The Mission Center Case Study

A Low-Profit Limited Liability Company

The Problem

THE MISSION CENTER

According to a 2012 report by the Center for Civil Society Studies at Johns Hopkins University, nonprofit employment represents 10.1 percent of total employment in the United States, with total employees numbering 10.7 million in 2010. [1] Despite the size of the nonprofit industry, which is ranked as the third largest industry behind only retail trade and manufacturing, its back office operations are plagued with inefficiency. [2]

The unfortunate reality is that nonprofits are at a unique disadvantage compared to for-profits because many of their donors request that their donations are only used for program-related expenses, leaving little money for basic administrative tasks such as accounting, IT and legal services, HR, and marketing. Thus, instead of hiring professionals to take care of these vital administrative tasks or outsourcing them, nonprofits often must rely on pro-bono work or require their employees to wear many hats. [3] Aside from giving them a diminished ability to perform vital administrative duties, a lack of funding that can be used towards overhead also makes it difficult for nonprofits to provide benefits such as basic healthcare to their employees.

In addition, there a significant amount of demand for social enterprise expertise. The creation of the Benefit Corporation and the L3C, the recent recession, and an overall growth in the number of social enterprises nationwide were some of the macro trends that created a need for the incubation of new social enterprise ideas and education of philanthropic investors.

About The Mission Center

The Mission Center was founded in 2010 as an incubator and accelerator focused on providing education and capacity building for social entrepreneurs. The brainchild of community organizer and professor of social entrepreneurship at Washington University in St. Louis, Chris Miller, The Mission Center has been a pioneer in developing new approaches to social change.

The Mission Center began by incubating its own venture, Mission Center Nonprofit Services. Mission Center Nonprofit Services aims to help non-profit organizations put their mission back at the center of their work by providing education, capacity building and best-in-class administrative services at the lowest possible cost. [4] Its services currently include human resource management, accounting, pooled health insurance products and general consulting across almost all aspects of nonprofit management. [4]

Legal Structure

Many organizations with solely nonprofit clients elect to be nonprofits themselves in order to demonstrate a commitment to their clients' philanthropic goals and to share a common culture. However, "nonprofits can-not be owned; there is no equity to grant, which makes it difficult to get startup and growth capital," CEO Chris Miller says. "The advantage of a for-profit entity is it can divest equity in exchange for capital." [5]

The Mission Center wanted to have the advantages of a for-profit organization, including the ability to accept equity investments, but also demonstrate its commitment to philanthropy. Having an L3C legal structure would allow The Mission Center to scale with fewer governance or reporting restrictions, and from a marketing standpoint the typically unfamiliar L3C legal structure would spark conversation that would generate interest in The Mission Center's cause.

The Mission Center is one of the nation's first low-profit limited liability companies (L3C), a cross between a nonprofit and for-profit company that is considered to be at the cutting edge of social entrepreneurship. The L3C creates a fiduciary duty for the prioritization of a philanthropic mission over the pursuit of profit. This positions it better than any other legal form to receive philanthropic investments, also known as 'social impact investments,' from foundations and other philanthropic investors.

Today

The L3C legal form allows for investments by both charitable foundations and profit-motivated investors into social enterprises, providing financial and social returns to all. However, because the L3C was such a new legal form at the time of The Mission Center's creation, the reality was that many investors were unfamiliar with it and were wary of the lack of legal precedents.

In addition, foundations in the St. Louis area were reticent to consider philanthropic investments such as mission-related or program-related investments. In fact, to date The Mission Center has only received one investment and it was from another similar L3C located near Detroit whose sole mission is to support and invest in new social enterprises. This patient equity investment is what allowed for the initial start up and early growth of The Mission Center. The difficulty obtaining investment funding, if anything, has confirmed the importance of The Mission Center's educational initiatives which will improve the likelihood that future L3Cs will be able to obtain foundation investments.

Although it may have slowed its growth, the lack of additional investments was not a serious problem for the center. However, this lack of investment is a problem for the Mission Center Nonprofit Services, which will need to obtain outside investment to scale its services effectively. Mission Center Nonprofit Services became an LLC in January of 2013 in order to position itself better for outside investment from more traditional investors.

Chris Miller expects Mission Center Nonprofit Services to continue to scale organically in the future. "As the group grows in size—we hope to add hundreds of new organizations in the next year—we anticipate seeing rates that are lower and less volatile than any small organization could ever achieve on its own," Miller says. [5]

The Mission Center has subsequently been approached by individuals, organizations, and foundations alike to assist in developing, launching, and scaling nonprofit, for-profit and hybrid social enterprises. It recently graduated Explore Transplant, a nonprofit that was founded and scaled by Dr. Amy Waterman, which was able to negotiate a $1,000,000 exit after just 3 years.

[1] http://www.nonprofithr.com/wp-content/uploads/2013/03/2013-Employment-Trends-Survey-Report.pdf
[2] http://ccss.jhu.edu/wp-content/uploads/downloads/2012/01/NED_National_2012.pdf
[3] http://www.tmcnonprofitservices.com/about/
[4] https://www.facebook.com/nonprofitservices/info
[5] http://www.bizjournals.com/stlouis/print-edition/2011/07/01/60-st-louis-nonprofits-commit-to.html?page=all

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