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Start with What You Have: When a Hurricane's Ill Winds Reveal a Leader's Path to Innovation

Introduction

On his thirty-first day as the new CEO of Central Florida's largest food bank, Dave Krepcho faced unprecedented challenges as a wave of devastating hurricanes pummeled the state. Floridians in 2004 were hit by Hurricanes Charley, Frances, Ivan and Jeanne, which left thousands without homes, shelter, water, and food. Across Florida, 114 food service operations and eight comfort stations were established, requiring the team at Second Harvest Food Bank (SHFB) to distribute an additional three million pounds of food. Although Dave was no stranger to disaster relief, having worked as a Director for the Daily Bread Food Bank in the wake of

Hurricane Andrew in 1992, this was a major test of a new CEO in a new community. Instead of focusing on the challenges of the hurricanes, he leveraged the surprise crises as a catalyst to create an organizational culture that fostered collaborative innovation.

Before the storm crises in 2004, SHFB was a successful organization with a solid team with no major problems to solve - so much so, that Dave almost did not take the job. He told the board, “If you’re looking to maintain the status quo, I’m not your guy. If you’re interested in change and pushing the envelope, I would love to bring you my vision and design strategy.” From a designer to CEO of a food bank, Dave valued the power of collaborative innovation to promote awareness, foster relationships, and design networks to increase the organization’s social impact. Through focusing on collaboration instead of competition, Dave wanted to facilitate the collective effort of the community, staff, volunteers, board, and donors working together to bridge the gap between people in need and access to food.

Dave came in with a ninety-day plan that focused on building relationships internally and externally. In his first thirty days, he visited all financial donors, and on the thirty-first day when the first hurricane hit, Dave was positioned to make a phone call leveraging his newly established relationship with a local foundation that had warehouse space to meet the need created by the storm crisis. By the end of the day, SHFB was utilizing the foundation’s unused warehouse space to greatly enhance its response capabilities.

In addition to meeting with donors, Dave met individually with staff members to learn everyone’s unique role, and to encourage them to both embrace and initiate change not only as individuals, but as a team. Dave believed it was important to implement a horizontal structure to facilitate collaborative innovation. This would be a significant change, both structurally and culturally. However, both his one-on-one approach and the urgency of the storm reduced the

resistance to change. The staff took immediate actions to improve organizational effectiveness resulting in an unprecedented level of efficiency and coordination. As Dave recalled, “It was incredible! SHFB stepped outside of the transition mode we were experiencing, and we were thrust together as a dream team of sorts. We worked through the crisis to provide critically-needed food and water to the victims of the storms.” The crisis was a catalyst for change that fostered innovation and inclusive action where staff across all organizational levels shared responsibility for outcomes.

During the storm, less emphasis was placed on individual roles and program funds; instead, people worked where they were needed. To facilitate the response efforts, SHFB was given more freedom from donors to adapt operating procedures and spend money where needed. However, once the crisis ended, it was expected they would resume their old processes due largely to their reliance on restricted funds as opposed to unrestricted funds.

SHFB was left with two challenges: 1) how to stabilize the new way of operating, and 2) how to maintain the flexibility in funding that allowed them to restructure efficiently during the storm and as needed. Dave believed that SHFB needed to develop new ways of generating funding by creating new enterprises or business ventures consistent with its mission and capabilities. These new social enterprises would seek to achieve social/environmental objectives using market-based mechanisms. They would further support building an innovative culture while increasing revenues from new related lines of business.

Transformation

The case of SHFB highlights how a nonprofit CEO adopting the method and mindset of an entrepreneur can transform a mature NPO to a social enterprise. This case also illustrates the value of a concept called *effectuation*, an entrepreneurial method and mindset, in the practice of

social entrepreneurship where leaders seek to create sustainable businesses that improve a social or environmental problem. A leader, like Dave, who utilizes effectuation to create innovation in organizations, communities, and the world is an *effectual leader*.

While traditional entrepreneurial behavior is often modeled and taught using a predictive process that works well when there is access to existing information and data, effectuation can be a more effective strategic mindset and method in times of heightened uncertainty. Effectual leaders continually reflect on the resources that are in their possession and determine their goals based on what they have rather than what they need. This flexibility allows goals to change and even emerge unexpectedly over time.

Traditional leaders utilizing the predictive process first set predetermined goals, analyze a situation, define problems and opportunities, find solutions, and then look for resources to reach the goals. Effectual leaders turn this thinking upside down. They take small actions starting with what they have, accept loss, iterate and experiment, leverage failure, and, build win-win collaborations. Effectuation is best for creating something when the future is unpredictable, which aligns well with the uncertain, complex, and chaotic business environment in the initial stages of a new venture, or existing organizations in need of immediate, radical change.

Traditional charities are facing the reality that they need to evolve to generate the funding required to fulfill their missions. Their leaders are seeking a path to explore the opportunities offered by social entrepreneurship. The effectuation framework is an especially valuable way for nonprofit leaders to change traditional charitable organizations to the social enterprise model.

Effectuation

The effectuation framework was developed by cognitive scientist, Dr. Saras Sarasvathy, and is based on studies that explored how serial entrepreneurs—founders of companies from

$200 million to $6.5 billion—make decisions. Interestingly, they utilized a common method and mindset for making decisions in times of uncertainty, as opposed to a predictive process to build their firms. The differences in these logics are laid out in Table 1.

Table 1: Differences in Effectual and Causal Logic

	Predictive Process (Traditional View)	**Effectual Method (Entrepreneurial View)**
Goal Setting	Envision a goal→create a plan→seek resources→begin working towards goal	Identify resources→use existing resources to set goal→begin working towards goal
Investment Decisions	Invest based on the potential upside of the goal	Invest based on what you are able to lose
Outside Organizations	Seen as potential competitors	Seen as potential collaborators
Challenges	Viewed as something to be avoided	Viewed as an opportunity to develop something new
View of the Future	Predictable and something to be planned for	Constantly changing, but can be navigated with skill

Effectuation is based on the belief that the future is made through individual actions, and provides leaders a path for innovation. It is an iterative and non-linear method focused on immediate action. The five core principles used by effectual leaders are:

1. *Lemonade Principle:* When the inevitable surprises or unexpected events occur, these leaders seek to make lemonade (innovative solutions) out of the lemons (random events).
2. *Bird-in-the-Hand Principle*: When viewing changes that need to be made, these leaders look first at the resources they already have instead of worrying about what they don't have. They build on what can be done with what is in hand.
3. *Patchwork Quilt Principle*: When trying to reach their goals, these leaders seek out and form partnerships with those stakeholders who can help.
4. *Affordable Loss Principle*: When planning a course of action, these leaders begin by determining potential losses and understanding what loss the organization can afford instead of starting with identifying the potential financial gains.

5. *Pilot-in-the-Plane Principle*: When leading the changes needed, these leaders make decisions that incorporate only resources and actions within their control. Instead of predicting the unpredictable future, they work with what they can control.

Effectuation is particularly valuable for enacting a social enterprise model in nonprofit context as it allows venture ideas to emerge from within the existing setting, using the resources already present in the organization. These five core principles work in harmony with each other and effectual leaders use them iteratively. Later, we discuss each principle through the lens of SHFB to illustrate how effectuation can work and how, sometimes, these five principles are interrelated.

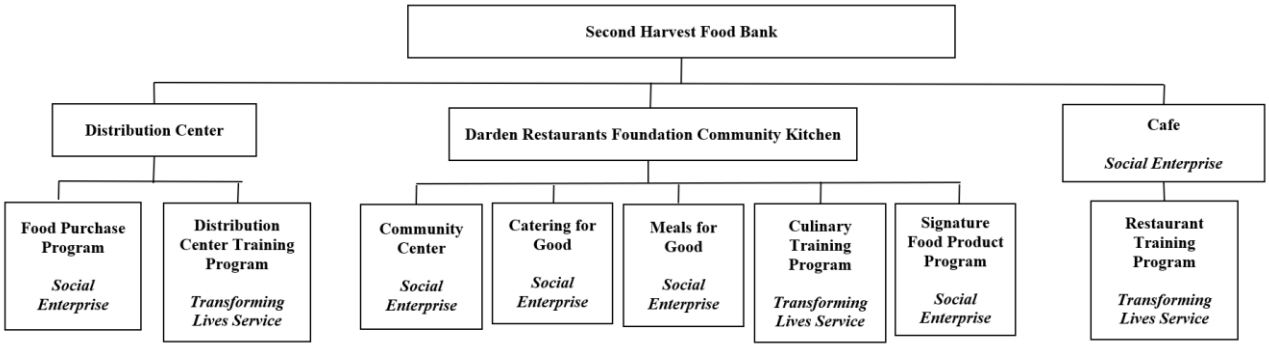
Introduction to Second Harvest Food Bank

SHFB is based in Orlando, Florida, and its mission is to end hunger in the community by collecting, storing, and distributing donated food to more than 550 direct service food providers such as emergency food pantries and on-site feeding programs. Annually, it distributes food valued at over $100 million which equates to more than 50 million meals. In 2014, SHFB was ranked the top human-services nonprofit in the State of Florida by the nation's leading charity watchdog, *Charity Navigator*. In 2016, it had an operational budget of $104 million with food value of $88 million. Its operating revenue was $16 million from its usual sources and earned income enterprises. To explain further, government grants and fees accounted for 13% of revenue, contributions from individual and institutional donors accounted for 53%, and earned income ventures accounted for 34%. The income from SHFB’s earned income strategies is unrestricted and provides the organization flexibility to spend dollars as needed, invest in its future, and shift resources in times of crisis.

Dave Krepcho joined SHFB in 2004 and began developing a horizontal structure and expanding the social enterprise component of the organization. He spent the first two years developing relationships, learning from his team and the community, and facilitating conversations that explored the possibilities of how SHFB could improve its social impact. From these explorations, the need to fund a new distribution center and Community Kitchen emerged. From 2006 to 2013, he worked with stakeholders, staff, and community members to execute an innovative path leading the organization from ideating, evolving, testing, planning, and funding, to building the new distribution center and Community Kitchen. This $17 million project resulted in a building that is three times the size of the previous facility, and built-in efficiencies will save the organization $2 million each year, with space for social enterprises. The capital campaign to fund the project began in 2009 at the height of the recession, and the building opened in 2013.

The Community Kitchen is home to SHFB's mission-aligned social enterprises. SHFB has four operational social enterprises—Food Purchase Program, Meals for Good, Catering for Good, and Community Center, and two forthcoming enterprises—a signature food item and a café (See Figure 1: *SHFB's Social Enterprise Structure*). In 2016, the Meals for Good program sold over 820,000 school and senior meals to local partners, and the Catering for Good program catered 523 events for over 23,000 guests. These earned income programs generated $2.7 million in surplus revenue in the same period.

Figure 1 SHFB's Social Enterprise Structure



The funds earned through these entrepreneurial programs directly support SHFB's Culinary Training Program, Distribution Training Program, and the future Restaurant Training Program. In 2016, the Culinary Training Program graduated 75 individuals with a 100% job placement rate. Due to SHFB's profitable social enterprises, these programs will be fully funded by the food bank and will not be dependent on traditional funding sources.

How Second Harvest Utilized Effectuation

The programs noted above were effectively and profitably developed using effectuation. SHFB utilized effectuation to foster collaborative innovation and to facilitate their transition from a traditional charity to a social enterprise model. SHFB's use of effectuation is in a different order than often presented. There is no formal order in which leaders should apply the principles. In fact, some of the events we highlight in the coming sections illustrate multiple principles simultaneously as is indicated in Table 2.

Table 2: SHFB Social Enterprise Development Timeline

DATE	ACTIVITIES	EFFECTUATION PRINCIPLE UTILIZED
LATE 1990S	Launched Food Purchase Program	
2004	Dave Krepcho hired as CEO, hurricanes hit FL	
	Food output increased by 8 million pounds and new partnership for distribution space is created	Patchwork Quilt Bird-in-the Hand Lemonade

	Horizontal Structuring to foster collaborative innovation	Patchwork Quilt Bird-in-the-Hand
2006	Ideation of community kitchen	Patchwork Quilt Bird-in-the-Hand
2007-2008	Development of Community Kitchen Committee	Patchwork Quilt
	Design of new facility	Patchwork Quilt Affordable Loss
	Business Planning	Patchwork Quilt Affordable Loss
2009-2012	Capital Campaign to fund the new facility and Community Kitchen	Affordable Loss Lemonade
2013	New facility opened	
	Catering for Good launch	
	Culinary Training Program Launch	
2014	Meals for Good Launch	
	Hosted National Meeting asking: *What is the Food Bank's Role in Community Health*	Patchwork Quilt
2015	Approached to participate in a café program	Pilot in the Plane Patchwork Quilt
	Developed 5-year strategic plan to become leaders in nutrition and community health	Affordable Loss Patchwork Quilt
2016	Developed Tool Kit to improve early care and school meals to support partner agencies	Patchwork Quilt
	Café Planning	Affordable Loss Patchwork Quilt
	Signature food product planning	Affordable Loss
2017	Launched signature food product	Bird-in-the-Hand
2018	Café launch	Pilot in the Plane Patchwork Quilt

The Lemonade Principle

Instead of interpreting challenges and surprises as negatives that should be avoided, an effectual leader views these as opportunities. Dave applied the *Lemonade Principle* twice in SHFB's evolution. First, he took advantage of the emergency created by the 2004 hurricane season to jump start the cultural and structural changes. The storms sparked an urgency that bonded the staff to trust each other and make team decisions. From the management staff to truck drivers to volunteers, the cultural climate encouraged everyone to share successes, failures, life lessons, and to treat each other like family. This urgency helped solidify the horizontal structure and collaborative innovation approach that he sought for the organization.

Before the hurricane, staff would continually come to Dave's office asking permission to do something relative to their area of responsibility. It was evident the vertical structure resulted in staff seeking approval to make decisions. In one-on-one meetings, he highlighted his trust in them to fulfill their defined roles and responsibilities and to take action that improves the organization. The focus was on trusting the person to get the job done, not on how they did it. Before, during, and after the storm, Dave made it a daily practice to communicate his trust in the staff to make decisions on their own and to work together. Nine months later, Dave recalls walking down the hallway and seeing four staff members from different departments having a meeting without him and realized the organizational structure was successfully decentralized.

The cultural climate at SHFB harnesses the power of people working together (i.e., social capital) where teams and individuals collaborate, solve problems, and explore opportunities to create change. SHFB consistently ranks as one of the highest in employee engagement in comparison to food banks across the country, based on a yearly survey conducted by *Feeding America*, which further confirmed their inclusive and collaborative culture. A recent project to define the culture identified eight "we do" statements that capture what it means to be a part of the SHFB team, which include:

- We take pride in SHFB and being part of a team
- We treat each other like family
- We respect each other and listen to all perspectives
- We trust each other
- We value transparency
- We innovate today to create our tomorrow
- We proactively embrace the concept of growth for all, and
- We honor our commitments.

Culture posters were created, signed by employees, and displayed. SHFB culture is representative of a stewardship climate and the practice of servant leadership that fosters

collective responsibilities and provides employees with autonomy and involvement in decision-making processes that improve the well-being of employees, enhance organizational performance, and foster innovation. This culture that embraces collaborative innovation was built by leveraging the hurricane as a catalyst for change, but was solidified in the following months by Dave and other top leaders in the organization exemplifying their trust in employees to do their jobs and reiterating for them to seek continued improvement as a team.

The other time that the *Lemonade Principle* was applied was when SHFB decided to begin their multi-million-dollar capital campaign for their new building and programs in 2009 at the height of the recession (described in more length in the *Bird-in-the-Hand* and *Affordable Loss* sections). While many leaders saw the recession as an inauspicious time to launch significant fundraising, SHFB saw it as an opportunity. In Dave's words:

> *We launched this at the start of the recession, which seemed like insanity to a lot of people…to launch a $17 million-dollar campaign, you've got to be crazy. There is no more important time; there was accelerating need, and it looked like the recession was going to be around for a while. Real estate prices were falling; there were all kinds of foreclosures and we knew people would be out of work. People were really hungry for jobs in the trades and everything. The building materials would be lower cost and we could probably really benefit from that. Strategically, we didn't think any other nonprofits would be launching campaigns during the recession. You compete for those community dollars, so we decided: let's do it now. When this recession ends, I guarantee prices will go up and other people will be launching campaigns.*

Effectual leaders can turn lemons (a recession), into lemonade (new structures and campaigns). Dave took advantage of the recession's impact on real estate prices, cost of building materials, and reduced competition. To do so effectively, the leader needs to leverage current assets and resources, which brings us to the next principle.

The Bird-in-the-Hand Principle

Effectuation, involves beginning where you are and setting achievable goals based on current available resources. Rather than focusing on the end goal and then seeking the resources

needed to achieve that goal. The *Bird-in-the-Hand Principle* is in practice when an effectual leader looks at existing resources and begins to innovate.

When Dave took over SHFB, he used to two key resources to begin to innovate: his staff and the existing Food Purchase Program. The disaster response showed that the staff's shared leadership and decision-making could bring new ventures online. Part of the reason that the staff at SHFB was so strong was because of investments made by the previous leader of the organization. Dave shared the story with us:

> *[The CEO] had "one of those soul-searching moments as a leader" when she learned that one of the employees, a warehouseman, had been receiving food from an emergency food pantry and realized "this was not right." Adding to her distress, the board chair touted the organization's "lean and mean" financials and promised the board would keep wages low so the community would see that the organization was efficient. In private, she asked him, "How would you like to be in my position and hear the board chair proclaim that the organization will pay the lowest possible wages? I won't accept that for myself or for the exceptionally hard-working staff that we have." She shared the story of the warehouseman. She went on to state that SHFB and its work to fulfill its mission of hunger alleviation is supposed to be "part of the solution, not part of the problem." The board chair apologized on the spot, and together they had a philosophical discussion with the board about appropriate salaries. The board set goals for where pay rates should be in the following two years. They voted first to increase pay for lower paying jobs, followed by other staff positions. Pay rates were aligned with the market and the board achieved its goals.*

Providing employees with fair-market, above minimum wage compensation ensured that SHFB was a preferred employer, enabling them to attract and retain talent.

When Dave joined the organization, the Food Purchase Program was generating $117,000 annually in unrestricted income. The program was built out of a recognition that SHFB's three hundred partner organizations needed a broader range of items than the donated food provided at the food bank. Shelf-stable food items, cleaning supplies, diapers, and protein items were routinely purchased at retail prices by partner agencies. To begin the new social enterprise, SHFB recognized they could use their resources: knowledge in distribution, the

warehouse, and logistical capabilities. The Food Bank purchased desired items at wholesale prices, and then sold them to their partner agencies at cost plus 10% to cover expenses.

Over time, they realized that their partners were gaining significant value from the additional product offerings and revised the business model to improve the profit margin. The program began to focus on items with greater margin, allowing the program to generate revenue for SHFB while still saving time and money for their partners.

The program was and is a key resource that SHFB leverages for two reasons, (1) its power as a change story, and (2) the resources it adds. As a change story, this program highlights how staff can play a critical role in improving the organization through shared leadership and decision-making. The Food Purchase Program now has a $2.7 million budget and generates approximately $500,000 in unrestricted revenue that can be leveraged to start and support other projects. It also indicates a strategic shift from a traditional charity to a social enterprise model and perfectly illustrates the *Bird-in-the-Hand Principle*.

As an effectual leader leveraging the culture of SHFB and the Food Purchase Program, Dave could begin working towards creating SHFB's new social enterprises in small steps. If he instead applied a predictive process and proposed a multi-million-dollar project from the outset, it is likely that the board and CFO would have responded with a resounding "no", citing the lack of resources. However, by employing the *Bird-in-the-Hand Principle* he could begin innovating.

The Patchwork Quilt Principle

The *Patchwork Quilt Principle* is the act of drawing together a wide net of stakeholders and leveraging their strengths to create a shared vision for the future. While a leader who uses a predictive process in the nonprofit sector likely views other nonprofits as competitors, an effectual leader looks to them as partners and seeks to create a shared mission. Often leaders who

embrace a predictive process will hesitate to ask for help and only cautiously build a network as they are concerned their organization may be perceived as vulnerable, or another organization will end up benefiting more than their organization from the new venture. Instead of viewing the world as "win-lose" equations, the effectual leader seeks to build "win-win" partnerships. Building a network to facilitate collaborative innovation is a key to effectuation. An effectual leader needs to identify relevant stakeholders to be involved in a project to bring it to fruition.

Dave began by asking members of his team for help: *By using what we know, who we know, and what we can do, how could SHFB reduce the number of people in need of food while earning surplus revenue to strengthen the current programs and support new ones?* In doing so, rather than focusing on maximizing the desired outcomes - as a predictive process would do - Dave focused on what could be done with available resources that aligned with the mission. To ideate the possibilities, he got out of his office and started asking others for help.

SHFB worked to build a strong network by developing a more diverse, experienced board, hiring staff with outside expertise, and increasing the number of volunteers to be engaged in their mission. After joining SHFB, Dave utilized his training in design, which emphasizes engaging with others to generate ideas. He immediately practiced collaborative innovation by intentionally listening to collective conversations he had with community leaders, donors, board members, and staff, thereby building an inclusive network of engaged stakeholders empathetic to the organization's cause and empowered by its new leader.

After the storm crises, Dave returned to his initial plan of meeting with key community members and asking them how SHFB could leverage the success of the Food Purchase Program and build more programs like it. He quickly realized that the value of asking questions went far beyond identifying or creating a new business opportunity because each conversation allowed

him to build closer relationships with stakeholders that later would become essential resources in accomplishing SHFB's goals. Throughout the process, he shared what he learned with his leadership team and staff. He would ask them questions, and then would get out of the building to share their ideas and ask more questions. Dave used deep listening and iterative ideation techniques by suspending judgement rather than evaluating ideas as they emerged and always following answers with more questions such as—"yes….and". Throughout the path to changing, Dave kept in mind the organizational resources—who they are, who they know, and what could they do (i.e., *Bird-in-the-Hand Principle*)—and began pushing conversations towards feasible goals for the organization to pursue.

The initial concept of the Community Kitchen emerged from this strategy along with its aspirational goals, vision, and purpose. Extensive conversations with stakeholders served to develop a shared concept of what this kitchen could become, and six months later he was able to formally present the Community Kitchen concept to his senior staff and board and tie it to their need for more distribution space. The board supported the idea and formed a Community Kitchen Committee to examine the feasibility of the project. Thanks to the *Patchwork Quilt* that was already developed, the board was able to recruit key members to the committee including three executive chefs from Universal Studios Orlando, Walt Disney World Resort, and Darden Restaurants as well as several board members and senior staff with a wide range of experience. Each business unit would be aligned to the core mission of SHFB by providing nutritional food to the community at low cost while providing unrestricted revenue and opportunities for individual growth and training.

The SHFB board also benefitted from the *Patchwork Quilt* approach. The board needed to provide leadership to successfully implement the social enterprises, and the Community

Kitchen committee had the key responsibilities of identifying, recruiting and orienting new board members who could enhance the performance of both the traditional SHFB programs and the new social enterprises. The board began to very intentionally select members from the for-profit sector who had competencies in the industries represented across SHFB's business units and programs, strong networks through which future partnerships could be fostered, and strong leadership and innovation skills. This led to the appointment of the Director of Food & Beverage Concept Development at Walt Disney Parks & Resorts Worldwide and the Senior Vice President, Chief Supply Chain Officer at Darden Restaurants as new board members. Board member expertise included food service, operations, distribution, logistics, finance, law, communications, and the health sector. In addition, to provide additional support for the board and to build a larger network and community of leaders, SHFB also developed a Community Kitchen advisory board, and yet another advisory board focused on health and hunger.

The Community Kitchen success required hiring the right people into the right positions, which was a challenge. It required food service managers with a rare combination of expertise in the industry, an understanding of the costs of healthy food production, solid leadership skills, and an understanding of the nonprofit sector.

The Culinary Training Program needed chefs to provide culinary training and a social worker to teach life skills training. Each business unit required different expert skill sets. For example, Catering for Good required catering expertise; Meals for Good required experience in high volume meal production; and Food Purchase Program required experience in logistics, pricing, and negotiation. Finding skilled and experienced individuals required reaching out to the networks of relationships developed over the years. Furthermore, Dave touted they also embraced the *Affordable Loss Principle* with their hiring practices by recognizing that they must

acquire expert help but also accept that finding ‘right’ people is a learning process - especially in a completely new industry.

This also demanded a willingness to pay individuals for the unique skill sets required to run a social enterprise. This was more feasible for SHFB because of their historical commitment to paying market wages than it would be for nonprofits that have maintained a more charity focused mindset of keeping all costs low, including payroll. Once again, this was an unusual understanding for a nonprofit CEO and board.

While board and staff commitment are critical for creating and implementing social enterprise models, Dave knew that just as important, if not more so, was keeping volunteers and the greater community informed, involved, and invested in SHFB’s mission. Historically, the organization had to turn away volunteers because of building size. The new facility offered significantly greater capacity and in the first year it was open, volunteer hours nearly doubled from 37,000 to 71,000. This number grew to as many as 102,000 volunteer hours in 2016 (the equivalent of 50 full time employees). Volunteer opportunities and the Community Center also serve as a marketing function, introducing more people to the mission, generating additional revenue and donations, and facilitating corporate partnerships through increased visibility. Six months after occupancy, SHFB launched the Culinary Training Program; Catering for Good and Meals for Good were started in 2014. The board, staff, and volunteers together form a *Patchwork Quilt* of capabilities enabling SHFB to achieve greater social impact.

The Affordable Loss Principle

Effectual leaders begin a new project with an understanding of what they are willing to lose and what they are committed to invest. This is considered their “*Affordable Loss*”. The *Affordable Loss Principle* has two critical roles for the effectual leader. The first is that it clearly

frames the risks, and second, it challenges the leader to define loss. All too often leaders are focused on the monetary cost or benefit of an action, and overlook non-monetary investments or opportunities. A key point of the *Affordable Loss Principle* is that asking for help rarely has a cost associated with it and often can provide a significant benefit by limiting downside risk. SHFB's idea of a Community Kitchen would not exist if Dave had not recognized that there was little loss associated with asking others for help.

Beyond the cost of asking for help, the *Affordable Loss Principle* also requires understanding what the organization can afford to lose at each step. Thus, it was vital that SHFB invest in professional help that would build their organizational means (the effectuation method) as well as assess the feasibility of the project (the predictive process). An outside foodservice consultant assisted the team in creating a business plan.

The business plan for the Community Kitchen included five key elements: 1) Culinary Training Program: a fourteen-week program focused on food service technical skills, life and employability skills training for adults, and job placement 2) Catering for Good: an in-house, full-service catering service 3) Meals for Good: a high-volume meal service program preparing and delivering fresh and nutritious meals to childcare centers, after school child care programs, group homes, senior feeding programs and schools; 4) Community Center: a rental space for events, meetings or seminars, and 5) a program to develop signature food products. In addition to generating revenue, Catering for Good serves an important marketing function by bringing people into the facility or connecting with the community off-site.

Everyone was excited about the potential of the Community Kitchen. A critical piece of the concept was the financial feasibility. Often, when new ventures are in ideation, the temptation is to focus on the upside potential in terms of impact or financial returns. The

Affordable Loss Principle, however, focuses on estimating the potential downside of a new venture and seeking ways to control the potential loss. Dave knew it would take cash and time to get these new business models running and profitable. However, their existing unrestricted revenue streams allowed them the freedom to explore, test, and fund new social ventures.

The CFO highlighted the risk of using reserve funds for a social enterprise and the need to be fiscally responsible in mitigating risk by developing a conservative business plan. Thus, the business plan for the Community Kitchen included capital requirements, training curriculum, a catering plan, a production plan, and an overall budget that set target projections of 25-30% margins for the Food Purchase Program and Catering for Good. Meals for Good would be priced based on market value of the services. Finally, it included a five-year *pro forma* for the culinary training to become self-sustaining. The plan was created to ensure that programs with higher margins could supplement lower margin programs. Leveraging the already profitable Food Purchase Program and the projected revenue of Catering for Good and Meals for Good, would provide revenue to subsidize the Culinary Training Program until it became self-sustaining. Ultimately, the business plan took one year to complete.

The CFO and executive team further reduced their exposure to risk through partnership- building and developing a capital campaign. In 2009, SHFB launched a three-year capital campaign to fund the new food bank facility and Community Kitchen. The goal of the project was to increase capacity, engage the community, and support the development of new social enterprises. To limit risk, construction did not begin until pledges totaling 80% of the capital campaign goal were received and financing approved through the New Market Tax Credit (NMTC) Program, (tax credit incentives for equity investments in low-income communities). Meanwhile, the Food Bank continued to strengthen their *Patchwork Quilt* of partnerships.

The Pilot-in-the-Plane Principle

The *Pilot-in-the-Plane Principle* is rooted in the belief that effectual leaders can create their desired outcomes by leveraging resources to shape events into opportunities. To illustrate how the future of SHFB shaped an unpredictable future, Dave and the CFO shared the story of how the opportunity to run a café materialized in a non-linear fashion (through the application of effectuation). Due to the success of the Community Kitchen, SHFB was asked if they would operate the café in a new Innovative Center for Health & Wellbeing built in partnership with the Winter Park Health Foundation and Florida Hospital. After years of building relationships and being the catalyst for new ventures, SHFB had created an environment of rich networks that provided the opportunity for them to help develop something spearheaded by another nonprofit. When considering this opportunity, Dave and the board had to consider their *Affordable Loss,* which they sought to mitigate through partnership.

Leveraging the application of the *Patchwork Quilt Principle*, SHFB utilized their network to connect to John Rivers, founder of the fastest growing restaurant chain in the Southeast, 4 Rivers Smokehouse. SHFB asked John to co-brand the café with them, and help develop the business plan and menu. He enthusiastically agreed on the condition that all the café profits go to the SHFB Culinary Training Program. This was a welcome surprise and illustrates how the other principles of effectuation (in this case, the *Patchwork Quilt Principle* and *Lemonade Principle*) work synergistically.

The café will be a unique private and nonprofit partnership. SHFB will not incur capital construction and equipment costs because they will be covered by the building owner. A general manager will be hired as well as a manager and hourly staff. The café will be a satellite training area for the Culinary Training Program and possibly offer a barista and coffee school.

Everything started to come together quickly. However, in practicing the *Affordable Loss Principle,* SHFB will not move forward if the revenue projections are not adequate. They are conducting a feasibility analysis and developing a business plan for the development of a café as an extension of the catering program. If the analysis proves positive, the expected launch is 2018.

SHFB's social enterprises and programs enable the organization to have the financial and human capital to continue to invest in innovative solutions that fight hunger and feed hope. Their continued investment in the expansion of their enterprises and focus on impact are evident in the organization's current strategic plan, which includes several key objectives reflecting their commitment to a social enterprise model. Examples of their current goals include: achieving Catering for Good sales of over $425,000 and increasing the number of Meals for Goods Contracts. Also, SHFB continues to leverage the alignment of their mission with key stakeholders and community partnerships, such as acquiring a 3-year grant with local hospitals to support nutritional advocacy and leadership and taking a more active leadership role in promoting and supporting community health.

Lessons Learned

There are three core takeaways from SHFB's use of effectuation to drive their recent growth of social enterprises that nonprofit leaders should embrace if considering undertaking their own extensive innovation projects: 1) Mindset is important, 2) Begin with what you have (and imagine possibilities), and 3) Invest in relationships.

Mindset is Important

One key takeaway is that the path of SHFB is not necessarily the appropriate path for another food bank to follow. Our goal with this case is not to provide a roadmap to success because each organization begins at a different starting point. Instead, our goal is to offer a

method and mindset that can help other leaders consider their unique starting point and be open to different destinations. In fact, this is a core principle of effectuation - the future is unpredictable, and cannot be controlled. An effectual mindset embraces the unexpected and, rather than trying to predict potential pitfalls, instead focuses on what can be controlled and what is possible to create.

When Dave assumed responsibility as the new CEO, a series of natural disasters caused the organization to change rapidly. Often, it is the most unpredictable events that result in the most radical change. Forecasts, *pro forma* projections, and strategic roadmaps are useful, but only to the extent that they reflect what is within the organization's control.

The effectuation mindset runs counter to the way many nonprofit leaders are trained. It is an iterative process that requires moving back and forth between progress and ideas, which can be challenging to express to boards, donors, and other key stakeholders who help fund and direct NPOs. However, as can be seen with the SHFB example, starting with the resources at hand and building strong relationships both inside and outside the organization can help an NPO leader utilize effectuation to realize significant innovation. It is critical that throughout the process, all members staff, board, and community members are included, as each person adds to the organization's resources, and therefore expands the possibilities.

Begin with What You Have and Imagine Possibilities

Dave started at SHFB with a variety of resources at his disposal, such as a dedicated team and a strong financial foundation. By assessing the resources at hand and reimagining a world of possibilities, SHFB was able to increase the amount of earned revenue generated from $117,000 in 2004 to over $5.5 million in 2016. The addition of each successive social enterprise came with a reevaluation of what they had, and included an ideation for what could possibly come next. For

example, upon determining the value of a community kitchen, they knew they needed a larger facility. Once the capital campaign was completed and the new facility launched, SHFB realized they could earn more and create more downstream value for their beneficiaries by adding catering services. This process continues today, as the organization continues to imagine innovative ways to improve the lives of the people they serve by taking inventory of the resources at hand and exploring new opportunities aimed at not only bringing food to people in Central Florida, but providing them job training and placement and nutrition education.

Invest in assets and in the community to build a sustainable cluster

The effectuation literature often focuses solely on the entrepreneur, but in the case of SHFB and other existing nonprofits looking to transition from traditional charity to social enterprise model, the method and mindset need to be embraced by the entire organization. The *Patchwork Quilt Principle* of effectuation to build partnerships with self-selecting stakeholders should be invested in at all levels inside and outside the organization. The SHFB case highlights four key actions in employing the *Patchwork Quilt Principle* that NPO leaders should note a) creating collaborative innovation, b) developing a diverse board of high-level experts, c) building a positive organizational culture of engaged stewards, and d) evaluating compensation to attract industry expertise.

Creating an environment that supports and fosters innovation is advantageous in most organizations. NPOs seeking to implement social enterprise models may benefit from viewing innovation as a multi-level process involving nearly all key stakeholder groups. At SHFB, innovation occurs at three primary levels. First, management actively nurtures a culture of innovation within the organization through design, engagement, and conscious attention to promoting creativity. Second, strategic partnership channels, such as collaborations with Darden

Restaurants and Walt Disney World, increase the flow of ideas and degree of connectivity to and from the organization and its key community partners. Third, the board has been carefully curated to maximize diversity and encourage creativity in long-term strategic planning. Together, this alignment creates a system that encourages innovation at every level of the organization.

Building a positive environment of engaged stewards is interwoven throughout the organization's culture at SHFB. Its core values are literally written on the walls of their facility and are deeply ingrained in the work of their staff. More importantly, the organizational culture at SHFB extends beyond their walls, and into their practices of fair wages, collaborative innovation, and accounting for diverse viewpoints in decision-making. This culture and the successes driven by its work engages stakeholders throughout the community and extends across the nation through their network.

Conclusion

Our review of the literature has found surprisingly few examples of how mature NPOs have successfully reorganized or created new business units designed as social enterprises. Instead, the literature has been predominantly focused on the creation of new ventures, NPOs or for-profit organizations. The case of how SHFB managed their transition in leadership and mindset represents a unique example of effectuation in practice within a mature organization. The team at SHFB knew this transition would be challenging given that there are strongly institutionalized norms around charitable organizations. Donors could reduce their support if concerned that the nonprofit is acting too strongly in its own self-interest or building revenue streams that are not mission-aligned. The challenge facing many nonprofit leaders like Dave is how to develop a *social enterprise model* within the existing structure of the traditional NPO and achieving the optimal balance between program investment and mission alignment.

Building a collaborative team was the first of many changes as SHFB transitioned to the innovative nonprofit social enterprise it is today. Whereas the organization once functioned as a traditional charity, it now operates as a social enterprise combining the business logic of maximizing profit without compromising its objective of fulfilling its social mission. As a result, SHFB enjoys several benefits other NPOs aspire to, most notably, an unusual amount of autonomy and flexibility resulting from their financial self-sufficiency. SHFB has been a highly successful NPO for decades and the use of effectuation has allowed the organization to maintain and grow its role as a leader in the hunger relief industry. Their success has come from utilizing the effectuation framework to build upon their strengths, develop strong partnerships in the community, and invest their resources wisely while seizing opportunities to improve their positioning to build the future they want. While this requires a leader with an effectual mindset, it also requires a strong organizational culture with a clear commitment to mission and innovation. NPO leaders seeking to follow SHFB's lead should especially note the importance of embracing effectuation as a path to change.

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