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# Slap Association for Creative Development Balancing Human Resource Capacity While Earning Revenues

Slap, Association for Creative Development, was founded in 2000 with the aim of providing support to civil society in Croatia, in particular in the east of the country, in achieving sustainability through the establishment of inter-sectoral cooperation among the civil, governmental and business sectors, and development of socially aware entrepreneurship. Recognizing the difficulties a young CSO with insufficient donor references would face in its fundraising, Slap has relied on self-financing from its very beginning. Its main self-financing activity consists of providing training and consultancy services to CSOs, local authorities and firms on topics related to organizational development and non-profit entrepreneurship. The second activity, the marketing and sale of a knitwear line produced by a socially vulnerable group of women, reaffirms Slap's commitment to socially aware entrepreneurship and aims to become a model of best practice to be followed by the civil and business sector alike. In spite of the initial difficulties with this product line, Slap is confident that it is bound for success. In 2004, self-financing contributed 25% of the total budget and the CSO expects this level to be maintained in the future. SLAP believes that both of its current self-financing activities are not only compatible with the organization's mission but also work to reinforce it.

This case was prepared by the Nonprofit Enterprise and Self-sustainability Team (NESsT), an international nonprofit organization with offices in Budapest, Hungary and Santiago, Chile. NESsT is committed to strengthening the financial sustainability of civil society organizations (CSOs) working for social change and development through the development of self-financing strategies that both generate additional income and further the missions of CSOs.

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# Slap

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NESsT wishes to thank Slap for its participation in this case study.



Slap provides assistance to CSOs, creating models of sustainable development, promoting intersectoral cooperation and the development of socially aware entrepreneurship, as well as business networking.

## 1. Background

Slap was established in 2000 with the aim of providing support to civil society in Croatia. Specifically, the civil society organization's (CSO) mission is to strengthen the human resources of the civil sector by providing assistance to CSOs, creating models of sustainable development, promoting intersectoral cooperation and the development of socially aware entrepreneurship, as well as business networking. Slap's activities span across four main areas: (1) Slap Training Center which provides training and consultancy services on organizational development to CSOs; (2) POMAK Center for Non-Profit Entrepreneurship which aims to strengthen the sustainability of CSOs through non-profit entrepreneurship and intersectoral cooperation and provide institutional support to CSOs and other stakeholders in the local community; (3) CRAFT Non-Profit Entrepreneurship Program which strengthens the employment of women and promotes traditional cultural heritage, and (4) Agro-Center, a program for the promotion of agricultural entrepreneurship.

Slap is registered as a non-profit and non-governmental expert organization headed by a three member executive board. The executive board is lead by the president of the board while a three-member supervisory board oversees the operations. The NGO has a staff of three full time employees but in its daily work it relies on more than a dozen consultants and volunteers.

## 2. Financial Information

### 2.1. Income

In 2004, Slap's budget amounted to HRK 320,000 (approximately USD 56,000). Self-financing activities<sup>1</sup> amounted to 25% of the total budget, with most revenues earned from consultancy and training services provided to CSOs, local self-government authorities and businesses. Almost two-thirds of the budget was secured through international sources, while grants from national foundations contributed only 5%. Donors have included the OSCE Mission to the Republic of Croatia, National Foundation for the Development of Civil Society, BAG, Center for Social Development Podunavlje, and previously the Academy for Educational Development and the Open Society Institute Croatia, among others.

The planned budget for 2005 aims for further diversification with the reliance on international sources dropping to 35%. It is expected that government sources will contribute 10% while national foundation and corporate grants should increase to 23%. Revenue earned through self-financing will continue to contribute a stable 22%.

### 2.2. Expenses

In 2004, programs and activities accounted for 73% of total expenditures, a slight decrease compared to 2003 when they amounted to 79%. Administrative and oper-

<sup>1</sup> NESsT uses the term "self-financing" to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). NESsT uses the term "social enterprise" when these strategies are carefully assessed and planned to significantly strengthen the financial sustainability and the mission impact of the CSO.



ating expenses grew in 2004 to 25% from 20% the previous year. Fundraising costs were at 2% and 1%, respectively. The planned expenditures for 2005 are as follows: programs and activities 75%, administrative and operating costs 2%, fundraising costs 5%.

**Table 1: Sources of Income 2003 - 2005 (planned)  
(Percentage of Total) survive until it built up its name and reputation**

SOURCE	2005 (planned)	2004	2003
<b>FOREIGN/INTERNATIONAL SOURCES</b>			
- foreign/international grants	35%	70%	70%
<b>PUBLIC SOURCES (LOCAL/NATIONAL)</b>			
- government grants	10%		10%
<b>PRIVATE SOURCES (LOCAL/NATIONAL)</b>			
- foundation grants	23%	5%	
- corporate grants	10%		
<b>SELF-FINANCING</b>			
- fees for services	20%	24.50%	20%
- product sales	2%	0.50%	
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### 3. Self-Financing Activities

Self-financing has been viewed as an important revenue generating option which would contribute to the sustainability and financial independence of the CSO since its inception. Concrete activities were developed in the year following the establishment of the CSO, building on available internal resources. The most significant self-financing activity includes the provision of consultancy and training services to a varied audience of CSOs, local authorities and firms. SLAP developed this activity with the realization that there was a need for such services which could, at the same time, be met by the knowledge and skills available within the organization.

In 2004 self-financing activities contributed to 25% to the total budget, with most revenues earned from consultancy and training services provided to NGOs, local self-government authorities and businesses.



**Table 2: Types of Self-Financing**

1. Fees for services	Through the Slap Training Center, the NGO provides training and consultancy services to NGOs, local authorities and businesses in the fields of organizational NGO development, project development, human resource development, organizational management, financial management, intersectoral cooperation, social marketing, sustainability, socially responsible entrepreneurship and non-profit entrepreneurship.
2. Product sales	Slap has developed the design and production technology for handmade knitwear produced by unemployed women. The line has not been marketed yet, but it is planned that the products will be available in select stores throughout the country.  The sale of books published by the NGO constitutes a minor share of sales.

#### 4. Start-Up

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Slap's self-financing activities developed along two lines. The first was to generate revenue which would secure the operations of the newly-established CSO before funds from other institutional sources would be sought. The second was to demonstrate by example that socially responsible non-profit enterprise was possible and a viable avenue for CSOs seeking alternative sources of funding. The production of the knitwear line, moreover, has an employment generation goal targeting a socially vulnerable group of women.

In terms of start-up costs, training and consulting services required a significant investment of time and knowledge of the staff to develop the training curriculum and methodology. At the same time, however, it required virtually no other financial investment which made it feasible for the organization. The Slap training team has developed 14 training modules whose topics and duration are adapted to the needs and requirements of trainees.

The handmade knitwear line was developed from 2001-2004. This activity was developed out of the desire to capitalize on the skills of women from this war-affected area and to provide them with employment they would have otherwise been unable to secure. The initial investment was covered by funds secured through government sources and the CSO's own work. The Government Office for CSOs, the City of Osijek and the Ministry of Entrepreneurship donated 100,000 HRK (20,000 USD) which accounted for some 70% of the investment. The remaining 30% were Slap's own contribution. These funds were used for the development of the product line and the production technology. The activity was set aside for the time being, however, due to a lack of time and resources needed to carry it out. It is planned that the activity will be pursued more vigorously in 2005 and 2006 with the development of a marketing and promotional strategy, including market penetra-



tion through branding and also marketing products of other handicraft oriented CSOs.

## 5. Management

Self-financing activities are presently managed internally by existing staff. Slap staff has the necessary capacity to run the enterprise activities having both an educational background in business as well as legal and management experience. Given a lack of resources, the organizations decided there was no need to hire external staff. At present, the senior management staff dedicates up to a quarter of its time to overseeing the self-financing activity.

Regarding the development of the handicraft activity, however, this structure may change as different options for the management and running of this operation are being contemplated. They include the establishment of a limited liability company or a cooperative of women involved in the production. In both cases, Slap would figure as the founder or one of the co-founders of the venture. The ultimate decision will depend on what the most favorable solution will be considering the legal implications and the most efficient management structure.

## 6. Effects of Self-Financing on the Organization

### 6.1. Financial Performance of the Self-Financing Activities

Since the data on the financial performance have never been disaggregated, it is not possible to provide the exact figures for each self-financing activity. Generally, however, it can be assessed that the consultancy activity is very profitable, while the knitwear line has not shown profits yet. Training and consulting bring approximately 30% of profit after covering the costs of trainers, travel, materials etc. The knitting project is not covering the costs of production as sales revenues only covered the costs of material and work (app. 80%), but not other indirect costs of production and marketing. Moreover, the latter will require further investment in market research and the placement of the line on the market.

### 6.2. Social Impact

Slap's mission plays an important role in the marketing of its self-financing activities. This is the case with the consultancy activities as the CSO's services are often sought from other organizations that are familiar with Slap's mission. More importantly perhaps, it is expected that Slap's mission will play a paramount role in the promotion and sales of the knitwear line where special emphasis is placed on social employment of middle-aged women from socially disadvantaged areas for whom it is nearly impossible to find employment elsewhere.

The knitwear activity is also important for Slap because the CSO wishes to develop a model of socially responsible enterprise which would demonstrate to other stakeholders that such ventures are feasible and beneficial.

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### **6.3. Financial Sustainability**

Regularly accounting for more than 20% of the CSO's annual budget, self-financing activities have constituted an important but not fully stable source of income for Slap. Consultancy activities, which are contributing the greatest share of income, are not in stable demand throughout the year. Because of this fluctuation, sometimes there remains an excess of capacity while at other times, the CSO must reject incoming requests for its services. With the knitwear line, the expectation is that the activity would cover its costs without necessarily providing additional revenue as the main aim here is to create a sustainable model rather than undertaking a profit-generating activity.

At present, income from self-financing covers overhead expenses, staff salaries and honoraria, as well as investments in equipment. It has also greatly contributed to the ability of the CSO to regularly meet its on-going operating expenses such as utilities and rent.

It is expected that income from self-financing will increase steadily over the next three years. Moreover, it has been noted that donors have been more willing to lend their support since part of the funding can now be secured through self-financing.

### **6.4. Organizational Sustainability**

It is felt within the organization that self-financing has improved the ability of the CSO to achieve its mission because of its positive impact on the internal capacity of the organization as well as its financial sustainability. Slap seems to be aware of the danger of placing excessive emphasis on the provision of consultancy services and potentially turning into a consultancy organization, which they are keen to avoid. At the same time, competition has contributed to higher standards and better quality of products and services that Slap offers to its target group. The CSO is convinced that by engaging in this type of self-financing activities, Slap has become more credible in promoting its mission since by practicing what it preaches, it leads by example.

Also, Slap is building its human resources capacity which is key to the success of its self-financing activity. The organization trained nine new trainers and employed two new staff in 2005: an administrator and a consultant for financial management and development. This has allowed Slap to strengthen its competitiveness and the ability to compete for larger programs and funds. The organization recently became eligible to apply for an institutional grant and development pre-accession funds from the EU.

## **7. Conclusions and Lessons Learned**

Self-financing activities provided an avenue for Slap to secure the sustainability of the organization since its inception. With the benefit of hindsight, it can be said that consultancy services was a good choice of activity for Slap. Requiring little start-up investment in terms of financial resources and relying on the knowledge and skills of the staff, income earned from this activity helped the organization

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so that it could attract other donors and sources of funding. The consulting enterprise has also provided unrestricted funds which were used to cover overhead costs and salaries, expenses which the donors are not very keen to finance. This, in turn secured the organization a degree of independence from donors.

At the same time, the path of the knitwear line, the second self-financing activity undertaken by Slap, has been more arduous. The CSO has realized that it was too large of an undertaking and started too early in the life of the organization. Lacking the financial and human resources, it decided to suspend the activity. The activity was not bringing enough revenue to cover its costs and donors were not willing to cover the operational costs needed. At the same time, personnel had to be devoted to other activities. There was an attempt to bridge the gap with an international expert who volunteered for two months to build a marketing strategy. But the outcomes of these efforts were limited given the expert's unfamiliarity with the local market. In retrospect, the organization realizes that the needed funds and human resources should have been secured before the activity was started, and this will be done before the activity is resumed later this year, according to plans.

Slap has a permanent commitment to self-financing as it appreciates its long-term benefits in terms of organizational independence and financial sustainability, in spite of the significant investment of time and resources which yield little return over the short-run. Slap is keen to create models of best practice and show by example that socially responsible entrepreneurship is feasible in Croatia.

In terms of creating a model of entrepreneurship for the sector, the biggest challenge still is the limited amount of time that key staff can devote to the development and marketing goals of the enterprise while at the same time implementing projects funded by donors. If continuous funding (for at least one-year period) were provided either through institutional grants or for marketing the self-financing activity, it would definitely be a breakthrough for organizational sustainability. Also, when it comes to building the models of best practices with other CSOs there are several challenges to be met:

- Level of devotion and persistence within the staff of the organization
- Level of expertise and management skills
- Funds available to support the income generating start-up activities.

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