

Launching a Social Enterprise: Early Learnings from Inner City Renovation



Inner City Renovation Inc. (ICR) is a renovations/construction company committed to the revitalization of Winnipeg's inner city residential housing sector and creating quality employment for low income, inner city residents. ICR is a for-profit company that was launched by five joint venture partners; all not-for-profit, community-based organizations with mandates to develop and implement projects and programs in the areas of housing and job creation in inner city Winnipeg.

INTRODUCTION

At the end of July 2003 Inner City Renovation (ICR) – the winner of our Social Enterprise Business Plan Competition - completed its first year of operations. It was an eventful year to say the least, filled with many tough decisions. Despite challenging times, all of us – co-investors, joint venture partners, ICR management team and the entire staff group continue to be excited about what we have accomplished and what we hope to achieve in the future.

A key driver behind our excitement is that the ICR model embodies an integrated approach that addresses two key building blocks necessary for sustainable community development: affordable housing and employment opportunity. ICR recruits the majority of its employees from the neighbourhoods where it supplies its services - local residents are rebuilding their communities and themselves at the same time. This past year, the team renovated over 20 housing projects in three different inner city neighbourhoods.

In addition to residential housing projects, ICR has also been able to tap into commercial opportunities and play a part in revitalizing the main street in Winnipeg's north end - Selkirk Ave. One high profile project on Selkirk – that happens to mesh particularly well with ICR's social mission – is the work ICR did on the construction of a brand new, beautifully designed training centre for aboriginal people; Urban Circle Training Centre



This was a 1.5 million dollar transformation of an old boarded up Woolworth's store, into a modern training facility that will accommodate over one hundred students a day. While the team was working on the Urban Circle site, local business owners would pop in to see how things were going and were particularly curious about the mission and mandate of ICR.

We believe that ICR has struck a chord with many community members of Winnipeg's inner city. These neighbourhoods are often perceived as areas where businesses *don't* want to set up shop or deliver services because of perceived (and real) risks to business, such as threat of vandalism, theft and other safety issues. ICR has flipped this thinking on its head by positioning itself as *the* renovations/construction company to call on for residential and commercial projects across the inner city. The result? ICR has carved out a niche for itself and continues to capture business in an underserved market. The social bottom line of recruiting employees from these very neighbourhoods has also created a competitive advantage because who more than local residents and business owners know about the problems that often come with high levels of unemployment.

Small businesses and local nonprofits operating in the area have clearly responded and want to work with ICR. Over the past year, ICR completed work on 5 local nonprofit organizations, including 2 women's centres, the Indian Family Centre and SEED Winnipeg, a nonprofit dedicated to combat poverty and assist in the renewal of the inner city, a mission clearly aligned with ICR's.

We knew that our chosen path was not going to be easy and we set out stating that we would share as we go. We thought that after a year of working with ICR it was a good time to document some of our experiences, now that we have some concrete understanding of what it takes to launch a social enterprise and can begin to articulate where and how the social and financial bottom lines of such ventures intersect. One of our primary goals throughout this whole journey is to learn how to more effectively anticipate the social cost(s) of running these types of enterprises and learn how to manage these costs so the viability of the business is not threatened. We always welcome hearing from others, so feel free to share your experiences with us as well!

ORGANIZATION OF REPORT

There are two main sections in this report: Part ONE, which discusses our experience on both sides of the double bottom line and Part TWO which takes that experience and attempts to glean key learnings to guide us as we continue to work with ICR and as we take on new investments. Each section can be downloaded and printed as a separate document, for those of you interested in absorbing our experience in bite-sized chunks. Alternatively, the entire report can be downloaded for printing in one complete PDF (adobe acrobat) file. Your feedback on the structure or content of this report is always welcome.

PART ONE: Dissecting a Double Bottom Line Business

Context of Investment: This section gives a brief background on the local context in which ICR is situated and the types of socio-economic issues the local community is struggling with.

ICR Social Results: This section reflects on what we set out to do and what was accomplished over the first year regarding our social bottom line. Through the sustainable livelihoods framework we introduce some of the barriers our target employees have with securing and retaining employment, followed by a discussion of strategies we set out with to address these issues. We then report on our experience with managing our ‘target employee/non-target employee’ staff ratios so that our financial bottom line is not unduly threatened.

ICR Financial Results: This section reports on ICR’s year one financial outcomes and its related capital investment needs. Key operational issues are discussed relating to ICR’s business model and our competitive advantages and cost disadvantages.

Mission Tensions: This summary section reflects on the key points outlined in the two previous sections and discusses one important metric that directly affects both bottom lines – ICR’s target employee turnover rate.

PART TWO: Going Forward

Some Successes: This section highlights what we believe has worked well over this past year highlighting the relationships established among direct stakeholders and discusses operational aspects of ICR in the context of some specific goals it had set for itself.

Some Take Aways: This section discusses particular areas – on both bottom lines - where we have yet to establish significant traction and/or meet anticipated goals. It also highlights learnings we can take away from the ICR experience and apply to other investments.

PART ONE: Dissecting a Double Bottom Line Business

CONTEXT OF INVESTMENT

Poverty in Winnipeg is high relative to other Canadian cities and is particularly high in Winnipeg's inner city. According to Statistics Canada for 1996, just over one-half (50.8%) of inner city households in Winnipeg had annual incomes below the Low Income Cut-Offs (LICO). Rates of poverty were highest in single parent and aboriginal households. According to Lezubski, Silver and Black (2000) just over 80% of aboriginal households in Winnipeg's inner city have incomes below the LICO. It is not surprising then to learn that unemployment rates are considerably higher and labour participation rates much lower in Winnipeg's inner city than the city as a whole and aboriginal people in particular are under represented in the labour market.

Recent studies¹ illustrate the complexity of the social and economic issues expressed in Winnipeg's inner city neighborhoods and show that many of these communities are at a crossroads. Many different forces and factors can effectively shut people out from the economic mainstream and make certain social groups more vulnerable to poverty than others; limited or no family supports, lack of formal education and training, illiteracy, growth in underpaid, low level employment with limited options for career laddering, scarce and affordable daycare, to name a few. Winnipeg's inner city neighbourhoods – some more than others – are struggling with these issues and community-based organizations strive to continue to provide the needed programs and services for their local residents.

The ICR model is one example of an integrated approach that directly addresses two key conditions needed to help people who are vulnerable to poverty; housing and employment. ICR capitalizes on the demand for renewed inner city housing and the availability of workers who typically cannot access traditional labour markets. There is clearly a need for more creative thinking regarding how to merge social and economic goals into hybrid organizations that have the potential to be self-sustaining. ICR is one such venture that exists to express a social mission through a self-sufficient model and we hope that it can be a model for many more to come.

¹ Such as “*Building on Our Strengths: Inner-city Priorities for a Renewed Tri-level Development Agreement*” by Jim Silver, University of Winnipeg, Urban Futures Group and the Canadian Centre for Policy Alternatives-Manitoba (April 2002).

ICR SOCIAL RESULTS

Overarching Social Objectives

The concept and rationale – and ultimately the initial ownership - of ICR stemmed from the experience and understanding of five Winnipeg inner city, community organizations² committed to inner city renewal, particularly in the areas of housing and job creation. In the past, these organizations had faced difficulties with attracting private enterprise to provide renovation services for their housing projects. As a result, they started their own renovations company – Inner City Renovation Inc. The social principles driving these organizations laid the foundation for developing the mission and mandate of ICR, resulting in the following primary social objectives:

- 1) provide ‘quality’ - fulltime, better than average sector wages with benefits - employment to low-income, inner city residents;
- 2) provide opportunity to the workers to gain skills, access to certification programs and internal career laddering;
- 3) provide employee ownership and participatory management training to employees; and
- 4) establish an employee ownership plan for the enterprise once it is stabilized and completed two consecutive years of profitability.

All the above is in the context of operating as a self-sustaining for-profit enterprise.

Recruiting ICR Target Employees (TEs)

ICR set out to hire the majority of its employees from Winnipeg’s low income, inner city neighbourhoods. Because ICR is a joint venture among five non-profits – with the majority being neighbourhood-based organizations – the original intent was to recruit target employees primarily but not exclusively from these neighborhoods. This goal was followed through upon. In year one, approximately 90% of target employees were recruited from these neighborhoods.

ICR did not set out with a specific mandate to strategically hire aboriginal people but the joint venture partners serve this population through their various housing programs and community projects. Many aboriginal people also live in the neighbourhoods where we actively recruit our target employees. Also, it was part of the agreement when the venture was set up that ICR would hire the existing workforce (all aboriginal people) previously employed by the Community Education Development Association (CEDA), a renovation skills training program that had operated in Winnipeg’s North End. As a result, the seven remaining employees were hired in August 2002, making up 75% of ICR’s original TE

² Community Ownership Solutions, North End Housing Project, Winnipeg Partners in Housing, Spence Neighborhood Association and West Broadway Development Corporation.

group. Over the course of ICR's first year of operation, the majority of ICR's target employee base has and continues to be aboriginal. Another key component of ICR's TE recruitment strategy, is to recruit directly from relevant training programs wherever possible. Over half (53%) of ICR TEs hired in year one came from community-based training programs that focused on carpentry skill development.

Understanding ICR Target Employee Livelihoods

We know that if we want to create a supportive work environment for all ICR employees, set up relevant social support infrastructure for TEs and establish a culture in which all employees are motivated to come to work on a consistent basis, we need to understand – as much as possible – the life situations of the group we have set out to strategically hire.

As a way to facilitate a more holistic understanding of the employment barriers ICR target employees may face, SCP is utilizing the Sustainable Livelihoods (SL) framework.³ This framework helps to think through:

- what disadvantaged groups may be vulnerable to;
- the assets and resources that can help them to survive and thrive;
- how they may respond to threats and opportunities; and
- what kind of outcomes they aspire to.

This framework also takes an investment approach when thinking about what vulnerable groups may need to stabilize their lifestyles and establish constructive (rather than destructive) habits and patterns in their daily lives. Where are the biggest and/or most common capital (social, human, physical, financial, natural) deficits among ICR target employees? In what deficit areas is ICR most able to affect behaviour change or change in circumstances, within the context of ICR's financial mission responsibilities? For a visual picture of how SCP has adapted the SL Framework for its own purposes, please see this link [[Link to ICR SL Framework](#)].

In ICR's first year, we created specific opportunities – both formal and informal⁴ - to learn from our target employees what employment barriers they may have had in the past and what barriers they may still be dealing with. We also wanted to learn their particular interests regarding employment and skill development in the future and ensure that all employees understood the meaning of the 'double bottom line' nature of ICR.

³ To learn more about the Sustainable Livelihoods framework developed by the Department of International Development (UK) please see <http://www.livelihoods.org>.

⁴ Formal – conducted baseline survey with TE group in May 2003; Informal – had a staff retreat and sweat in March 2003 and had responsive informal one on one sessions with TEs since start up with ICR President and with ICR Employee Support Worker.

During ICR’s first staff retreat in March 2003 it was clear that employees knew they were part of a different kind of business. Many had not had the opportunity to come together in this kind of retreat setting before. We had organized it to integrate aboriginal traditions of using the circle format in all of our discussions and having a Sweat – a ceremony for meditation and cleansing - for all of those interested in participating. When we were discussing the mission and vision of the company it was clear that employees understood what ICR had set out to do:

“ICR has bigger goals than just renovation and construction, we are improving the inner city.”

“ICR has given the opportunity for people to build and work in their community and not rely on others from outside the community.”

“We are rehabilitating a neighborhood and individuals at the same time.”

Table One below gives a summary snapshot of ICR’s TE capital asset and deficits, followed by a discussion of each capital area.

TABLE ONE: ICR Target Employee Summary Capital Asset and Deficit Areas	
Human Capital: <i>Employability, Skills and Health</i>	<ul style="list-style-type: none"> • 47% completed some high school • 11% high school graduates • 37% completed some college • 5% completed university degree • 58% have criminal record • 64% taken construction related training • 11% achieved trade certification • 37% have ongoing health issues
Financial Capital: <i>Financial resources and regular inflows of money</i>	<ul style="list-style-type: none"> • 79% unemployed before ICR employment • 60% receiving some kind of government financial assistance before ICR employment • 37% had held a job for no more than 2 years
Social Capital: <i>Support network and contacts</i>	<ul style="list-style-type: none"> • 63% have dependent children • 47% have adult dependents • 42% not able to work in past six months because of domestic or family issues
Physical Capital: <i>Shelter and services</i>	<ul style="list-style-type: none"> • 63% live in rented houses or apartments • 16% rent a room in someone else’s home • 11% own house • 5% live with several different family members • 5% live in rent to own situations • 84% would like to change housing situation

	<ul style="list-style-type: none"> • 32% like to take steps to own home • 47% needed food bank services before ICR employment • 5% needed food bank services after ICR employment
--	--

Human Capital - skills, knowledge and health that enable people to work

We learned that a key barrier to moving out of low-income jobs for many in ICR’s TE group is the lack of recognized, technical certification. Although 64% had taken some kind of relevant technical training prior securing employment at ICR, only 11% had achieved any trade certification. This is coupled with the fact that just under half of the TE group had not completed high school; something generally required in order to access trade certification programs. This particular employment barrier was well understood by TEs interviewed and the fact that ICR has as part of its stated social mission to create opportunities for formal technical skills training (e.g. apprenticeships) was a key attraction to working at ICR.

Almost all (95%) of TEs considered themselves to be healthy, however 37% reported having ongoing health issues – physical or mental - and 11% reported that they do not want to do particularly strenuous work because of ongoing health issues. Legal and substance use issues also affected their ability to seek out and maintain regular employment.

Financial Capital – The financial resources – savings and regular inflows of money that people use to fulfill livelihood objectives

Employment is the primary way most people secure financial capital to sustain their livelihoods. Many low income people are often only able to secure part time or unstable employment. 79% of ICR’s target employees were unemployed when they applied for the job but all had some kind of previous work experience. Most (42%) had held between 6 and 10 jobs prior to ICR employment and 26% had held 30 jobs or more. Often a ‘job’ is a day, a few days, a week or a month, usually casual or farm labour. These types of jobs do not constitute stable employment.

Of the 79% who were unemployed before working at ICR, 60% reported that they were receiving some kind of government financial assistance in order to sustain their livelihood. Others would strategically avoid income assistance programs through securing small contracts where they could, as well as depend on informal social support networks for help.

Social Capital – Informal and formal social relationships and networks

We did not set out to learn specific details about our employees’ social networks, our primary interests lay in learning a little bit about their household social relationships such

as whether they had adult or child dependents. Because we recruit from community based training programs – one of which works with former youth gang members – ICR provides an opportunity for people to connect with a different social network and make a new beginning.

When we asked target employees what their key barrier was regarding not being able to work in the past six months, 42% responded that domestic disputes and issues with children; such as their involvement with the ‘wrong crowd,’ not attending school or running away from home impacted their ability to regularly show up for work and would generally create significant amounts of stress in their lives.

Physical Capital – The basic built infrastructure (e.g. shelter, roads, transportation, other public services) tools and equipment that people need and use to function productively

The majority of ICR’s target employee base live in stable housing situations, most (63%) living in rented houses and apartments. A significant number however, 84%, wanted to change their housing situation. 32% specifically indicated that they would like to take the steps to own their own home. Unstable housing situations was a key factor for some target employees who left ICR early on, some of whom were also struggling with substance abuse issues.

One finding that clearly illustrated how full time employment can impact a person’s need for public/social services, was that 47% of ICR’s target employees used food banks prior to ICR employment and of that 47%, 15% used them on a monthly basis. After ICR employment, only 5% reported the need to use food banks and that the frequency of need had also decreased substantially.

Social Mission Strategy

An Investment Approach

Gaining a deeper understanding from target employees themselves regarding some of the life issues they struggle with is an important first step to take in order to reflect and ultimately create a workplan around ICR’s stated social goals. Because there are so many issues to address in the first year of any start up – let alone a social enterprise – we needed to learn what specific elements of our social mission goals we could feasibly initiate, based on both the needs and interests of ICR target employees and the resource capacity (human and financial) of ICR.

The two main capital areas that ICR’s social mission strategy addresses are financial and human capital development. The ICR model clearly takes an investment approach to its target employees by setting out to establish an operation where TEs can make a

liveable wage, access both formal and informal training and have opportunities for career laddering within the company. The ultimate vision for establishing an employee ownership plan at ICR epitomizes this investment approach.

Over the course of ICR's first year of operation, the average, hourly TE wage was \$12.75, close to double Manitoba's minimum wage rate of \$6.75 per hour. What clearly distinguishes ICR's employment package is that it attempts to provide full time, year round employment with access to health benefits. These features are not the standard in the construction/renovations industry, particularly for uncertified, unskilled or semi-skilled workers. TEs are well aware of their situation and understand the uniqueness of their employment situation.

Another element of ICR's TE investment approach is that for all target employees hired that do not own or do not have the capacity to buy the necessary clothing (e.g. safety boots and hard hats) or basic tools needed to perform the work, ICR will purchase these requirements on their behalf. Over the first year, ICR spent just under \$2000.00 for this purpose. This is also not a general practice among construction/renovations companies.

All TEs - because they are working in a formal employment context - receive daily informal, on-the-job training.



We learned through interviewing TEs that the highest priority training interest area – among technical, life skills and employee ownership – was formal construction, technical training. Over half expressed specific interest in working in an apprenticeship program. This made perfect sense as the primary employment barrier keeping ICR TEs from moving out of unstable, low paid jobs in the construction sector was a lack of certification and recognized formal technical training. Therefore, we set the target of establishing an apprenticeship program at ICR early in its second year of operation.

Regarding life skills training, we learned that money management is the area that the majority of ICR's target employees are interested in getting help. An early indicator of the need for this was that from the beginning, many employees would regularly ask for cash advances from the paychecks. To begin to address this issue, ICR helped target employees to set up accounts at the local credit union to enable saving and avoid using cheque cashing outlets with high service charges. Another strategy we are considering is a voluntary, company savings program where employees could determine an amount from their monthly income to be set aside in an account, with a savings goal and set time limit. We also make employees aware of relevant community-based programs that they could attend on their own time.

We learned that there is significant interest among TEs to learn how to govern and operate an employee owned business. 89% expressed interest in receiving training in this area. The first year of operation however was not the right time to develop and implement this training plan. The first step before any formal employee ownership training could be introduced was to set up an employee driven mechanism to incorporate employees into company planning and possibly decision making. Six months into operation, three employee steering committees were struck through a democratic voting process;

- 1) Employee Rights and Responsibilities Committee;
- 2) Operations Committee; and a
- 3) Social Well Being Committee.

Shortly after setting up these committees it became clear that the current management capacity at ICR was not sufficient to effectively develop these committees into a productive component of ICR's organizational structure. A primary factor was the significant attention that the financial mission was demanding. After a couple of months the number of committees was decreased to two; the Social Well Being Committee and an Apprenticeship Committee, to involve employees directly in the decision-making process regarding employee approval for the apprenticeship program.

Need for Additional Social Support Infrastructure

ICR began to feel the impact early on regarding the unstable livelihood situations of some of its target employees. Some employees would not show up for work on a semi regular basis and would not call in to let management know if or when they would be coming in. This situation was exacerbated by the fact that many were not reachable by phone. Three months into operation Community Ownership Solutions (one of ICR's joint venture partners) contracted a part time Social Support Worker on behalf of ICR to provide responsive, one on one counseling support to TEs and help them to make the transition to full time employment. This position also functioned as a 'cultural bridge' between ICR's aboriginal employee base and general management. Family issues, domestic disputes and substance abuse were the primary life issues influencing TE's ability to meet their work responsibilities. The support worker would connect with the TEs who were consistently missing work, find out why and try to establish steps to effectively deal with their specific, personal issues. The support worker would also work with general management to determine if particular employees were actually 'job ready' enough for full time employment.

This responsive, individual social support was a necessary addition to ICR's more proactive social mission strategy centred on providing 'quality' employment with access to training and career development opportunities.

Other more responsive strategies taken in the first year to address both the social capital development needs of ICR's target employees and lay the foundation for a open, positive organizational culture in general, was a staff retreat, staff picnic and organizing a staff baseball team. The Social Well Being Committee was the driver behind these functions. Many ICR employees have never had the opportunity to participate in such group events before and they provided an opportunity for people to get together, have fun and relax off the jobsite.



Target and Non Target Employee Ratios

When ICR opened its doors in August 2002 it had twelve target employees making up three crews of four. There was a three person management team (non target employees) including the General Manager, Jobsite Supervisor and Financial Administrator making the initial target/non target employee ratio 80/20.

Looking back, starting out with only one jobsite supervisor for 3 work crews was not a good strategy, particularly because many in the initial TE workforce did not have the skill sets to perform unsupervised work and were not used to putting in an eight hour work day, five days a week. The supervisor spent too much of his time traveling from site to site resulting in insufficient on-the-job training and supervision, something very much needed with this target employee group. The overwhelming result was that without clear work duties and roles established for jobsite crews around project timelines, project job breakdown and project materials, many of ICR's jobsites quickly went into cost overruns. This situation was exacerbated by the three main 'social cost' categories stemming from ICR's social mission:

- 1) low worker productivity;
- 2) lack of a sufficiently trained workforce; and
- 3) absenteeism and attendance issues.

In November 2002, a second jobsite supervisor was hired but it was still not enough jobsite supervision for the number and skill level of crew workers. In December 2002, a third jobsite supervisor was hired, however, supervisors were doing much of their own ordering and purchasing of materials and spending significant amounts of time off the jobsite. Project site accountability frameworks were not in place and by this point it was becoming apparent that a chasm was developing between the jobsites and the head office and the two primary management components – jobsite supervisors and the General Manager – were not working together effectively.

To summarize, the first 6 months of ICR's operation had a target/non target employee ratio that was not sustainable. The social costs were putting too much strain on the financial mission and this situation was intensified by the fact that effective management systems had yet to be put in place. In light of this situation, we took the opportunity of having six months of 'real data' to do a strategic planning session and second iteration of ICR's business plan. It was during this planning session that we set a more realistic target/non target employee ratio of 65/35 and began the process of classifying the ICR workforce by skill set and setting the course to determine what specific skill sets and jobsite crew structure ICR needed to bring jobs in on time and on budget.

We changed the project crew model and moved to teams of three with a team leader (a certified journey person), semi-skilled worker and unskilled worker. This enabled much more daily, informal training and laid the foundation to introduce an apprenticeship program at ICR.

ICR FINANCIAL RESULTS

Year One Financial Outcomes and Social Investment

TABLE TWO: YEAR ONE FINANCIAL OUTCOMES	
Sales Revenue on Completed Projects	Social Investment
25 Renovation Projects Completed: <ul style="list-style-type: none"> • 20 residential – 56% total operating revenue • 5 commercial – 44% total operating revenue 	Grant/Equity: <ul style="list-style-type: none"> • COS/SCP grants: \$150,000 Provincial Grant: <ul style="list-style-type: none"> • Provincial grant: 51,607 Wage Subsidy: <ul style="list-style-type: none"> • Wage subsidy: \$13, 507
Total Sales Revenue: \$935, 659.00	Total Social Investment: \$215, 114.00
Total Sales Revenue and Social Investment:	\$1,150,773.00
% Social Investment of Total Revenues:	19%
Total Operating Loss:	\$- 338,758.00
Net Income/Loss:	\$- 123,644.00

ICR’s biggest challenge contributing to the net income loss position at the end of year one was bringing in jobs on time and on budget. Primary factors that led to this situation were the high fixed costs in the business model - both project and overhead related - combined with significant project timeline overruns in the first nine months of operation, primarily due to low worker productivity. For example, ICR lost just under \$50,000.00 on direct costs on 20 completed residential projects this first year and had average monthly overhead costs of just under \$13,000 to sustain.

The other significant factor leading to our financial loss situation was that we took on a commercial renovation project – the Urban Circle Training Centre – which had significant alignment with ICR’s social mission but unfortunate consequences for the financial mission. ICR was the largest single contractor on this \$1.5 million conversion of an empty retail building into a modern training facility for aboriginal students. It also happened to be located on Selkirk Ave – the main street running through Winnipeg’s north end. This project incurred unforeseen cost overruns for ICR, relating to several factors, such as a poor original estimate on project costs and labour capacity of ICR to fulfill the contract, insufficient technical skills of the jobsite crew and poor communication between the project supervisor and ICR general management. This project alone accounted for 38% of ICR’s first year operational loss.

We don’t believe it has been all bad news on the financial mission however! In fact, we believe that there has been significant success as well. ICR’s actual sales surpassed the

sales forecasts in the original business plan by over \$80,000. The fact that ICR made just under a million dollars in sales revenues in its first year is a huge accomplishment in itself, for any start up venture and particularly for a social enterprise. We also believe it to be a strong success that in this first year the social investment revenue made up only 19% of total revenues, illustrating that the foundation for ICR to be self-sufficient social enterprise within a three to five year timeframe continues to be a very realistic goal.

Other positive financial benefits stemming from ICR’s first year of operations can be illustrated through the community investment strategy of not only focusing ICR’s service offerings in Winnipeg’s inner city but also by hiring local sub trades and purchasing materials from local suppliers whenever possible. Approximately 75% of sub trade contracts and 50% of materials were sourced locally.

ICR’s social mission of creating full time jobs – in an industry that generally does not – also has significant financial impact regarding new tax revenue generated by a target employee group of which 60% were previously unemployed and collecting some kind of government assistance prior to ICR employment. Table Three below summarizes these financial outcomes. Additional benefits that Table Three below does not capture are the spin offs related to local spending from target employee wages of just under half a million dollars.

TABLE THREE: ICR YEAR ONE COMMUNITY INVESTMENT AND TE TAX REVENUE CONTRIBUTIONS	
<i>Inner City Community Investment</i>	<i>Job Creation and Tax Revenue Contributions of Target Employee Group</i>
<p>Neighborhood Revitalization:</p> <ul style="list-style-type: none"> • Contribution to neighborhood revitalization through 20 houses renovated in inner city Winnipeg • 17 of 20 residential projects completed located in neighborhoods of ICR’s joint venture partners • All 5 completed commercial projects were community-based, non profit organizations located in the neighborhoods of ICR’s joint venture partners 	<p>Job Creation:</p> <ul style="list-style-type: none"> • 26 full-time jobs created with peak employment of 19 target employees <p>Total TE wages paid: \$479, 584.00</p>

<p>Local Subcontracts (75%) and Purchasing (50%):</p> <ul style="list-style-type: none"> • Cash injection into community through local trade subcontracts: \$221,322 • Cash injection into community through local materials purchased: \$168,002 	<p>Tax Revenue Contributions:</p> <p>Federal Tax: \$46,028.99</p> <p>Employment Insurance: \$7,417.61</p> <p>Canadian Pension Plan: \$13,469.12</p>
<p>Total Local Subcontracts & Purchasing: \$389,324</p>	<p>Total TE Tax Contributions: \$66,915.72</p>

Competitive Issues

ICR’s intentions of creating ‘quality jobs’ – the cornerstone of ICR’s social mission - put more stress on the financial mission than we had anticipated. We knew going in that the model was unique when compared to the competition but we did not know until we were actually in business just how much this uniqueness could put ICR at a cost disadvantage.

ICR is competing against companies that generally operate with very low overheads by retaining only a strategic nucleus of key employees and hiring other workers on a project basis through union or non-union hiring halls. This gives companies the flexibility to expand and contract their operations to respond to changing business conditions. Another industry practice is for general contractors to hire ‘independent contractors’ instead of employees thereby avoiding payments such as deductions for income tax, CPP and Unemployment Insurance. This is a primary reason why self-employment is prevalent in this industry. ICR set out with the mandate to provide the opposite of these of these industry practices; to provide full-time jobs.

Wages paid in this sector for unskilled, uncertified labour tend to stay at or close to minimum wage, with fluctuations based primarily on labour demand. Opportunities to increase wages are generally linked to certification(s) achieved and technical skill levels demonstrated through past work experience. As reported in the Social Results section, ICR’s average target employee wage in the first year was \$12.75 per hour. We did not initially have a systematic wage grade system linked to employee skill levels.

For a social investor, the intent to create full time employment for low income, inner city people, with above average wages, access to benefits and opportunities for both formal and informal training was appealing. On the financial side, ICR had joint venture partners committed to provide a core revenue stream to ICR as a preferred contractor. What we learned over this first year however, was that the social cost of hiring a predominantly unskilled workforce at above average wages, many also dealing with significant life issues, quickly resulted in many projects not meeting target completion deadlines. This situation combined with a high, fixed overhead, created significant cost overruns.

We learned that some of our joint venture partners also have their own structural constraints such as inflexible budgets and delays with receiving their funding that impacted ICR. Some consequences of these constraints were that several potential renovation contracts would be released all at once and ICR did not have the capacity to bid on them all. They would also often have project opportunities with unrealistic budgets for the requested job specifications.

MISSION TENSIONS

We learned a lot this past year about the different points where ICR's two missions intersect and just how much ICR's organizational structure and employment strategy could put it at a competitive disadvantage. Saying this however, we have no intentions of dramatically changing any of the key components of ICR's definition of job quality or long-term social mission; these are the reasons we are investing in ICR. What we have had to do however is make some tough choices concerning scaling back the workforce – both through some leaving for other opportunities and others through lay offs (some temporary and some permanent) due to shortage of work – to get the supervisor ratio, crew size and skills mix right. We learned there are mission trade offs such as not being able to maintain full-time employment when there is insufficient work.

In retrospect, we grew the workforce too quickly (from 7 to 26 in less than a year), before we had enough understanding of ICR's cash flow and profitability prospects for projects on a job-by-job basis. Growing the workforce is a key social objective for this business model, but growing too quickly before the microeconomics of the business are well understood is not good strategy. In addition to labour and structural issues, we also learned that even if ICR is a preferred contractor with our joint venture partners, we still need to actively cultivate lines of business from other sympathetic customer segments, such as nonprofit and government organizations, to maintain regular work for ICR work crews and cover overhead costs. We have been able to illustrate ICR's capacity for this through completing five commercial projects this first year.

Below are some specific steps we took over the last year to more effectively align our social and business objectives:

- change our baseline target employee percentage from 80% - 85% to 60% - 65% of the total employee base;
- conduct a formal skills audit of all non management staff and more strategically group teams of skilled, semi-skilled and unskilled workers on jobsites;
- reassess our wage scale and create market based wage ranges based on different categories of skill levels
- Take initial steps to implement an apprenticeship program at ICR;

- modify our supervisor/target employee ratio and jobsite accountability framework; and
- take initial steps through formal policy development to be more systematic in target employee recruitment and linking wage progression to performance measurement, skill development, attitude and commitment.

ICR Target Employee Exits and Turnover Rate

Over the course of ICR's first year of operation, we had 16 target employees leave the organization, 50% leaving within the 3 month probationary period and 50% leaving after 6 to 12 months of employment, working out to a 52% TE turnover rate for the year⁵. Within the group that left within 3 months, two target employees had serious addiction issues. Despite meeting with the support worker several times, they did not have enough stability in their personal lives to be able to make the commitment to full time employment. Both of these employees also did not have stable housing situations. These two primary issues needed to be addressed first before full time employment could be a viable option. Other reasons for leaving included family issues that required leaving town and securing other employment.

Despite a high TE turnover rate in our first year, we are happy to report that of the original TE base hired in August 2002, 58% were still employed at ICR at the end of the first year, making up 44% of the total target employee base. We also know that of the 8 TEs who left the organization after working for six to twelve months, 2 were able to leverage their job experience and skill development from ICR to secure a next job in the industry with higher wages. ICR also hired one target employee back who had been let go due to attitude problems after he could illustrate that he would change his attitude and not cause problems on the jobsites.

It has been a challenging first year for ICR and a high TE turnover rate has been a significant contributing factor, along with trying to find an appropriate ratio between unskilled, semi-skilled and skilled target employees. Our recruitment efforts this past year were successful with regard to hiring people from within Winnipeg's inner city but there was not a sufficient assessment done in the selection process to help gauge job readiness and the level of stability people had in their lives. The expectation is that if a person is not adequately housed and/or has a serious substance abuse issue, they will not be able to commit to the full time nature of ICR employment. We do not want to set people up for failure. We also learned that it is very important to link target employee skill levels and skill development interests with jobsite project needs.

⁵ TE Turnover rate is calculated from those TEs who stayed past probationary period divided by the average number of TEs employed over the course of the year.

We are happy with the changes we made to the target/non target employee ratio. In the last quarter of ICR's first year we saw productivity improvements with the smaller work crews and with centralizing ordering and purchasing to the head office so that jobsite supervisors were able to provide consistent on-the-job training.

We have also set a goal for the next year to decrease turnover and believe that being more systematic in the recruitment and assessment process for hiring new target employees will contribute to reaching this goal.

PART TWO: Going Forward

SOME SUCCESSES

1) Our positive relationship with the local, social investor (Community Ownership Solutions) has been instrumental in SCP continuing to believe in ICR's potential. We knew that because of our location – SCP is located in Toronto and ICR in Winnipeg - we would not have the same ability for day to day contact and ‘face time’ with the ICR team as COS and that we would depend on COS to keep us informed on issues at hand, particularly during this start up period. We also depended on COS to take the lead in organizing and coordinating with the ICR management team regarding our site visits and management meetings that take place in Winnipeg and through conference calls on a regular basis. Over the first year, on average, one and often two members of the SCP team would be in Winnipeg every month or two, for planning sessions and/or board meetings. We depended on COS to facilitate these meetings and enable SCP to get to know the ICR team and develop as much an understanding of ICR daily operations as possible. From the outset, a relationship of openness and trust was established and it was clear that there were no hidden agendas. We also believe that the solid relationship between SCP and COS has only been advantageous for developing good relationships with the ICR management team. Communication channels among all three parties have always been open and business information shared as soon as it was available. It is fundamental in any co-investment venture that all parties – investors and managers - trust each other and that shared goals are what drives the venture forward.

2) The flexibility to respond to immediate social support needs of target employees while continuing to plan for longer term longer term career development and life skill development is necessary. As an immediate social support for all new target employees (TE), ICR would purchase the necessary safety boots and basic set of tools to work on the job. These are items that the majority of ICR's target employees do not have the resources to purchase on their own, the general industry standard. Also, as discussed previously in this report, three months into operation an employee social support worker was hired on a part time basis to respond to those TEs dealing with personal issues preventing them from working at ICR. We also initiated a jobsite buddy system where new employees would be connected to older employees during their probationary period to function as an informal support if they had questions or issues that they may not want to take directly to their supervisor or manager.

Meanwhile, community resources were being researched that related to ICR's three priority training areas to determine what potential partnerships could be developed for customized targeted training interventions and/or referrals made to existing programs. One of the objectives of conducting a TE survey was to learn their levels of interest in the

three training areas to feed into the planning and prioritizing of initiating any training.

We learned that technical, trade training was the highest priority, followed by training on how to structure and operate an employee owned business. Regarding life skills training, the primary interest was in how to save and do financial planning. We also learned through conducting the survey that ICR needed to do a better job at informing employees about the housing programs available through ICR's joint venture partners.

3) Time for joint high level planning - on both missions – during the start up period and throughout the business cycle is needed. Social investors and the social enterprise management team were all committed and directly involved in this process. As with any new venture just starting out, it is always difficult to find the time to reflect on the business because working in the business is so demanding. Saying this however, it is important that before the first year is over that the original business plan is revisited and revenue and cost projections are analyzed against actual costs and revenues incurred to date. The business plan is the key document from which to structure discussions concerning current strategic and operational issues. Enough time had to pass in order to have comparative data and isolate trends, therefore we formally started this process after ICR had been operating for 6 months. The ICR management team and both social investors worked together to jointly produce the next iteration of ICR's business plan. It is only through participating in such a process that issues can be prioritized and specific workplans for both missions can be developed. Because both social investors and the management team were all directly involved in this process, all parties agreed on new objectives and changes to strategy and there was no opportunity for miscommunication or confusion regarding targets set or next steps.

SOME TAKE AWAYS

1) As soon as possible (preferably before starting the venture) establish a systematic process for target employee assessment and recruitment. Ideally this includes having clear policies and procedures that can be explained to new employees so that they understand what is expected of them and what they can expect from the organization. Take the time to define and structure exactly how target employees will be recruited. Clearly communicating expectations of target employees will potentially save time and contribute to less target employee turnover. A significant challenge that came with ICR's initial target employee base was that many were not prepared for the demands that came with working full-time and ICR did not the flexibility to absorb such a workforce without significant impact to the financial bottom line. This situation led ICR to assess its recruitment strategy and skills mix of the target employee base halfway into its first year.

It was clear that there was a significant skills mismatch primarily due to an insufficient number of skilled workers to balance out the unskilled and semi-skilled workers.

Outside of specific technical skills there is also the challenge of assessing the ‘job readiness’ of individuals. If individuals are dealing with significant personal issues such as not having a stable housing situation and/or struggling with a substance addition, they most likely are not ready for the demands of full-time employment. Strategies that ICR will be adopting over the next year to address this challenge include creating target employee self-assessment sheets for applicants to complete before the opportunity is given for a job interview and establishing a more systematic interview process that will assess both technical skill levels and job readiness. Granted, one never knows until any employee is hired exactly how they will perform or their level of commitment but we believe that the more thought put into this process up front the easier it will be for us to effectively reach our target employee base.

2) To bring jobs in on time and on budget required changing the project delivery model to address both social and financial issues. After our six month review we needed to significantly change the project model. We did not have sufficient supervision and on-the-job training for unskilled target employees and we needed to stop losing money on a job-by-job basis. Strategic changes included breaking down projects into separate budgets for different types of work with associated budgets for labour hours. We also changed the labour structure to smaller crews of three with the necessary skills mix for a particular job that ensured more on site supervision for unskilled labour. These changes were closely monitored through weekly cash flow reporting from the ICR management team to both SCP and COS. At the time of writing this report (December 2003) we have already seen results with project losses significantly decreasing and labour productivity increasing.

3) Breaking down the quotation process into its component parts is necessary to avoid unanticipated costs once the project is underway. One challenge in renovation work is that it is sometimes difficult to estimate the specific needs (e.g. number of coats of paint) of a project until you are actually in the building doing the work. We learned we needed to be as detailed as possible in our quotation (e.g. by specifying that our quote was based on one coat of paint) so that unforeseen circumstances would result in additional charges. Detailed quoting is particularly important in large, complex projects.

4) Know when one mission needs management priority. In the context of planning and setting annual objectives for both missions, be prepared to respond swiftly to changing conditions that require immediate attention.

Because the core component of this type of social enterprise model depends on revenue generation from the sale of products or services, not grant funding or fundraising dollars, if the financial mission of the enterprise needs more immediate attention, make sure it gets it. If the business is not performing as expected it may mean that planned activities or initiatives – such as formal training - relating to the social mission need to be scaled back or postponed until the business is on more stable footing. Ultimately, the core social goal of this model is to provide employment and to do this the business needs to work.

In ICR's case, we had planned after the first few months of operation to establish three employee steering committees to more directly engage employees in business operations and set the stage for training on what it means to be an employee owned business. Before we had the opportunity to initiate this process it became clear that ICR needed all employees and management to focus on the jobsites and generating new business. Therefore we postponed the initiation of these committees and decided that when we are able to focus on this we will start with 1 or 2 not 3 steering committees and see what the employee response is before initiating more. We also had to postpone planning the introduction of formal apprenticeships until after the end of the first year when more management time would be available for planning.

5) If the intention of the social enterprise is to directly compete with traditional businesses in the same sector, business and social objectives need as much alignment as possible. Because social enterprises have that other (social) bottom line, it makes sense to set social goals – such as providing full time employment and above average wages – to a group(s) who otherwise would have significant difficulty securing such employment. We learned however that having above market wages for unskilled labour put us at a significant cost disadvantage. This situation was intensified with being a start up and not having developed systems in place on either mission. We had to adjust our model to be more in line with the true construction model to address and track jobsite productivity and profitability. Social goals – such as target/non target employees ratios, pay scales, training offerings – can (and should!) always be revisited once systems are in place and a good understanding of the microeconomics of the business is known. The biggest trick in these ventures is to be able to identify key mission issues and manage both bottom lines so that neither is unduly threatened.

6) The establishment of a formal SROI measurement system needs to wait until social enterprise operations are at a point where the financial mission is stable and management has time to focus on this. In the start up stage, specific steps should be taken that will ultimately feed into a more formal measurement system.

Discussing the goals and vision of the venture with the entire staff group in a formal, structured manner is a key step in orienting all employees about why and how we want to establish a social measurement system and what that might mean for them as employees the organization.

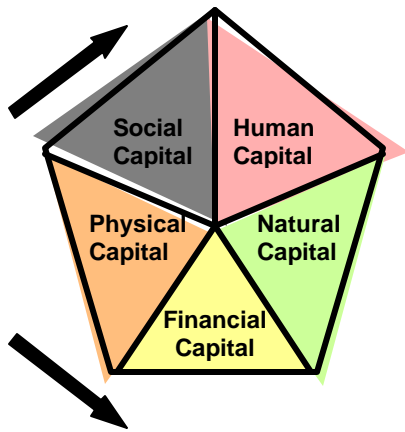
In ICR's case we planned a staff retreat at a conference centre just outside the city boundaries of Winnipeg. It was a lovely, peaceful setting that we thought conducive (away from the jobsites) for a structured workshop with activities and group discussion about the vision of ICR and how and why we are thinking about measuring our progress on ICR's social mission. We wanted to learn their perspectives on ICR, as a place of

employment and as an organization with a mission other than to make money. We also saw this as an important first step to inform and prepare target employees for the pilot target employee survey. All employees – particularly target employees – need to buy into this process because it involves their active engagement. Another fundamental step that needs to be in place in order to establish a SROI system, is a structured process for target employee recruitment and assessment. Any social enterprise – with a social mission centered on the employment strategy - needs to have a good understanding of who their target employee base is and what specific employment barriers they have in order to determine the most appropriate social metrics to track.

Sustainable Livelihoods Framework

Before Inner City Renovations (ICR) Employment

Livelihood Assets & Deficits Areas:



Target Employee (TE) Group Vulnerability
Context:
 Low income, inner city residents in Winnipeg

Capital Areas Key:
Financial Assets: Financial resources and regular inflows of money
Social Assets: Support network and contacts
Human Assets: Employability, skills and health
Physical Assets: Shelter and Services
Natural Assets: Natural resource stocks such as land, forests, water and air quality

During ICR Employment & Beyond

Social Goals:
 1) Provide 'quality' employment
 2) Provide formal and informal skill development (technical and life)
 3) Establish a participatory management culture and ultimately an employee ownership plan

Influence & Ability to Affect Change

ICR SOCIAL ENTERPRISE STRATEGY
 Full time employment, benefits, access to training, career laddering, all in the context of a for-profit enterprise

TO ACHIEVE

1) Maintain TE base of approximately 65% while operating a self sufficient enterprise
 2) Majority of TEs develop long term financial independence and social stability

Financial Goals
 1) Be a self sustaining for profit enterprise
 2) Provide residential and commercial renovation services that meet or exceed construction standards

Relevant local political and economic environment in Winnipeg
Relevant provincial and national environment

