

Advancing Good Governance Seminar

7 June 2013 – 1:30 – 2:45 PM

“Profit” for Non-Profits? How Does It Fit Into Your Governance Model?

Many non-profit organizations have introduced for-profit activities. These for-profit activities, which are often based on the traditional expertise or offerings of the non-profit, provide revenue to support the organization’s not-for-profit activities. This session explored the impact of such a decision on the organization’s governance, values, sustainability and perception.

Key Points from the Session

1. **Three case studies were discussed regarding the origin of an income stream: Transparency International (“TI”), War Child and Computer Aid.**
 - TI, whose advocacy and research work traditionally has been contributions to the public domain on the issues of transparency and accountability, recently introduced profit-generating activities. The organization had been pushing for certain anti-bribery legislation in the UK and when that legislation passed, organizations approached TI to advise on it. Initially, these efforts were incorporated into a separate entity, at arm’s length, to ringfence risk, but this proved ineffectual, as the TI personnel who focused on the for-profit consultancy were too removed from TI’s research and advocacy expertise. Eventually, the for-profit activities were brought back under the same roof as its not-for-profit activities and are overseen by a sub-committee of TI’s board.
 - Computer Aid provides refurbished computers to schools, non-profit organizations and hospitals in over 100 countries. Traditionally, these were provided at no cost to the beneficiary. However, certain beneficiaries (a) wanted more computers than Computer Aid was able to provide for free and (b) were willing to purchase them for a small amount. Now, Computer Aid sells, rather than donates, all of the computers and equipment which it delivers.
 - War Child UK, which is dedicated to helping children living in war zones, was a darling of certain music industry celebrities. These celebrities produced albums in order to benefit the organization, whose income stream is collecting royalties on these albums.
2. **There are three basic types of non-profits with for-profit activities.** First, the enterprise-supported non-profit organization, such as BRAC, offers a model in which various for-profit organizations operate independently and feed their profits to a non-profit. Second, the internal-supported model, exemplified by TI, has in-house for-profit activities. Third, a collection of hybrid models have developed, including collaborations between entities from any of the private sector, the government and not-for-profit sector, and franchising models. The second and third categories likely pose the most difficult governance challenges, as one board must reconcile for-profit and not-for-profit goals.
3. **The consequences of for-profit activities include not only financial sustainability, but also an innovative and entrepreneurial approach.** In addition to providing revenue which can support the not-for-profit activities of the organization, there is an entrepreneurial spirit and energy involved in for-profit activities which may help re-shape and re-vamp theories of

change. However, for many in the sector, the concept of “for-profit” has negative connotations and suggests subsuming a worthwhile mission to profit motives.

Emerging Questions

1. What are the tax, legal and structural implications of a decision to begin for-profit activities, particularly at an international level?
2. Can a profit agenda co-exist with a development one? Where is the line between for-profit and not-for-profit activities, and how much of the former versus the latter is appropriate?
3. Will the board of a non-profit organization require education in order to oversee for-profit activities?