development process. La Morada initially operated their socially-driven feminist work in Chile under the mentality that the business world can focus too greatly on financial goals, even possibly at the expense of people. So, when the Board and NESsT suggested that the Clinic regularly charge its clients for treatment, an internal culture clash ensued. For the nonprofit, it meant having to transform what was a social service program into a mission-driven business. This not only meant that the staff, a team that had no prior business experience, had to learn an completely new set of skills, but also required adopting an entirely new way of working and of relating with patients and with each other. The moral issue of charging low-income women for a previously free service and the potential client backlash created internal resistance against the social enterprise idea. What was needed was not only a supportive voice to calm the staff's fears, but someone who clearly believed in the new strategy and who had the management capability to turn this situation around and apply NESsT's advice and support. With a more business-minded director and a motivated staff that now has bought-in to the new strategy; the Clinic is successfully running a sustainable social enterprise.

As the concept of social enterprise continues to become better known and to gain support, the challenges that are involved with guiding a donor-dependent nonprofit to successfully launch a sustainable enterprise are numerous. As in the case of La Morada, many organizations dependent on and comfortable with external donor funding will no doubt resist charging their clients a fee or adopting a more business-like approach to running their services. In addition, the skills, procedures and controls to run an effective business will most likely not be in place.

As CSOs go through the social enterprise development process, they will likely discover that a new mindset and skill set are required to launch a social enterprise effectively. This transformation, though, will be greatly enhanced if it is driven by an effective leader that is able to motivate the staff through the difficult cultural changes that are required to launch an income-generating enterprise. The leader will be forced to balance new tensions — financial goals alongside mission goals.

DRAFT Case Study: Not to be distributed, cited, copied or referenced without permission of NESsT.



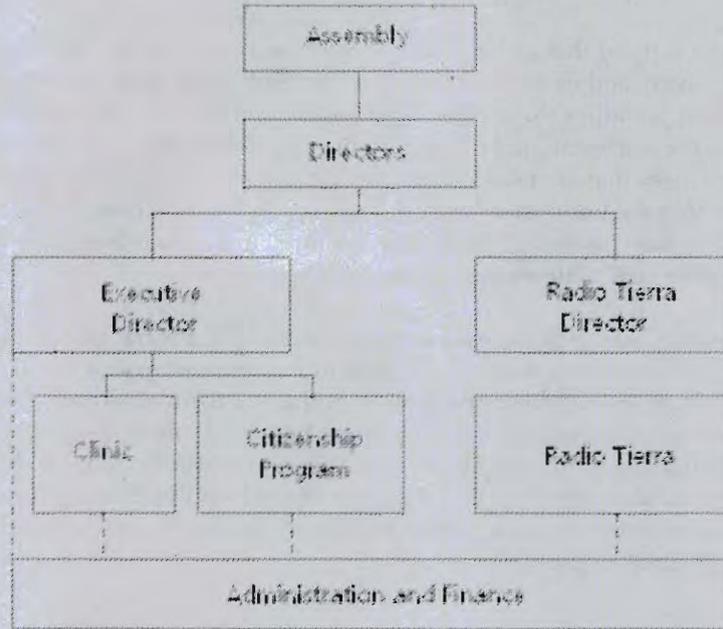
They will have to mediate between the need to foster ownership of the enterprise among staff, and the need to make difficult decisions that will not in all cases be immediately accepted by staff.

Further, the support that an organization such as NESsT can provide through its tools and advice, and in terms of both hard and soft areas of social enterprise development, is indispensable. The input of an external "investor" who knows the realities of the organization, but can also provide a more objective view of the internal changes that are taking place and are needed is key. There is greater likelihood that the business will succeed and reach its goals through a methodology, such as that of the NESsT Venture Fund, which builds the internal capacity of the staff to develop and manage the business.

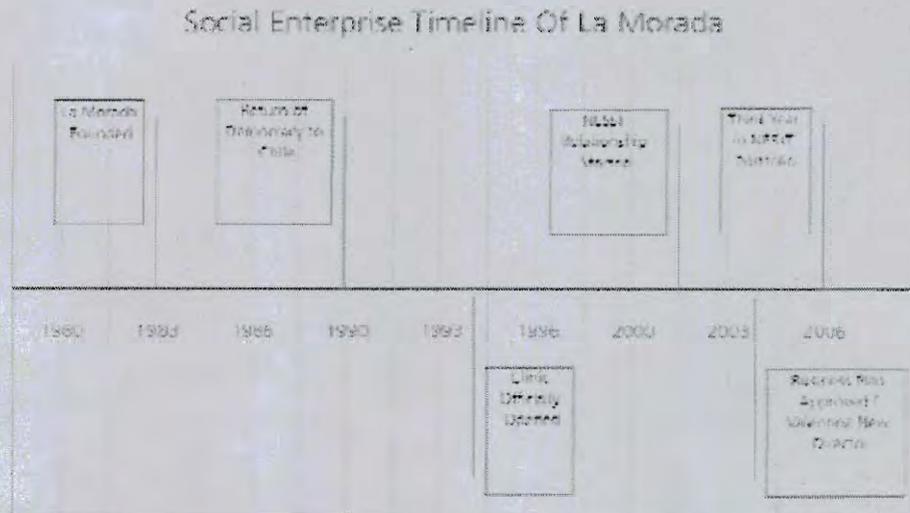
There is indeed an uphill cultural battle in establishing a social enterprise in a previously fully donor-supported nonprofit. It may even seem that the new business venture has replaced the mission as the new focus. However, despite the difficult process, the end result will no doubt be worthwhile. If a social enterprise is carefully developed with appropriate and timely capacity building and financial support, it can allow a nonprofit not only to diversify its funding sources and reach financial revenue goals, but to dramatically improve organizational capacity and strengthen its organizational mission.



Appendix 1: La Morada Organizational Chart



Appendix 2: Timeline of Clinic at La Morada



DRAFT Case Study: Not to be distributed, cited, copied or referenced without permission of NESsT.



Appendix 3: Year 1 and 2 Financial Statement for NESsT Involvement

Consolidated Income Statement-Centro de Salud	2003	2004	2005
Net Sales and Revenues			
Professional psychologist treatment*	\$26.638	\$29.492	\$27.832
Student Intern treatment (paid by client)*	-	4.188	5.288
Saturday treatment	-	3.556	9.677
Treatment of Children	-	-	123
Student Intern treatment (paid by UAHC)	-	7.338	6.771
Treatment paid by Government	-	-	375
Workshops	-	-	3.000
Student Intern Training (paid by UAHC)	8.352	6.615	8.211
Total	34.991	51.190	61.276
Costs and Expenses			
Salary		56.100	59.974
Workshop Personnel Fees		-	2.100
Maintenance and repair		1.429	624
Telephone		2.107	2.003
Fixed administration		1.827	1.469
Publication / Marketing		5.769	-
Broadcasting / Marketing		1.395	399
Other		1.333	1.240
Total		69.960	67.809
Net Operating Income (before Donations)		\$(18.770)	\$(6.533)
Donations			
NESsT		10.000	7.673
Proyecto Avina		604	-
UN		1.835	923
Total		12.438	8.596
Support from La Morada		3.360	
Net Income (Loss)		\$(2.972)	\$2.063

Not tracked specifically for Clinic before NESsT

* Total income generated by patient care (professional and intern) was on an aggregate level pre-2004