Social Return on Investment: Exploring Aspects of Value Creation in the Nonprofit Sector

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Executive Overview

As discussed in the chapter on Nonprofit Capital Markets, there are increasing numbers of new players entering the field of philanthropy. These new players are joining many previous donors in demanding not simply greater operational accountability from those organizations to which they provide contributions, but a greater capacity to document the social and other impacts of their charitable giving. These new donors speak not only of "measurement" and "outcome funding," but rather of "social return" and the ability to document the "added- value" of their philanthropic investments.

Perhaps more importantly, it is our contention that the true impact of the collective work taking place in the nonprofit sector is grossly *under-valued* by those both within and outside of the sector due to an absence of appropriate metrics by which value creation may be tracked, calculated and attributed to the philanthropic and public "investments" financing those impacts. In the for-profit sector, one speaks of Price/Earnings Ratios and Portfolio Fund Performance. Indeed, at the close of every day one knows exactly what financial returns have been generated by "the market." By contrast,nonprofit organizations have no equivalent metrics by which to lay claim to the value created through their labor. This lack of transferable metrics underlies an array of issues confronting the sector, ranging from difficulties in fund-raising to an inability to provide personnel with adequate compensation. As the nonprofit sector continues to compete for limited charitable dollars it becomes increasingly important that we be able to understand not simply that a program is a "good cause," but rather that its social returns argue for increasing our investments in their work.

To date, the knowledge base driving an SROI analysis is still evolving. While Dennis Benson has done some ground-breaking work in advancing an understanding of return on investment frameworks applicable to the public sector and there have been several efforts to present a "snap-shot" analysis of how one might calculate a social return on investment for individual nonprofit organizations, these efforts have been isolated. An overall conceptual and practice framework for using such metrics on an ongoing basis within a portfolio of philanthropic investments has yet to be advanced. Therefore, this chapter addresses issues related to the understanding and measurement of Social Return on Investment (SROI).

The authors begin by introducing the challenge of calculating SROI and identify three types of value creation generated by social purpose enterprises; these include: Economic, Socio-Economic and Social. The focus of the balance of the chapter is on value creation taking place at the Socio-Economic level and the documentation of that value creation through the application of an SROI framework.

The Roberts Economic Development Fund (REDF) makes use of projected SROI to evaluate capital grant requests made by organizations in the REDF Portfolio. A sample capital grant request analysis is presented to demonstrate the concept in practice.

Beginning in the summer of 1999, SROI templates will be used by REDF to begin the establishment of an ongoing measurement of SROI within its portfolio. With such a framework in place, the argument is advanced, the "return" on philanthropic "investments" may then be calculated on an ongoing basis for this philanthropic portfolio of the Roberts Foundation.

The chapter concludes with a discussion of the theoretical and strategic limitations and challenges of applying an SROI analysis to philanthropic investments.

In approaching this discussion, it is important for the reader to understand that the proposed metrics and framework of analysis are changing and becoming more refined by the day. Indeed, by the time this paper is released, the REDF SROI Analyst will have finalized yet one more iteration of our financial templates by which we will quantify SROI. This paper and our own work are not presented to our colleagues and critics as a fait accompli, but rather a true work of action research. A second, follow-up paper will be published in the fall of 2000 that will present not only our first Portfolio Report, but a discussion of the problems encountered in applying our methodology. REDF has consistently presented its work with candor and honesty concerning its challenges and limitations. We look forward to continuing to do so and offer the following two chapters as additional contributions to the ongoing work of not only those engaged in Social Entrepreneurship and Venture Philanthropy, but to the Nonprofit Sector as a whole. Finally, we welcome the reader's comments and observations for how this approach may be improved and where its weaknesses are found. This framework is not the answer, but is offered as one more step along the way. We look forward to hearing your comments regarding how it may be improved and to learning how you are moving to document the social impact of your own work.

Introduction

The challenge of tracking social impacts and calculating a foundation's "social return on investment" (SROI) are both issues which have been of increasing concern to many in the philanthropic and nonprofit communities. In 1996, The Roberts Foundation presented its initial framework for calculating a Social Return on Investment in our report entitled, *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation*. That framework used a modified discounted cash flow analysis in an effort to calculate the impact achieved through a foundation grant and document the economic value of the social purpose enterprises the foundation had supported.

While this effort was a meaningful, well-received, first step, we have come to view that initial framework as needing improvement in the following areas:

- The framework presented was useful in calculating the return on investment achieved by an individual foundation's grant, but did not allow for consideration of all investments (e.g., subsidies) underwriting an enterprise activity and was therefore felt to be lacking as a measure of total social return on investment for a nonprofit organization;

- The framework made use of three discount rates (0% to represent the cost of capital for grant funds,3% for a Program-Related Investment and 9% for the standard market cost of capital), but did not address the challenge of using traditional means of calculating an appropriate discount rate, for example through use of the Capital Asset Pricing Model/Weighted Average Cost of Capital (CAPM/WACC) formulas;

- In its 1996 report, the framework was used by the Foundation to analyze a single investment, but was not tied to operating financial templates that could be updated on a regular basis. Thus, calculation of rates of return could not be continually adjusted based upon the actual performance of an investee organization—a key aspect for assessment of ongoing value creation in the nonprofit sector.

With these and other considerations in mind, over the course of 1997 the Roberts Foundation (under its new initiative, the Roberts Enterprise Development Fund or "REDF"), spent significant staff, investee and outside consultant time discussing how best to approach the overall issue of "evaluation" and the calculation of a social return on investment. It was concluded that:

- Evaluation, as generally practiced in the nonprofit sector, tended to be retrospective; did not inform practice by tying performance directly to making changes in practice; and is primarily externally focused (e.g., what did we say we were going to do in our proposal and did we, in fact, do it?);

- Evaluation as a concept,therefore,was less helpful than information management in support of practitioners' efforts to serve populations with complex needs;

- With an effective information management system in place both investees and REDF could assess the business and social activities of REDF-funded organizations more effectively; and

- Such a system could generate social outcome information of interest to investees, while laying the foundation for the Fund to track SROI more effectively.

After nearly a year of planning and design, in the first quarter of 1998 REDF "went live" with WebTrack, an information management system based on operational indicators developed by enterprise managers with the staff of BTW Consultants[1] and REDF. This system began with a primary focus on business operations—data that is now being used to inform business practice. At the conclusion of 1998, WebTrack's second component, that of social outcome indicators and data tracking, was completed.

WebTrack is an Internet-based information management system designed for and with REDF Portfolio investee organizations. The social outcome component of the system, based in part upon the templates developed to track business operations, is designed to provide information regarding the social and training program operations. As this system becomes fully operational, it will be possible for investees and REDF staff to assess progress toward fulfilling the social mission of our work. While critical to quantifying SROI, the documentation of social impacts is both complex and "process intensive." Therefore, this document presents a brief description of the WebTrack system, but does not fully discuss it. A companion chapter, "WebTrack and Beyond: Documenting the Impact of Social Purpose Enterprises," describes this social outcomes data system and design process in full detail.

As the WebTrack information management system was being developed with the organizations in the REDF Portfolio, other REDF staff turned their attention to the challenge of developing both the financial frameworks and social metrics for assessing individual grantee SROI and a portfolio SROI for the REDF initiative as a whole. This effort is known as The SROI Project.

The SROI Project

The SROI Project runs from February 1998 through summer 2000, at which point preparations will be made to release the first REDF Portfolio Report. That report will present both our analysis of the initial social impacts of REDF-funded organizations and the refined framework by which the Fund intends to calculate its SROI on an ongoing basis.

The task of assessing a foundation portfolio's SROI is extremely complex, involving a number of areas of study. While the process requires input from investee organizations, it has been staffed by REDF, making use of existing businesses' financial reports and other relevant documents in order to minimize the time and resource impact on investees.

The SROI Project is divided into the following four sections:

True Cost Accounting Analysis (TCAA)

Before one can attempt to understand social costs (and benefits) as a whole, one must understand how individual organizations currently track such expenses and charge such expenses to the appropriate cost center. The TCAA assessed REDF funded enterprises' current state of accounting for social, business and other costs. This analysis provided us with a baseline understanding of present practice, while it assisted us in developing a framework capable of comparing "apples to apples." The prior chapter entitled "True Cost Accounting: The Allocation of Social Costs in Social Purpose Enterprises" was written by Heather Gowdy and presents this framework.

Capital Structure Issues and Analysis for Social Purpose Enterprise

Any single investment of grant equity and the returns generated by that investment must be understood in terms of the other investments, debt and equity that support the organization. Over the summer of 1998, a REDF Farber Intern, Jay Wachowicz, examined the overall capital structure of a sample group of REDF Portfolio organizations. Together with REDF's executive director, he applied business valuation frameworks to each social purpose enterprise and its parent corporation. In July of 1999, REDF's staff was joined by Suzi Chun, a Farber Fellow serving in the position of SROI Analyst. Jay and Suzi's work build on REDF's past efforts in this area and form a significant part of the material presented in the following pages.

Social Outcome Analysis and Summary

With the WebTrack system fully functioning, data will be generated showing the aggregate social impacts of funded organizations. As the process unfolds over coming months, specific outcomes experienced by individual participants will also be measured. In the future,this system will have the potential to provide "real-time" feedback to operations managers but will initially be tracked in six-month increments. REDF, together with REDF Portfolio organizations and partnering funders, will work over coming months to achieve real-time reporting. In addition to helping practitioners, the evolving information system provides the foundation for a database upon which a social return may be calculated[2].

SROI Portfolio Analysis

As we move through 2000, REDF and its investee organizations will be positioned to release regular reports that, in addition to documenting the qualitative impacts of supported activities, will also document the economic value of those social impacts. Overall SROI for the REDF Portfolio can be calculated using these data, aggregated. An initial portfolio report, written in partnership with REDF investee organizations, will be completed in the summer of 2000. That report, in addition to presenting our SROI figures, will also discuss the limitations of the approach and the challenges for future research.

Increasingly, nonprofit organizations and the foundations that support them are under fire to document the effectiveness and value of their work. It is our position that supporting tax-exempt organizations,especially those engaged in social purpose enterprise development, makes sense not simply from a general, charitable perspective, but on the basis of sound,investment logic.

The fundamental premise of our work is twofold:

> First, that ***a philanthropic dollar invested in the social mission of a nonprofit today generates future economic and social returns in excess of the initial value of that dollar;*** and
>
> Second, that ***social purpose enterprises—and many tax-exempt, nonprofit organizations—are creating significant value for society which goes largely undocumented and is vastly under-appreciated.***

To date, the sector has been unable to present a cogent, well-structured framework for *ongoing* measurement of the value created by the nonprofit sector. As a result, much of the social and financial impact generated by social investments of grants and other resources is undervalued by community members, funders, practitioners and government leaders. This inability to define and understand social and economic value has made for a serious information gap and a lack of objective performance assessments. In the absence of these measures, effective allocation of financial and other resources is hindered, which, in turn, limits the sector's ability to pursue improvement of community living standards and other long-term goals.

REDF has always placed significant emphasis on documenting the social and economic value of the work engaged in by portfolio organizations. The SROI Project is our effort to move the quality of both our own work, and that of the field, to a higher level.

Quantifying the Immeasurable: Fundamental Concepts of Value Creation

Shifts in the Capital Market

This paper presents a general framework for understanding and calculating social return on investment. The fundamentals are easily grasped. The chapter entitled "The U.S. Nonprofit Capital Market: An Introductory Overview," presents a detailed discussion of current trends within the capital markets that fund the activities of the nonprofit sector. The reader is directed to that chapter for a more complete discussion of shifts taking place in that market.

To understand the application of the SROI framework, one must first understand that the current nonprofit capital market is undergoing significant transformation. Historically, the U.S. nonprofit capital market has been:

- ***Charity Oriented*** - Emphasizes the good feeling and potential tax benefits a donor may receive from making charitable gifts to a nonprofit

- ***Process Focused***- Pursues such questions as "How many clients were served?" or "How many people attended a training session?"

- ***Based Upon External Evaluation Measures*** - Tends to be retrospective, oriented to meeting the needs of external players such as funders, and does not directly inform the work of program or operations managers

Together, these factors have helped create the nonprofit capital market that has evolved over past decades and have fostered resource allocation decisions often driven largely by politics, perception and persuasion as opposed to more objective criteria.

However, increasingly the nonprofit capital market is moving away from a "charity" orientation and toward one that views grants and donations as a form of investment in the nonprofit sector and the various communities served. The evolving nonprofit capital market is increasingly:

- ***Investment Oriented*** - Views each investment in relation to the overall capital structure of the nonprofit organization, not as a separate grant that stands on its own;measures the return on that investment in terms of social earnings and against a measure of social return on investment

- ***Outcome Focused*** -Attempts to enunciate the fundamental value proposition of the nonprofit "investee" and focus upon measuring what specific value was created as a result of the philanthropic investment in support of that value proposition

- ***Internal MIS Based*** - Maintains a prospective orientation—assessing what is projected to take place and what has happened in the immediate reporting period, rewarding effective execution by managers and, perhaps most importantly, creating a management information system that directly informs the work of practitioners over time, as opposed to simply justifying their activities to external players

Because of these trends, the nonprofit capital market and those who operate within it must begin to understand, enunciate and quantify the value creation of the social sector in a whole new way.

Understanding Types of Value Creation in Social Purpose Enterprises:

In the words of J. Gregory Dees, Kauffman Foundation Social Entrepreneur in Residence, the term entrepreneurism "came to be used to identify some individuals who stimulated economic progress by finding new and better ways of doing things. The French economist most commonly credited with giving the term this particular meaning is Jean Baptiste Say. Writing around the turn of the 19th century, Say put it this way, 'The entrepreneur shifts resources out of an area of lower and into an area of higher productivity and greater yield.' Entrepreneurs create value."[3]

For social entrepreneurs operating social purpose enterprises, this value creation process simultaneously occurs in three ways along a continuum, ranging from purely Economic, to Socio-Economic, to Social:[4]

Economic ⟷ Socio-Economic ⟷ Social

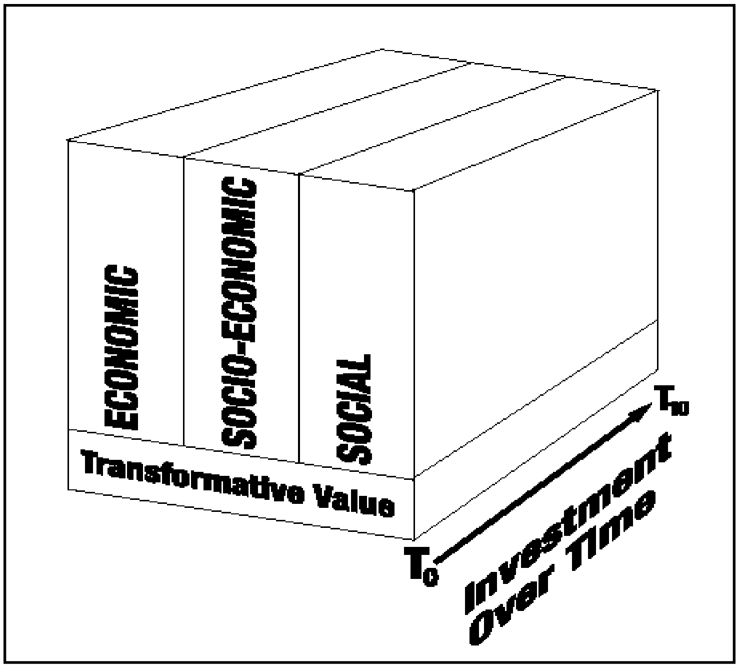
We will first briefly discuss the two extremes of this continuum, but focus most of our discussion on Socio-Economic value creation, the arena in which both economic and social value are considered. It is this combined value creation process that an SROI analysis attempts to measure.

Economic Value

Economic value is created by taking a resource or set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has greater market value at the next level of the value chain. Examples of economic value creation may be seen in the activities of most for-profit corporations, whether small business, regional or global. Measures of economic value creation have been refined over centuries, resulting in a host of econometrics, including return on investment, debt/equity ratios, price/earnings and numerous others. These measures form the basis for analyzing most economic activity in the world.

Social Value

Social Value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. It is in this arena that most nonprofits justify their existence, and unfortunately it is at this level that one has the most difficulty measuring the true value created. Examples of Social Value creation may include such "products" as cultural arts performances, the pleasure of enjoying a hike in the woods or the benefit of living in a more just society. To quote J. Gregory Dees again, Social Value is "about inclusion and access. It is about respect and the openness of institutions. It is about history, knowledge, a sense of heritage and cultural identity. Its value is not reducible to economic or socio-economic terms".[5] Social Value can be found in anti-racism efforts, some aspects of community organizing, animal rights advocacy and folk art. It has intrinsic value, but can be difficult to agree upon or quantify.



The three types of value being created by the REDF Portfolio (Economic, Socio-Economic and Social) should be understood as being created over a specific investment time frame. In this case, that time frame is over a 10 year period. Furthermore, all three types of value should be understood to rest upon a fourth dimension of value creation — that of Transformative Value. The central purpose of the nonprofit sector is to create some type of change — to transform our society and world for the better. Transformative Value becomes the basic foundation upon which the other three types of value are based.[6]

Understanding Frameworks for The Measurement of Socio-Economic Value

We have already stated that measures of Economic Value are standardized and support the basis for most economic activity in the world. And we have also acknowledged that in the Social Value arena there are factors that are indeed beyond measurement, yet clearly are of value and worth affirming. In between these two poles of value creation lies Socio-Economic Value.

Socio-Economic Value builds on the foundation of Economic Value creation by attempting to quantify and incorporate certain elements of social value. An entity creates Socio-Economic Value by making use of resources, inputs, or processes; increasing the value of these inputs, and by then generating cost savings for the public system or environment of which the entity is a part. These cost savings are potentially realized in decreased public dollar expenditures and partially in increased revenues to the public sector, in the form of additional taxes. Examples of activities that generate Socio-Economic Value are supported employment programs for the disabled or homeless, job training programs or other initiatives that provide employment for those presently receiving public support and divert individuals away from public systems and toward private markets. We posit that value creation in this arena can be measured using a social return on investment metric, social earnings calculations and other evolving metrics discussed in this chapter. While not the focus of this chapter, variations on an SROI metric may also be applied to environmental, educational and other areas of interest and activity to the nonprofit sector.

In this context, it is important to understand that:

The core SROI analysis, as presented by REDF, does not attempt to definitively quantify and capture ***all*** *aspects of the benefits and value that accrue as a result of a successful program, but rather to identify* ***direct****, demonstrable cost savings or revenue contributions that result from that intervention.* And, with that documentation in place, an SROI analysis argues that the nonprofit should be at least *partially* compensated and/or credited for the value it creates in the marketplace. Public sector "pay for performance" and other trends are a move in this direction, but need to be taken one step further, with social impacts being tied back to the "investment" required to achieve such impacts.

While the SROI framework presented in this paper focuses primarily upon the creation of metrics by which to quantify Socio-Economic Value, the reader should note that the REDF information system is simultaneously attempting to track much more than the value of cost savings to the public system. As the reader will see in a review of the information and tracking survey found in this chapter's appendix,REDF and its portfolio organizations are also tracking an array of other factors including such challenging areas as shifts in personal self-esteem—factors that fall mainly within the category of Social Value.

In the same way that an informed investor does not simply look at a single number in order to understand the worth of a particular investment, REDF encourages those involved in the application of an SROI analysis to seek out and use other tools with which to understand the value being created by a particular organization in which one has invested or is considering an investment. By combining a Socio-Economic measure of value with other measures, one may then begin to understand the full return being leveraged for participants, stakeholders and society at large.[7]

Finally, an SROI analysis is not simply a traditional form of cost/benefit analysis documenting that for every dollar spent on "X," "Y" number of dollars are saved. Rather, it analyzes both the cost savings generated by any given social program and the effects of investing limited "social funds" in one form of social activity as opposed to another, with varying costs of capital. The REDF SROI analysis potentially may include views of both the cost of that investment and the relative return generated by competing investment opportunities in the nonprofit capital market.

The balance of this chapter presents in detail how that analysis may be undertaken in the area of social purpose enterprises.

An SROI analysis does the following

- examines a social service activity over a given time frame (usually five to 10 years);
- calculates the amount of "investment" required to support that activity and analyzes the capital structure of the nonprofit that is in place to support that activity;
- identifies the various cost savings, reductions in spending and related benefits that accrue as a result of that social service activity;
- monetizes those cost savings and related benefits (that is to say, calculates the economic value of those costs in real dollar terms);
- discounts those savings back to the beginning of the investment timeframe (referred to as "Time Zero") using a net present value and/or discounted cash flow analysis; and then
- presents the Socio-Economic Value created during the investment time frame, expressing that value in terms of net present value and Social Return on Investment rates and ratios.

General Overview of an SROI Analysis

The exhibit on the following page illustrates the overall framework for the social return on investment calculation. The return may be measured as a ratio such that the present value of the net benefits is divided by the present value of the total costs or may be calculated based upon a return on investment calculation using an agreed upon a discount rate or range of rates.

The net benefits of an investment in a social purpose enterprise are comprised of two "cash flows." The first cash flow is generated from the operations of the social purpose enterprise itself. The business cash flows are forecasted out 10 years and to perpetuity and are then discounted back to a present value figure. The second cash flow is a calculation of the total net savings to society, which is to say the economic value of the program's social impacts. For our purposes,the term "society" refers specifically to those governmental entities upon which the social "cost" of poverty

SROI Calculations

($000's)

Time Period	0	1	2	3	4	5	6	7	8	9	10	Perp
Business Cash Flow	$3,182	250	380	420	510	620	750	840	950	1,170	1,290	1,400
Social Benefit Cash Flow	$2,373	200	254	328	412	496	589	653	786	816	920	1,000

Net Present Value

$5,555

$\dfrac{\text{Present Value of the Benefits}}{\text{Present Value of the “Costs”*}}$

Social Return Ratio

(NPV Bus. Cash Flow + NPV Social Benefits) with IRR calculation provides:

SROI Rate

** = Present Value of the "costs" in this case is the grant equity contributed to the organization by government and foundation sources*

falls. Creating social and socio-economic value clearly is of benefit to individual program participants and communities and we also recognize that the immediate burden of poverty falls upon families and communities. However, the actual dollar expense of social and other programs accrues to the public sector which is supported by taxpayer dollars and, thus, society at large.

To quantify this net savings, REDF has hired BTW Consultants to track on an ongoing basis the costs of unemployment and the reduction of these costs as a result of employment within the social purpose enterprises. The net savings to society is made up of the additional tax dollars generated from the operations of the business and the reduction in unemployment costs, the new wages of the employees, and additional dollars the enterprises used associated with their social mission, less any grant and philanthropic investment dollars. Wages and the additional dollars used for the enterprises' social mission, while costs to the enterprises, are considered benefits to the employees. This cash flow is forecasted out 10 years and to perpetuity and is then discounted back to a present value figure using a range of discount rates. The new tax dollars, net savings, and business cash flows are discounted using the appropriate discount rates and then summed to form the total benefits to society. This figure represents the performance of the organization—its Socio-Economic Value.

The net present value of the benefits is divided by the total costs of the organization. The total "costs" represent the philanthropic dollars invested during a given year or other investment time frame. This final figure represents one of the performance measures of the organization—its SROI ratio.

Another performance measure is the SROI rate, which is calculated by performing Internal Rate of Return (IRR) calculations based on the total Socio-Economic Value and total "costs."

These measurements are for the organization and grant dollars in total. The framework to be used for the calculation of an individual "investor's" SROI is addressed in Calculation of Nonprofit Share Value and Equity Ownership, presented in Chapter 9.

How REDF Uses SROI to Assess Current Investment Opportunities

A central premise of this chapter is that all forms of charitable giving constitute a form of investment in the nonprofit sector. With an SROI framework in place, investors are now in a position to use SROI analysis as a tool to assist in decision making with regard to the large number of investment options available in the nonprofit sector. In the same way for-profit investors consider their overall investment goals, their appraisal of the managers of a given venture and internal rate of return/net present value projections when weighing an investment decision, the SROI framework may allow charitable investors to engage in the same type of considered analysis.

In the case of REDF, core investments are made in each organization included in the REDF Portfolio. Those investments are made against a variety of criteria, which in most cases include a projection of SROI returns. Each REDF organization is also able to apply for additional investments to support capital expansion to make possible the execution of the funded business plan. All capital grants are evaluated with reference to their potential SROI return. The assessment is a base-line evaluation of projected returns and includes the fundamental measures of socio-economic value in the REDF context: tax dollars saved as a result of individuals leaving public assistance and income taxes paid as a result of wages earned by employee/trainees in the social purpose enterprise.

The first section of the template on the following page presents a summary of the information presented in following sections. The analysis addresses two issues:

- What increase in Economic Value will be created through the investment? (eg. How does the social purpose enterprise benefit from the investment?)

- What increase in Socio-Economic value will be generated by the investment? (eg. What is the economic value of the social impacts?)

In addition, analysis is made concerning what the potential negative effect may be should the investment request be denied. The effort here is to understand the relative pros and cons of a given investment opportunity.

It is important to note that, as presently constituted, SROI analysis does not allow investors to consider the relative value of competing investments from different sectors. For example, a program employing at risk teens with an SROI of 34% is not necessarily “better” than an adult program providing transitional employment as well as educational support, but with an SROI of 22%. Such a use of SROI would constitute an effort to engage in an “apples to oranges” comparison. However, the present system would potentially allow for cross comparison within a similar sector—say, for example, two related youth programs employing teens from a given neighborhood.

At present, while REDF makes use of this template to assess capital requests of each organization in its portfolio on a “deal by deal” basis, at this time REDF itself does not have the capacity to assess the relative value of each investment. Furthermore, at present REDF does not evaluate how each investment will affect the SROI performance of the portfolio as a whole. With the institution of ongoing SROI analysis, the Fund will have the ability to convert to such an investment tracking system.

REDF Analysis of Returns on a Proposed 1999 Capital Investment

Name of organization - business: A Really Great Nonprofit Organization Changing the World

Amount requested for 1999: $100,000

Planned use of amount requested funds: Provide down payment for purchase of building housing a Social Purpose Enterprise in SF

	1998	1999	2000	2001	2002	2003
Net Business Income	na	$42,000	$61,718	$73,730	$85,743	$67,910
Net Social Benefit	na	$48,100	$46,175	$53,550	$63,564	$71,179
Total Business & Social Benefit		**$90,100**	**$107,893**	**$127,280**	**$149,307**	**$139,089**

Cost of cap."A"	**0%**	**NPV at 0%**	**$520,669**
Cost of cap."B"	**3%**	**NPV at 3%**	**$451,739**
Cost of cap."C"	**9%**	**NPV at 9%**	**$343,969**

NPV Calculations

Overview of business growth with vs without investment

	1998 (actual)	1999, without investment	1999, with investment	2003, with investment	With investment: % growth, 1999-2003	With investment: Estimated 1999-2003 growth attributed to investment
Sales	$309,605	$163,043	$356,000	$433,009	21.63%	$269,966
Net income	$40,000	-$111,700	$53,407	$82,600	54.66%	$194,300
Net income as % of sales	12.92%	-68.51%	11.80%	19.08%		
Target population jobs (FTE) annually	8	6	9	12		

With investment:

Projected business performance

	1998	1999	2000	2001	2002	2003
Sales	$309,605	$356,000	$375,252	$394,505	$413,757	$433,009
Net income	$40,000	$53,407	$67,150	$93,950	$103,450	$82,600
Net income as % of sales	12.92%	15.00%	17.89%	23.81%	25.00%	19.08%

Estimated business performance attributed to investment

	1999	2000	2001	2002	2003
Sales	$192,957	$204,513	$217,111	$231,191	$250,459
Net Income	$42,000	$61,718	$73,730	$85,743	$67,910

Social Benefits

	1998	1999	2000	2001	2002	2003
# Target pop. jobs annually (FTE)	8	9	9	10	11	12
Hours per week	320	360	360	400	440	480
Avg. target pop. wage rate	$6.00	$6.20	$6.20	$6.20	$7.00	$7.00
Total target pop. payment	$96,000	$111,600	$111,600	$124,000	$154,000	$168,000
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Federal taxes from new jobs	$14,400	$16,740	$16,740	$18,600	$23,100	$25,200

Estimate of social welfare system savings (partial):

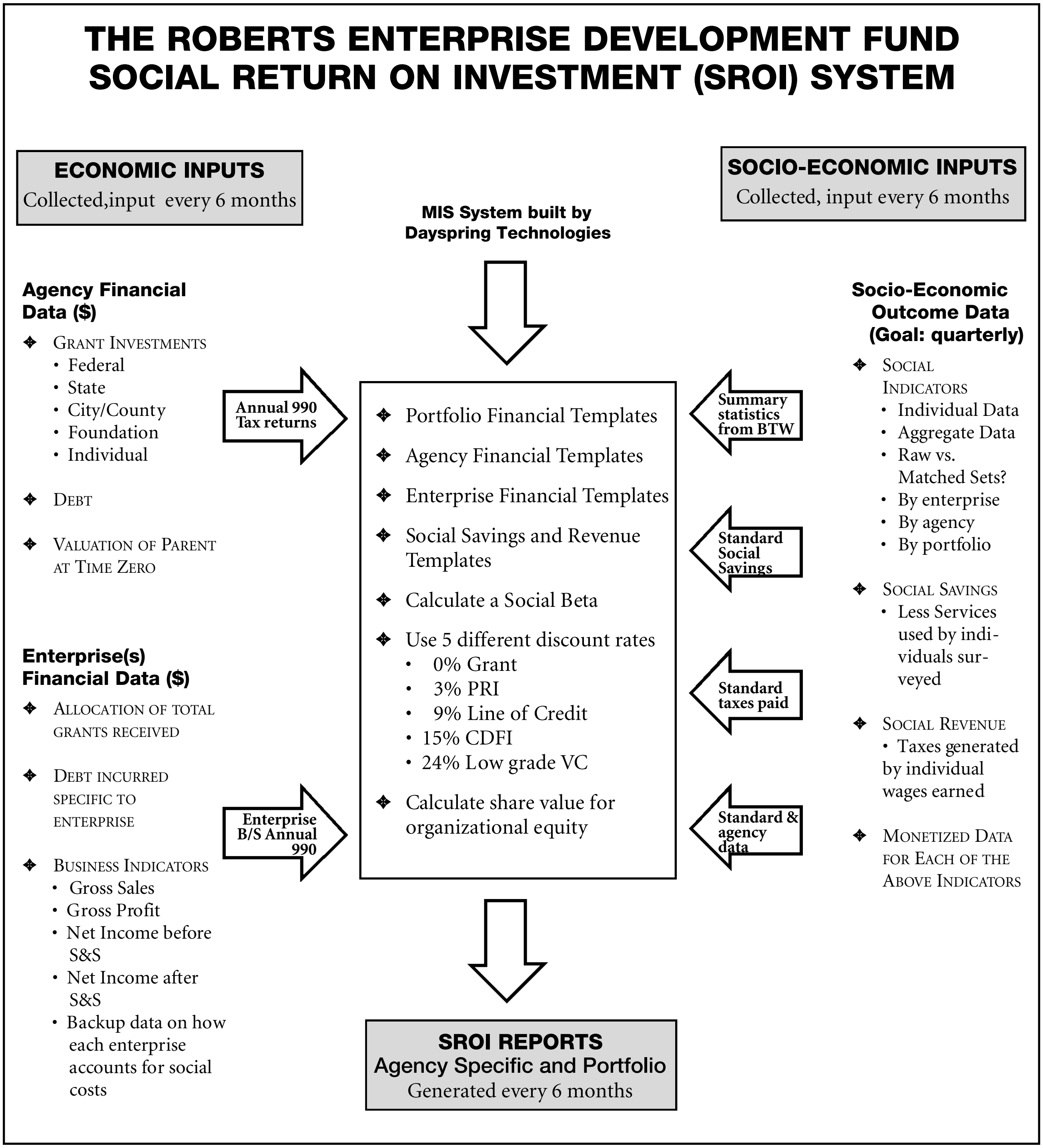
	1998	1999	2000	2001	2002	2003
Food stamps @ $1440/ person annually	$11,520	$12,960	$12,960	$14,400	$15,840	$17,280
TANF @ $6,000/ person annually	$48,000	$54,000	$54,000	$60,000	$66,000	$72,000
System savings (partial)	$59,520	$66,960	$66,960	$74,400	$81,840	$89,280
Estimated social costs **	$30,961	$35,600	$37,525	$39,450	$41,376	$43,301

** Assumes social costs absorbed by the business are 10% of sales

	1998	1999	2000	2001	2002	2003
Net Business Income	na	$42,000	$61,718	$73,730	$85,743	$67,910
Net Social Benefit	na	$48,100	$46,175	$53,550	$63,564	$71,179
Total Business & Social Benefit		$90,100	$107,893	$127,280	$149,307	$139,089

How REDF Is Building an Information Management System to Track Ongoing Investment Returns

As presented in the previous section, the mechanism by which projected investment returns are assessed is in many ways fairly basic. Moving from assessment to ongoing documentation and tracking is more complex, even if it is simply an extension of that framework. The chart below presents the various components of the information system by which individual REDF organizations document social impact and REDF as a whole will



track its Social Return on Investment for reporting in 2000.

The system processes two forms of quantitative information—Economic and Socio-Economic:

Economic inputs are tracked and evaluated based on the financial and accounting information systems of the organization. These Economic inputs include:

- grant investments,
- debt carried by the nonprofit, and
- the overall valuation of the Parent organization at Time Zero.

To this agency-wide information is then added enterprise specific financial data:

- grants for the social purpose enterprise,
- debt specific to that enterprise, and
- a variety of business indicators, including social cost information.[8]

Socio-Economic data is tracked through a system developed in partnership with REDF Portfolio organizations and BTW Consultants. Each individual entering the program is surveyed with regard to the social and other programs they participated in prior to employment in the enterprise. This information is tracked on a six-month basis, both individually and as an aggregate. The social savings of these individuals (calculated based upon decreasing uses of publicly funded programs) is then also calculated, as is the amount of taxes generated by the individual while employed in the social purpose enterprise and after employment in the enterprise. A sample of the complete survey is provided in the appendix to this document.

Business ABC, Parent Organization XYZ
NPV and SROI Calculation

	Discount Rates	NPV	2000P	2001P	2002P	2003P	2004P	2009P	Terminal Period
Net Income			190,159	222,491	255,766	289,741	324,151	491,901	480,517
+ Depreciation			17,849	18,027	18,208	18,390	18,573	19,521	19,716
- Change in NWC			26,779	27,900	29,067	30,281	31,546	17,345	8,747
- Capital Expenditures			5,000	5,250	5,513	5,788	6,078	5,198	5,717
Business Cash Flow	15.95%	$750,663	$176,229	$207,368	$239,394	$272,061	$305,101	$488,879	$485,769
+ Public Social Savings			460,204	460,204	469,408	478,796	488,372	539,202	549,986
+ New Taxes			66,717	68,719	70,780	72,904	75,091	87,051	87,921
+ Wages			444,782	444,782	458,125	471,869	486,025	563,437	580,340
+ Social Expenses			1,976	2,055	2,137	2,223	2,289	2,578	2,578
- Grants/Subsidies			840,000	870,350	901,817	934,441	962,474	1,083,588	1,094,424
Total Social Benefit	0%	$1,251,696	$133,679	$105,409	$98,634	$91,350	$89,303	$108,679	$126,401
	3%	$221,139							
	9%	$171,667							
	15%	$143,467							
	24%	$119,738							
WACC Rate	25%	$118,606							

	SROI Rate	NPV	2000P	2001P	2002P	2003P	2004P	2009P	Terminal Period
TOTAL BUSINESS AND SOCIAL CASH FLOWS	**14.57%**	1,211,408	309,908	312,908	338,028	363,411	394,404	597,558	612,169

Discount Rates (Social)	Total Business Value	Business ROI Ratio	Social Benefit	Social Benefit ROI Ratio	Total Socio-Economic Value	SROI Ratio
0%	$750,663	17.30	$1,251,696	9.39	$2,002,359	46.14
3%	$750,663	17.30	$221,139	9.04	$971,802	22.39
9%	$750,663	17.30	$171,667	8.44	$922,330	21.25
15%	$750,663	17.30	$143,467	7.94	$894,130	20.60
24%	$750,663	17.30	$119,738	7.39	$870,401	20.06
25%	$750,663	17.30	$118,606	7.36	$869,269	20.03

These data are then run through a set of financial templates that allow for assessment of individual social purpose enterprises, each of the organizations in the REDF Portfolio and, finally, the REDF Portfolio as a whole. A sample financial template with SROI calculations is included on the previous page and continued above. Together with the documented social indicators, Social Return on Investment calculations will then be made at each level in order to assist practitioners and investors in understanding the capital structure required to achieve certain social goals and the degree to which such goals are achieved over time.

As of this date, the information system to track Economic Inputs is fully operational. The information system necessary to track Socio-Economic Inputs is operational, but with varying degrees of specificity throughout the REDF Portfolio. For example, while REDF and its member nonprofits are able to track all aggregate data, not all 23 of the portfolio enterprises are able to report on specific, individual data. This data would be necessary for a complete and comprehensive assessment of ongoing SROI and will be available in the fall of 2000.

Two Significant Challenges in SROI Analysis: Determination of An Appropriate Discount Rate and Allowing for "Degree of Difficulty"

The Importance of Discount Rates and the Cost of Capital to SROI Analysis

A key issue for the SROI valuation process is the determination of an appropriate cost of capital, that is to say, the discount rate to be used in valuing future cash flows. The determination of an appropriate cost of capital to be used in an SROI evaluation is critical;if the cost of capital is overestimated,the calculated total value of the organization is undervalued. Conversely, if the cost of capital is underestimated,the total value of the organization will be overvalued. The cost of capital extends credibility and validity to the estimation of the nonprofit's total value in both social and economic terms.

Generally, when organizations do not have the means to calculate an accurate cost of capital they will use an arbitrary return based upon the historical market return; generally the figure ranges from 10 to 12 percent. However, the nonprofit sector has no comparative market rates to use in our calculation of an appropriate discount rate,and so one must establish an agreed upon discount rate by other means.

In our research, we were not able to find significant information on how those engaged in advancing frameworks for calculation of SROI are determining their discount rate. The dominant assumption appears to be that one should assume a discount rate that is viewed as "conservative," in that there are no market comparables against which to compare risk exposure. Therefore, many have embraced a discount rate tied to either a 30-year Treasury Bond rate, or some other standard Municipal Bond rating with an "A" grade. A 30-year (as opposed to 2, 5 or 10-year period) bond is selected since the benefits of the social program are projected to be permanent. This is the rationale adopted by one foundation that used a 6.92% discount rate (i.e., Cost of Capital) in its assessment of the ROI generated by that foundation's grants.

In a separate, and extremely comprehensive, review of the social and economic impacts of Coastal Enterprises of Maine, this issue is explored further:

"The selection of a discount rate is a particularly critical step in benefit cost analyses of programs with benefits extending far into the future. A somewhat lower rate of discount would be defensible for CEI's programs, for three reasons:

- No earnings growth has been built into the future estimates of benefits.
- Interest rates have been low for some time and are not expected to rise appreciably in the near term.
- Economists argue that a "social rate of discount" is appropriate for projects that generate a large volume of unquantifiable social benefits. The "social" rate is lower than the market rate of interest."[9]

Having so stated, the authors then embrace two discount rates, 5% and 9%, for use in their analysis and simply turn to a discussion of how to connect shifts in business performance to programs of CEI.

For the purposes of the REDF SROI framework, we will endorse a strategy that on the one hand accepts the current limitations of the field, but on the other challenges us to create more accurate discount rates for use in calculation of SROI.

In the for-profit sector, interest rates are not simply estimated, but set as the relatively logical outcome of complex calculations.[10] These calculations entail a variety of elements relating to the "cost" of capital, risk exposure of that capital and the length of time that capital will be in use before it is returned to the investor. As stated elsewhere, because there are no market comparables against which to compare the degree of risk involved in social purpose enterprise development, we are not able to make use of the Capital Asset Pricing Model or Weighted Average Cost of Capital (CAPM/WACC) analyses—but that does not mean we should not try. As standards are put in place over coming years and historical performance of social ventures tracked, we will then be in a position to establish market comparables for use in such analyses. Complete descriptions of CAPM/WACC are beyond the scope of this paper, but are available in most business or finance textbooks. And the authors look forward to continuing our efforts to successfully operationalize such approaches in our own work.

In the absence of such frameworks, we have no choice but to continue with the basic approach presented in our analysis of 1996,[11] with some expansion. In the REDF SROI framework, we will use a range of discount rates reflecting the following market comparables:

- 0%: A zero discount rate reflects the cost of capital represented by philanthropic grants. While there may be an opportunity cost of sorts, those funds come from a foundation's annual payout requirement, may not themselves be invested in the marketplace and, to the recipient, represent "no or zero cost" capital.[12]
- 3%: A three percent discount rate reflects the rate usually carried by a foundation Program-Related Investment (PRI).[13] PRI funds are taken out of a foundation's corpus or giving budget and "invested" in nonprofit efforts, either housing, business lending or other activities. Although they

are usually secured at some level and there is a pay back period, they represent access to "low-cost" capital to the investee.

- 9%: A nine-percent discount rate represents an average of a standard, fully secured personal loan. If one were to take out an equity line of credit on one's home in order to launch a small business venture, depending upon the degree of additional debt and a variety of other factors, 9% would be an average discount rate applied.

- 15%: A 15 percent discount rate represents the rate charged by many community development financing institutions extending credit to local small business owners in lower income or targeted communities. In such communities, it is argued, the cost of capital is less important than the access to capital and the transaction costs of processing and managing small business loans is high enough to warrant rates of between 12 and 15 percent. Since social purpose enterprises target specific populations in order to achieve particular social goals, such a rate would seem appropriate to include in our range.

- 24%: Finally, we must address the fact that social purpose enterprises represent a significant amount of risk to the investor. Unlike traditional social service or training programs where one "knows" with some degree of confidence that a given number of individuals will be trained and complete the program, those investing in social purpose enterprises are not simply investing in the process of a group of folks receiving services. They are investing in both a process of service delivery and the building of a small business enterprise. One is vested in the organization, its business and the individuals one hopes to assist—and as such opens oneself up to a wide array of direct and indirect risk factors.

  In attempting to establish an appropriate discount rate to reflect that risk, the closest approximation is that of venture capital and the "hurdle rates" pursued by such investors. A central strategy of venture capital investors is that across a portfolio of investments one may have two or three that significantly under perform, four or five that perform at "acceptable" market rates and then two that may "hit a home run." Those final two may return from 50 to more than 150 percent on the original investment. It is that return that brings the performance of the portfolio as a whole up to the overall hurdle rate sought by the venture capital fund managers.

Two Points to Consider:

First, in setting its range of discount rates, REDF could simply use the standard endorsed by the field. Such a standard is to assign a discount rate of no more than 9%, the highest figure we found in use by other practitioners. We have "raised the bar" on the discount rate issue for one fundamental reason: whatever rate we are finally able to calculate at some future point, social purpose enterprises carry with them a significant amount of risk exposure. Any discount rate applied to this field must in some way address the need for this risk premium. We would prefer to do so through application of CAPM/WACC frameworks, but without the ability to do so, we must settle for whatever market comparables seem appropriate. The application of small business lending rates and modified venture capital rates seems most realistic.

Second, by committing ourselves to discount rates which may be two to eight times those used by other practitioners, we will have the "negative" effect of driving down the projected rate of return for REDF investees and the REDF Portfolio as a whole when viewed in comparison to those other practitioners. For example, the previously cited foundation that used a 6.92% discount rate reported unadjusted SROIs ranging from 877.04% to over 1690% for philanthropic funds. By contrast, REDF SROI calculations, both projected and emerging actuals, report a significantly more "conservative," though still impressive, range, usually between 25 and 100 percent.[14]

While we feel our numbers more accurately reflect the true carrying cost of the risk exposure represented by our philanthropic investments, a direct comparison with others will not provide an accurate understanding of the actual value generated with REDF dollars. As practitioners and funders move to report their Social Return on Investment, it will be critical for players to embrace a single process for valuation of the cost of capital as well as a standardization of inputs brought to the calculation of a given portfolio's SROI.

Allowing for a Measure of the "Degree of Difficulty": A Definition of "Social Beta"

Why Calculate a Social Beta?[15]

A social return on investment analysis offers a means of assessing a nonprofit organization's performance in serving its target population. If this type of performance assessment is to facilitate comparison of "apples to apples," however, it must take into account that certain populations are more difficult to serve than others. Some nonprofits serve targeted members of the general population (such as youth or displaced workers), while others serve specific at-risk and/or high-risk populations (such as the homeless youth or formerly incarcerated adults). At-risk and high-risk populations, compared to their counterparts in the general population, need a more complex set of social services,may require a greater level of effort and resources from the social service provider, and often carry greater risk of "failure" or face compounded challenges.

Overview of the Concept of "Beta"

In the Capital Asset Pricing Model (CAPM), beta is a quantitative measure of an investment's volatility relative to the overall market. Thus, beta serves as a primary indicator of a particular investment's degree of risk to the investor. Interpretation of an investment's beta relies upon comparison to the overall market, which, as the reference point, has a beta of 1.0. Thus, an investment with a beta of 0.75, for example, is expected to produce returns at 75% of the market rate; conversely, an investment with a beta of 1.75, is expected to produce returns at 175% of the market rate. In essence, the market rate of return provides the benchmark for interpreting beta.

Beta values are calculated based upon regression models that assess the degree of linear correlation between an investment's return and overall market returns. When these two sets of returns are plotted against each other, the regression analysis fits a line through the plotted points and measures the slope of the line. Beta is the slope of this regression line.

As part of the SROI analysis, three methodological approaches are being developed by REDF for use in exploring the possibility of applying the concept of beta to the nonprofit sector. Each of these methods produces a statistic (a coefficient of risk in the first analysis and social betas with different applications in the second and third analyses) to provide potential "investors" in the nonprofit sector with a quantitative assessment of an organization's expected rate of social returns as well as indicate the degree of risk inherent in working with a given target population.

The foremost limitation in attempting to apply the concept of beta analysis to nonprofits lies in the lack of a market-based benchmark by which to compare the result. The rest of this section presents three experimental approaches that in various ways account for this limitation. The first two approaches(the coefficient of risk calculation and risk-return social beta analysis) do not require a market-based benchmark as they rely solely upon intra-agency information,introducing a measurement of risk based on social factors. The third approach most closely resembles the CAPM beta analysis, where investment returns are regressed on market returns;however, in the absence of a nonprofit stock market, a proxy nonprofit market is constructed with the composite information across organizations in the REDF Portfolio augmented with information from other organizations serving lower-risk populations.

Comparison of the social return on investment across social service agencies must take into account this population "risk factor" which indicates both the need for a greater investment in the high-risk individual as well as the potential for a greater social return on that investment. As described below, calculation of a beta is one approach to understanding risk. In our case we would propose the development of a "social beta" for use in SROI calculations. Accounting for the "degree of difficulty"[16] in serving a given population is the purpose of calculating a social beta. An organization's social beta would serve as a risk rating given the population it serves. The social beta calculations proposed here are experimental; they represent our current best thinking in theory and will be tested in practice in coming months. Each analytic process will be tested and refined based on these results.

The processes proposed below for calculating a social beta will yield three statistics with distinct applications:

- **A Coefficient of Risk Associated with Serving a Given Target Population** will be constructed. This coefficient will be generated for all target populations served by REDF portfolio organizations and will indicate the degree of difficulty in providing services to that population given their social risk factors. It can be used in financial and other equations to adjust for the degree of challenges a population poses to a nonprofit. As the coefficient of risk increases, the degree of difficulty in serving a population also increases. In this way, nonprofit organizations calculating social returns on investment will be able to allow for their serving more difficult populations and addressing greater social challenges instead of being rewarded for "creaming" or targeting easier client groups in order to assure increased social returns.

- **A Risk-Return Social Beta Analysis** will generate a social beta rating of internal performance. This beta indicates the level of social return an organization can be expected to yield given the levels of risk presented by its target population. This risk-return social beta is useful as a rating of the organization's performance, accounting for how difficult it is to serve its population.

- **A Social Beta Coefficient of Relative Return** will be produced from the Relative Return Social Beta Analysis across organizations in a Nonprofit Marketplace. This social beta coefficient most closely resembles the betas calculated for stock market investments. A relative return coefficient is calculated for an individual agency but interpreted in the context of how an overall "nonprofit marketplace" is expected to produce returns. The higher the relative return beta, the greater the organization's expected returns relative to the overall market.

Determining a Coefficient of Risk Associated with Serving a Given Target Population

Social "risk" refers to the number and complexity of barriers to functioning (i.e., carrying out essential components of a healthy and productive life) that a given population faces. As the number and complexity of issues increases, the degree of difficulty for the nonprofit organization in serving that population likewise increases. Barriers to functioning, or "risk factors," would include severe economic disadvantage, homelessness or unstable housing, chronic unemployment, substance abuse issues, and mental health issues, among others. The level of severity and combination of these factors comprises the degree of risk to an organization in providing services to a population. Consider the example of homeless and runaway youth (a high-risk population requiring a great number of social services) compared to youth attending summer camp (a lower-risk population requiring few social services,if any).

What this approach to risk calculation might not allow for, however, is those organizations that confront a variety of external risk factors affecting the impact of their program. For example, a program working with urban youth may have some things in common with its suburban counterpart (such as the general challenges of youth, media influences, "latchkey" issues, etc.), yet must also address other factors present in an urban environment. This question will be the subject of further discussion and analysis, but initially might be dealt with by focusing SROI analysis and the use of a social beta upon groups sharing certain basic characteristics, such as urban/rural, youth/adult and so forth.

Using the Social Impact Survey (the instrument developed by BTW Consultants with REDF Portfolio organizations to track and quantify social costs), information is being gathered on an individual basis on the risk factors faced by those employed in REDF portfolio enterprises.[17] A weighted composite index of risk will be constructed that assigns a numeric value to all relevant factors. These factors include severe economic disadvantage, homelessness or unstable housing, chronic unemployment, substance abuse issues, and mental health issues. Other characteristics, such as age, will likely be factored into this index to account for the degree of effect of the presenting problem in the individual. Individual client/consumers can then be given a risk score based on the set of factors they report, which can in turn be brought to scale for a target population, producing a coefficient of risk associated with serving that population.

Weighted Average Cost of Capital Formula

Cost of capital = [debt/(debt+equity)*r_{debt}] + [equity/(debt+equity)*r_{equity}][18]

Entering the following information into the WACC formula, the cost of capital equals 9.225%

Debt = $250,000

Equity = $750,000

Cost of debt (rdebt)= 9.6%

Cost of equity (requity) = 9.1%

WACC = .09225 or 9.225%

Introducing the Coefficient of Risk (R) to the WACC formula

Risk-Adjusted Cost of Capital = R{[debt/(debt+equity)*r_{debt}] + [equity/(debt+equity)*r_{equity}]}

Nonprofit A: Homeless Youth Center		**Nonprofit B: Youth Summer Camp**	
Debt = $250,000 Equity = $750,000 Cost of debt (rdebt)= 9.6% Cost of equity (requity) = 9.1% **WACC = .09225 or 9.225%**		Debt = $250,000 Equity = $750,000 Cost of debt (rdebt)= 9.6% Cost of equity (requity) = 9.1% **WACC = .09225 or 9.225%**	
Coefficient of Risk (R) = 1.7		Coefficient of Risk (R) = 0.6	
Risk-Adjusted Cost of Capital:	**(WACC)*(R):** (0.09225)*(1.7) = 0.1568 or **15.7%**	**Risk-Adjusted Cost of Capital:**	**(WACC)*(R):** (0.09225)*(0.6) = 0.0553 or **5.5%**

This coefficient of risk will serve as a coefficient in calculating a social purpose enterprise's appropriate discount rate through the Weighted Average Cost of Capital (WACC) formula. In the WACC formula,the coefficient of risk adjusts for the degree of difficulty posed to a nonprofit in serving a given population. A higher coefficient of risk (R) indicates a higher degree of risk, which consequently increases the cost of capital (*as illustrated on the previous page*).

In this sample calculation, the coefficient of risk for the Homeless Youth Center is 1.7 compared to 0.6 for the Youth Summer Camp program. The Homeless Youth Center's coefficient of risk is higher, accounting for the higher level of risk involved in serving its target population. When the coefficient of risk is applied to an interest rate of 9%, for example, the resulting interest rate for the Homeless Youth Center is 15.7% (0.09*1.7 = 0.15) compared to 5.5% for the Youth Summer Camp program (0.09*0.6 = 0.054).

The coefficient of risk will also serve as a component in calculating an organization's risk-return social beta, as described below.

Risk-Return Social Beta Analysis at the Individual Agency Level

The first approach to deriving a social beta for a nonprofit organization draws upon information from an individual organization and does not require a benchmark for interpretation. This type of analysis is a risk-return assessment; it will produce a beta value that indicates expected return given the degree of social risk to the organization in working with its target population. This analysis can be applied to any nonprofit organization as well as, with minor changes, to social purpose enterprises run by nonprofit organizations.

The coefficient of risk discussed above constitutes the first component of this analysis. Social return on investment (the very focus of this paper) is then built off that calculation of risk. Putting these two concepts (coefficient of risk and social return on investment) together, a nonprofit organization's social beta can be determined by regressing return on degree of risk. This analysis plots return at each point of risk and fits a line through the plotted points. The beta value is the slope of the line. Thus, a beta of 1.0 indicates that return increases one unit for each unit increase in risk. A beta lower than 1.0 would indicate a lower return given the level of risk and a beta higher than 1.0 would indicate greater return given the level of risk.

As the exhibit below illustrates, Nonprofit Organization A serves homeless youth and has a risk-return social beta of 1.7; this means they serve a high-risk population and produce high social returns. Nonprofit Organization B provides summer camp services and have a risk-return social beta of 0.6; they serve youth who are not at-risk and produce low social returns.

	Population	**Risk-Return** Social Beta
Nonprofit Organization A	Homeless Youth	1.7
Nonprofit Organization B	Youth in Summer Camp	0.6

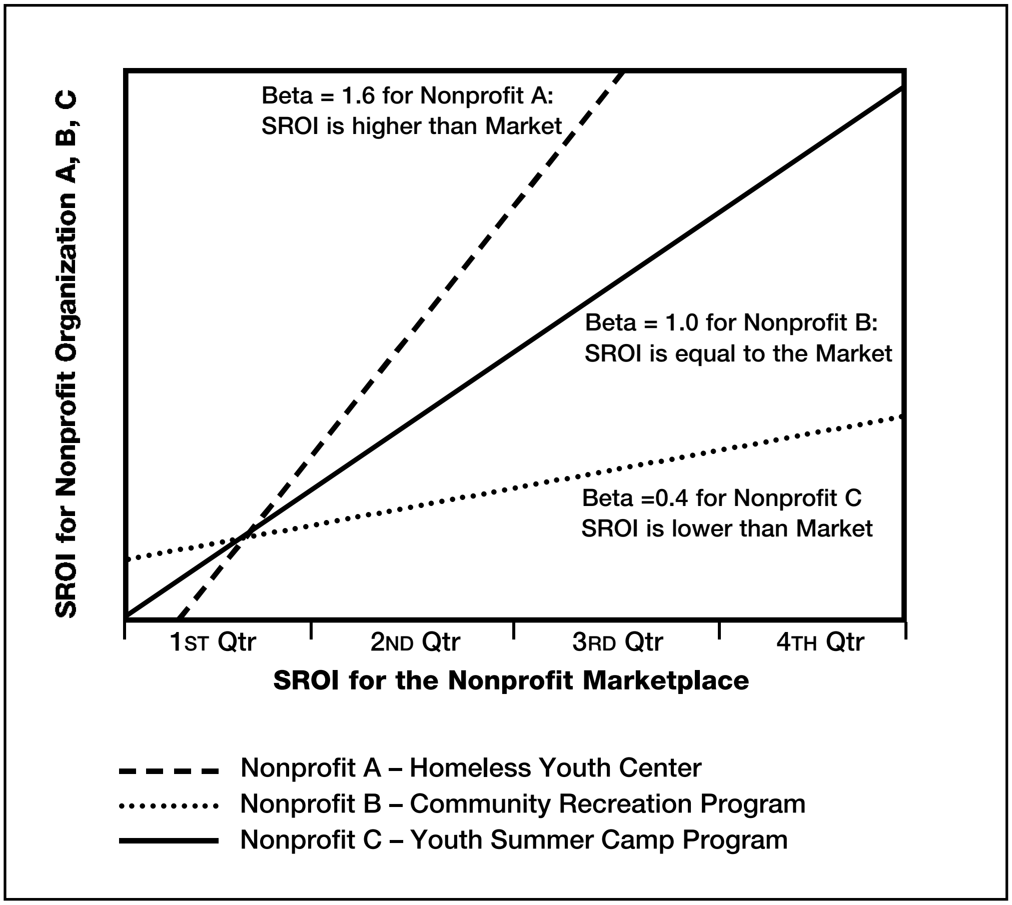
Just as beta indicates in CAPM,this social beta provides an indication of a nonprofit's potential performance relative to risk in serving its target population. The higher the beta value, the higher the level of return despite high levels of risk presented by the population; strong-performing nonprofit organizations would have high social betas.

Relative Return Social Beta Analysis Across Agencies in a Nonprofit Marketplace

In the corporate sector, information on businesses' historical performance is maintained and used as the basis for calculating several important indicators,including beta. To date, the same information is not maintained on organizations in the nonprofit sector. While REDF is developing such a database of historical performance for nonprofits in its portfolio, until this database is adequate, the lack of historical information must be accounted for experimentally.

The second approach to a social beta analysis brings the concept to the level of a nonprofit marketplace, where it becomes useful for relative assessment of SROI across nonprofit organizations. Bringing the social beta concept to scale raises the issue of a market benchmark by which to compare the individual organization.

In the absence of a nonprofit stock marketplace, a synthetic reference group will be



constructed. The aggregated information collected from all organizations in the REDF Portfolio will serve as a starting point for this reference group. However, since populations served by REDF portfolio organizations are on the highest end of the risk scale, this data set will be augmented with information from other organizations serving lower-risk populations.

Calculating the market comparison beta for a given nonprofit requires regressing the organization's rate of return on the rate of return for the reference group as a whole. This analysis would provide a beta for the organization that could be used to assess its risk relative to the marketplace (as represented by the synthetic reference group).

In this analysis, a beta of 1.0 indicates that the organization performs at precisely the same rate as the nonprofit marketplace reference group (represented by Nonprofit B, a Community Recreation Program, in the illustration at bottom, preceeding page). By extension, a beta lower than 1.0 would indicate that the organization produces a social return on investment at a rate that is lower than the reference group (represented above by Nonprofit C, a Youth Summer Camp with a beta of 0.4) while a beta higher than 1.0 would indicate that the organization produces a social return on investment at a rate that is higher than the reference group (represented bottom, preceeding page by Nonprofit A, a Homeless Youth Center with a beta of 1.6). The following depicts each of these scenarios.

In sum, a "social beta" can assist both investors and practitioners in understanding the relative risk exposure represented by different types of programs. The use of social betas as a part of the SROI analysis helps provide a framework for assuring that populations with increased needs and demands are not penalized in the context of an SROI assessment.

Responding to the Potential Limitations of an Applied SROI Analysis of Social Purpose Enterprise Development

Criticisms of efforts to engage in an SROI analysis fall into two general categories: technical and strategic.

Technical criticisms

In this category, the core issue is one of whether financial metrics developed to capture and reflect valuation in the commercial sector can be effectively transferred to the nonprofit sector. In numerous discussions with the loyal opposition, the authors have discussed their interest in applying both Capital Asset Pricing Model and return on investment techniques, but have been challenged by shortcomings of each as they relate to this particular application.

The use of CAPM is particularly difficult in that it speaks to an understanding of risk (volatility) and risk diversification grounded in a presumption of somewhat efficient capital markets with the elements of "common" information and investment market liquidity—factors allowing for an analysis of market comparables—which are not currently present in the nonprofit sector. The CAPM makes use of a market risk premium calculation that may or may not be applicable to nonprofit capital market valuation. For example, the way one calculates the appropriate market risk premium is based upon an examination of historic performance—and, of course, in the nonprofit sector with no common financial metrics or history of performance in the marketplace there is no basis upon which to establish such a market risk premium. Critics state this fact makes CAPM inapplicable to an SROI analysis and without a "true" value of cost of capital makes SROI analysis unusable.

In the future, this problem will be addressed by the creation and endorsement of market standards to which nonprofit organizations that want to access capital in this market will have to adhere. These standards will, over time, generate the measures of historic nonprofit performance by which a "Social Risk Premium" or "Social Beta" may be calculated. Presently, however, one is forced to employ an extremely conservative discount rate with minimal reflected risk or some continuum of graduated rates. In our framework, we make use of the latter. Until the field has enough data to calculate a discount rate that more accurately reflects the true degree of risk undertaken by such programs, there seems no other choice than that of applying a range of discount rates for present use in SROI calculations. However, having said that, we must acknowledge that such an approach is second best. Ideally, we should work toward the creation of standards that will allow for use of CAPM or other agreed upon measures.

A second technical consideration is that Internal Rate of Return (IRR) calculations are based on actual dollar cash flows which carry a specific, market-based valuation. Because the economic value of the cash flows used in the SROI calculation is an "imputed" or assumed value, it is technically a non-traditional application of IRR and we identify it to the reader as such.

Furthermore, while in future years nonprofits may be able to sell their social cost "receivables," in 1999 you cannot take your receivables and sell them to a third party. Because they have no true economic value aside from that of "cost avoidance," they technically have no true worth in a NPV/IRR calculation.

It is our contention that as nonprofits begin to document the true degree of their value creation they may then begin to engage public sector and other funding sources in discussions regarding how to tie funding to demonstrated impact—thereby creating actual dollar cash flows in support of the service made possible by the nonprofit's capital structure—investments in capital which may then be evaluated based upon an SROI,as opposed to simply providing a service to a target population or community of concern. Recent years have seen a marked increase in "pay for performance" contracting and outcome funding approaches in the nonprofit sector. As funding streams come to be driven more by actual outcomes than by proposed intentions, a real dollar revenue stream will then be created to eliminate this problem of using an IRR based upon imputed economic value to analyze SROI. Such a cash flow stream would be converted to a measure of "social earnings," in the same way for-profit earnings are calculated. However, for the present analysis, we will presume socio-economic returns do have value, acknowledge it as imputed value and, having done so, use this imputed value to calculate a measure of socio-economic worth for use in SROI analysis.

A final technical issue is that of causation, namely:

> How can a single nonprofit take credit for a life change in an individual client who may be the focus of any number of known or unknown intervention efforts?

This is perhaps the most central and meaningful challenge to those who would apply SROI in their work. There are several ways we may begin to respond to this challenge.

First,nonprofit organizations must create internal accounting systems that allow them to track social costs within their organization and tie those costs to their own program offerings.[21] Having established internal integrity to their accounting and management information systems, they may then begin to isolate the value added by related programs that may be contributing to individual success. In the case of the REDF Portfolio, program/financial/social cost audits were conducted in each organization (including its social purpose enterprise) in an attempt to document what percentage of a given program was the domain of a given nonprofit. That percentage could then be used to calculate relative rates of return on a per program basis.

A second approach to this challenge is to have in place, a formal, high-end client data tracking and documentation process. With such a management information system designed and on line, program staff can track and record all program contributions made by other organizations and significant others, separating out various benefits accordingly in the SROI calculation.

However, the creation of such a management information system is no small task. REDF, in partnership with other funders and its investee portfolio, is currently embarking on an effort to create this type of comprehensive, integrated MIS across its portfolio. As previously stated,other REDF documents discuss this issue in greater detail.

While the improvement of MIS used by nonprofits may address the concern of how to isolate the relative value of various program contributions, other factors must also be understood as making contributions to positive Socio-Economic Value creation. For example,a young person may be participating in an effective program that re-unites him with his parents. As a result of this reunification, the family develops better communication, remains together, and the youth goes on to lead a productive life. The question must be asked: Was this benefit a result of the program or the parents?[20]

The answer may easily be both. From our perspective we would propose that the value generated by the program's activities on behalf of reunification be measured in terms of SROI and Socio-Economic Value, as described in this paper and other chapters of this book. In turn, those extremely difficult to quantify contributions made by a parent to a child would fall under the category of Social Value and be captured through the use of some qualitative assessment. This is not to say the parent does not contribute value, but rather that it is an investment and a return of a different type (social as opposed to socio-economic) than that of the nonprofit organization. As Dennis Benson has so aptly observed:

> "When you invest $1,000 in your mutual fund and receive a return for this investment, do you presume that your investment was directly or indirectly involved in influencing that return? Of course not. You had planned to invest this sum, and your main question is whether an alternative investment would have provided a greater return. If you wish your investment to play a causal role, then you would find it necessary to add a number of zeros to your investment amount. At that point you may find yourself making things happen."[21]

As previously stated, a basic premise of the REDF SROI analysis is, in fact, that there is a fundamental socio-economic value to which each organization may lay claim—the organization's total SROI. Each investor in that organization, each "owner" of equity, may then also lay claim to degrees of that return which are comensurate with the amount of their investment, that is to say, the nonprofit shares they control. This idea is expanded upon in the next chapter.

It should be noted that while this may begin to address the question of how to approach issues of allocating *investor* equity, what remains to be addressed is a discussion of how to convert organizational equity into either employee or client equity. The issue in this regard is not simply how to calculate a nonprofit employee stock ownership plan, but whether and how to credit program *participants* with the "return" they deserve for their work in making possible their own success as individuals in recovery, or working to improve their lives in other ways. That question remains to be pursued in future papers; however, as individual investors with various stakes in an organization may lay claim to a range of returns on their investment portfolio, the fundamental social earnings of the organization remain unchanged—regardless of whether those earnings are designated to individual program participants or outside investors such as foundations.

A final, and very significant, technical criticism is that the accounting rules promulgated by the Financial Accounting Standards Board (FASB) for nonprofit corporations differ from those of for-profit corporations. Funds received in one year must be "booked" that same year and are not viewed as investments in capital or equity, but rather as revenues to the organization. Since there is no "true" basis for viewing investments in the equity of a nonprofit organization, an analysis of social return on that equity becomes tenuous in practical, present day terms.

The implications of these criticisms are sound and not to be avoided. However, at the same time what is presented in these pages is a framework for an analysis of social return that maintains one foot in the present and one in the future. The framework is based upon fundamental valuation and financial return metrics used in the for-profit sector. These metrics have been applied to the creation of social value in order to develop a better understanding of how that value is created in the nonprofit sector. Wherever possible, the authors have sought to make their analysis transparent to the reader, identifying places where critical assumptions have been made and problems in the subsequent analysis may arise. In the future, as more attention is directed to this area of SROI analysis, it is hoped that more effective approaches to overcoming these accounting limitations may be advanced in order for both practitioners and "investors" to engage in a more informed and accurate assessment of the value being created by both.

Strategic Criticisms

With technical criticisms initially addressed, we may turn our attention to the strategic criticisms raised by others. In these days of market obsession and a "business rules" cultural context, some feel the movement in recent years to quantify social impacts and measure outcomes is both misled and ill-fated. And, indeed, there are times when such critics are correct and their cautions should be heeded; namely we are concerned that:

> In the rush to quantify all programs and justify every charitable dollar, there is the very real danger of poorly designed tools being applied inappropriately by low-skilled, though well intentioned, individuals— whether nonprofit practitioner, independent evaluator, governmental agent or foundation program officer.[22]

First, it must be recognized that there is a very real danger (already witnessed) of increasing numbers of foundations and government funders demanding measurable outcomes from nonprofit practitioners without also providing the investment of financial support necessary to build credible information systems that might track those outcomes. And without such investments in the managerial capacity and information management infrastructure we run the risk of leaping off cliffs in our haste to artificially justify and validate one approach over another.

This is a real threat we must all seek to avoid. In the case of The Roberts Foundation, our interest in documenting the impact of our philanthropic investments has been matched by a capital outlay of over $750,000 to assist in building the required information system to track social and financial data. That initial investment has recently been augmented by $500,000 from the Charles and Helen Schwab Family Foundation and an additional $100,000 from the Surdna Foundation of New York.

Second, there is also the risk that we may simply be replacing one flawed system with another. Even the best-intended efforts can easily be subverted by human nature. Once standards are established and reporting systems in place, people will no doubt discover ways to "cook the books" and falsely document performance. By way of example,it was recently reported that in one school district a few unscrupulous teachers systematically falsified the answer sheets and grading of some of their students in order to appear more successful than they actually were in taking state "educational quality" exams.

And, of course, many caseworkers in traditional human service nonprofits are accustomed to the "monthly scramble," whereby charts are pulled, back-of-the-envelope calculations made and "evaluation" reports submitted to outside funders. The creation of broad-based standards of measure in the nonprofit sector could well end up being received as simply "the next hoop to jump through." Admittedly, in a matter of only a few years professionals could easily develop an array of impressive ways to fool the system and misreport performance results. Or organizations could simply claim to be serving one population while actually serving another, thereby performing better then their cohort and generating a higher SROI. Indeed, there are those who would claim that this already takes place today.

One way in which this issue may be addressed is to engage in an "inside out" creation of both social indices and systems of measurement, as opposed to the traditional "outside in" approach whereby an "objective" evaluator is brought in to pass judgement on practitioners. Through a process of mutual exploration, REDF organizations have themselves enunciated what measures they feel best reflect the goals of their programs. These indices have been mutually agreed to by both practitioner and funder. And an accurate, computer-based data reporting system created to track performance over time. With a vested interest in knowing whether or not their efforts are having the intended impact, practitioners are more significantly motivated to assure the integrity of the data and to then modify approaches with reference to the information generated.

Furthermore, while concerns about the integrity of information systems are certainly valid, it does not necessarily follow that one system of measures cannot be improved upon over another. We must improve the current system, even if we know there will be flaws in our evolving systems of measurement. If we accept that there is Economic Value and Social Value—and that Economic Value is measurable, while Social Value remains fully immeasurable—we must accept that we will never be able to more fully understand the true value of much of the work presently taking place in the nonprofit sector.

The authors and The Roberts Foundation are not willing to accept such an idea and will work to assure full transparency in our analysis so that all who would attempt to understand our measures and statements of value creation will be able to openly examine our assumptions and claims. By taking progressive steps toward greater and increasingly accurate measures, we will at least be moving in the correct direction. And by making that analysis fully available to others, we will be able to openly discuss its shortcomings and strengths.

A third strategic concern is the previously discussed difficulty of assessing the relative value of differing programs or nonprofit strategies. For example, one may have two youth programs under consideration; one works with "at-risk" out of school (but school age) youth in the inner city and the other provides after-school tutorial and recreational programs to urban "latch-key" kids. Can a single SROI assess the comparative value of two distinct programs? This challenge is even more significant if one is comparing nonprofit work in completely unrelated areas of interest—for example, environmental versus educational programs. Can an SROI analysis ever generate a single figure by which two competing philanthropic investment opportunities may be compared?

Two approaches might help address this issue:

First, as standards are developed and applied in the field, similar programs may be grouped into related sub-sectors or cohorts. In the same way that a for-profit investment strategy recognizes differing rates of return between a Small Cap Fund and a Bond Fund, similar related funds and sub-sectors in the nonprofit capital market could also be so identified.

Second, one element in the calculation of any rate of return is that of risk and risk premiums: the greater the degree of risk exposure,the higher the risk premium. Within an interest rate calculation, risk is reflected in the beta used to calculate the discount rate. In the same way that Olympic divers are awarded higher point scores for the degree of difficulty inherent in a given dive, nonprofit organizations could receive greater reward for undertaking more significant risks.[23] As previously discussed, it is not unrealistic to envision a time when nonprofits might operate with reference to "Social Betas" that reward greater degrees of difficulty represented by working with homeless youth as opposed to operating a summer day camp for elementary age children. Both have a degree of difficulty and carry a certain risk exposure, but they are different and should be valued as such.

The challenge in calculating such Social Betas is not to be ignored. Establishing a beta that truly reflects the risk entailed by a specific organization's pursuit of its social mission driven goals may be extremely difficult to translate from one organization to another—even if both organizations target similar populations. While practitioners and investors may be able to work together to agree upon common assumptions to guide such a beta analysis, there is always the danger that some will orient themselves to meeting funder definitions of risk and mission as opposed to those that have true community value from the practitioner or community stakeholder perspective. The discussion of Social Betas presented in the previous pages attempts to recognizee that fact; however, we must also acknowledge that the present system is currently driven by funder priorities and definitions of which strategies are most appropriate. If those experimenting with SROI analysis take great care not to simply replicate the existing problems and engage practitioners in an honest discussion of risk and reward as we move forward, perhaps we will create a system that is at least not as dysfunctional as certain elements of the present one.

Closely related to the previous concern, the fourth criticism is that the proposed SROI framework, being grounded in economic development, naturally lends itself to modified econometric measures, whereas other program activities, such as artistic or recreational programs, are not so easily analyzed. While falling short of the Social Value activities previously discussed, these areas of nonprofit activity are felt to be more difficult to assess, the "returns" more challenging to quantify.

This fourth criticism may be expanded upon when one considers the fact that the SROI framework as presented presumes those involved in the analysis represent some level of cost to the public system—for example, those receiving general assistance or other public support. However, there are those who are so far outside society's mainstream that they received virtually no public support, making an SROI analysis based upon public sector cost savings inapplicable to their situation.

Were we presenting the SROI framework as some form of definitive measure of value, we would be concerned by these and other limitations one may identify. However, our position is that, on the whole, traditional frameworks for understanding value creation in the nonprofit sector have not been adequate. The SROI framework is presented as simply one way to understand value creation. Given that it has evolved out of our work in the field of social purpose enterprise development,it is only natural it reflect that discipline and have limited direct applicability across the board in a variety of other contexts.

We do feel, however, that while it is not directly applicable to other areas of work, the fundamental tenets are, namely, that all nonprofit organizations, regardless of activity, can develop and apply appropriate metrics to assess the relative worth of their efforts—whether economic, socio-economic or social. If one never attempts to create new metrics, one will never have such metrics to apply. Which leads us to the final concern.

The fifth and final area of strategic criticism is that many practitioners and funders are simply not willing to begin the dialogue at all. These individuals would rather defend existing "evaluation" measures than assess whether those measures are as useful as possible or truly capture the full value of their work. There are certainly many gifted and talented individuals steering foundation and governmental funds into excellent programs and organizations in the nonprofit sector. However, it would also appear that some individuals are more comfortable with their positions than with the idea of acknowledging the potential for program failures or funder shortcomings and taking steps for changing both.

For example,in a recent list-serve discussion one of the authors of this paper challenged the integrity of the field's evaluation systems and metrics, only to have a respondent to his post chafe at the perceived slight and state that he "shuts down" when anyone challenges the integrity of his reporting. Such delicate sensitivities do not serve the nonprofit sector well. If we cannot question and challenge the dominant approaches to documenting the effectiveness of organizations that address poverty and social problems in this country, we are clearly in much worse shape than many have thought.

Furthermore, it makes no sense to create systems of reporting and accountability when decision-makers on both sides of the funding table may disregard the information or are largely unaccountable to the donors they represent or communities they serve. Overcoming this challenge remains an important part of the change process for creating widely embraced systems able to track and calculate social impacts, and is yet one more reason nonprofits and funders alike will be disinclined to attempt this task.

The Imperative of Pursuing SROI Strategies

Each of these concerns and criticisms is valid to a point. They are raised by intelligent individuals with the same strong commitment to social change as the advocates of SROI analysis. And it would be easy to simply accept their observations as a rationale for not moving ahead with implementation of an SROI framework.

However, with these factors in mind,simply because a task is difficult or represents a shift in thinking does not mean one should not pursue it. We strongly suspect that the work of the nonprofit sector has historically been grossly undervalued. In many instances, we have simply accepted the notion that there are no metrics by which the value created in the nonprofit sector may be assessed.

There are a number of significant efforts currently in process to create better management information and tracking systems for use by both nonprofit managers and those who invest in their work. Such efforts range from the leading work of Coastal Enterprises in Maine, to that of the Corporation for Enterprise Development in Washington, DC, to Pioneer Human Services in Seattle, and beyond.[24]

However, on the whole the sector has not aggressively addressed how to measure or track the value created by nonprofits, whether social or economic. Rather than apply itself to the challenge of isolating, quantifying and documenting the unique and nuanced value creation process taking place in the nonprofit sector, the field,as a whole,has simply allowed a resource allocation system to evolve which is grounded more in politics, persuasion and perception than rational analysis or the application of standards to which the work of the sector could be held.

This is not only intellectually lazy; it is morally wrong. Increasing numbers of nonprofits compete for a wide variety of often decreasing financial supports. This is a time when we expect even the poorest among us to justify their receipt of TANF or General Assistance benefits through measurable outcomes of a changed life. We cannot simply award grants because an organization has a gifted grant writer or director with a vision that enthralls. We must tie financial support with the demonstrated impact of the actions made possible by such support.

We should not compare different strategies in words alone, but in numbers and metrics that capture socio-economic value, for we are talking about making investments of scarce resources in efforts we hope will create yet greater social, economic and other value—which does, in turn, lend itself to at least some level of measure and analysis. Numbers and rates of return are not the only tools we may take to this task, but are a good starting point for understanding what is and is not subject to analysis.

There are four additional reasons we should attempt to quantify and measure the work of the nonprofit sector:

First and perhaps foremost, ***efforts to quantify the economic value of nonprofit activities help lay the foundation for the creation of management information systems that managers and others involved in program operations may use to isolate problem areas and develop more effective oversight of their intervention strategies.*** The majority of nonprofit, tax-exempt organizations active in this country do not have information systems sophisticated enough to engaged in the type of analysis presented in this paper. While this is the status quo, it cannot remain so. Any effort to track the long-term impact of a program requires the establishment of data systems that can continually feed information back to program managers and others involved in the development and execution of various intervention strategies. With such client/consumer information systems in place, managers may receive real-time feedback upon which to base decisions regarding the structure, goals and components of their programs.

Managers want such information and will work hard to guard the integrity of reporting systems they view as valuable to their own effort to provide clients, customers and program participants with high quality services. Foundations and public sector funders must make the commensurate investment in capacity-building and administrative infrastructure necessary to create and maintain such information systems. To make social investments in strategies with no documentation or impact assessment capacity is almost as bad as not making any investment at all.

Second, ***meaningful efforts to quantify the true value of various nonprofit activities have the potential to help advance the creation of significantly greater community ownership and accountability.*** In order to establish meaningful measures, debates need to be held, assumptions challenged and nonprofit managers assisted in more clearly enunciating their own strategies for change. While this can certainly be a "closed" process, the opportunity exists for engaging a much broader segment of our society in these same debates regarding expectations, outcomes and measures of success. This process of defining outcomes could easily involve a cross-section of our communities. In so doing we have the potential for re-engaging citizens in the work of a nonprofit sector presently dominated by professionals paid to address social problems on behalf of those same communities and our society at large. The process of enunciating community goals for social and other programs presents us with a powerful tool for community organizing and civic empowerment.

Third, ***the larger outcome of such efforts lays the groundwork for embracing standards and commonly shared values for performance in the nonprofit sector.*** Presently, there are only the vaguest cross-cutting standards in place by which nonprofit organizations may be measured or to which they may be held accountable. By engaging professionals and community residents in a process of enunciating expectations and goals, through establishing systems of measurement to track performance toward those goals, we may move the sector as a whole toward a day when standards (but not mindless standardization) are widely understood and broadly embraced.

It is easy to be overwhelmed by the issues such an effort would raise and to simply stop before such a system could be created. We have already posed a number of such questions and others remain:

- How does one compare the relative value of two seemingly similar programs?
- What operating systems need to be in place for all nonprofit accounting systems?
- How do we know a program is approaching its work with the appropriate balance of administrative and program supports?

Regardless, we believe that the creation of performance standards, necessary for the long-term success of calculating any individual organization's social return on investment, will only improve the overall performance of the sector as a whole.

This process could be pursued and achieved in a variety of ways. In other writings we have called for the creation of a "Moody's Socio-Economic Credit Area" that would score and rank a wide array of nonprofit organizations, assigning what would in essence become nonprofit bond ratings to help guide the charitable investments of donors and government funders.[25] Organizations such as GuideStar and the National Charities Information Bureau are working to develop both financial reporting standards and nonprofit financial ratio analysis by which potential funders and individual donors may assess relative "philanthropic investment" opportunities. Regardless of how they are pursued, the potential value of standards against which to measure our efforts is an important reason to support the creation of strategies for the calculation of SROI.

Finally, this evolving pursuit of standards and quantified measures of outcomes will ultimately lead to a more significant infusion of capital to support the work of the nonprofit sector. The initial source of such capital may be the public sector, as grant making and contract awards become increasingly based upon the ability of competing nonprofits to present credible documentation of how their efforts result in significant social impact and cost avoidance on the part of government programs and funding streams. These funds would then constitute a true revenue stream that could be viewed as a form of a cash flow generated by virtue of investments in the nonprofit organization providing services to clients and social benefit to the community.

A central part of the SROI analysis is built upon the notion that the economic value of social programs comes in the form of costs presently being carried by one industry (say, for example, community corrections or emergency health services), being decreased by another (for example, jail diversion or primary health care programs). When nonprofit organizations develop the management information and data systems required to accurately calculate SROI they will, in the process, be building the documentation with which we can engage public sector funders in discussions regarding reimbursement of expense and services contracting based on the actual, as opposed to projected or poorly documented, impact of social and other programs. By layering a financial analysis template on top of these systems, we will then be able to understand how investments of nonprofit capital are tied to the achievement of social return.

While the initial capital could be found in the public sector, of ultimately greater significance are the potential funds that might be generated in private capital markets made up of individual donors and investors. These funds could then be leveraged to the greater benefit of the nonprofit sector. Presently, various groups and causes compete for the same individual donor dollars with little reference to objective criteria of performance or measures of return for those donor dollars. Through the creation of SROI and related systems, we have the potential of developing an approach to our work that directly rewards performance and increases the effectiveness of the nonprofit sector as whole.

Additional Readings in Social Return on Investment and Related Frameworks

If you made it through this chapter, you may also be interested in these other efforts to measure value creation in the social sector:

Documents you may be interested in reading:

- *Evaluating Social and Economic Effects of Small Business Development Assistance: Framework for Analysis and Application to the Small Business Assistance Programs of Coastal Enterprises, Inc.* (1996) by Josephine LaPlante, Edmund Muskie Institute of Public Affairs, University of Southern Maine, Box 9300, Portland, ME, 04103-9300, (207) 780-4863.

  An absolutely excellent presentation of both the challenge of evaluating "impact" and a review of a variety of approaches to doing so. Presents frameworks for assessing the impact on people's lives, as well as benefits to government/society. This report is the most thorough, current review of literature and issues we have seen to date.

- *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact*, (1999) by Christine Letts, Allen Grossman and William Ryan. Wiley and Sons.

  While not focused upon Social Return on Investment issues, this primer is on how nonprofit management may best address the challenge of setting and achieving organizational and program goals. It is an excellent addition to the library of anyone interested in how to achieve the most effective results for one's charitable dollar.

- *Return on Investment: Guidelines to Determine Workforce Development Impact*, (1996) by Dennis Benson, Appropriate Solutions, Inc. 511 Garden Drive, Worthington, OH, 43085-3820, (614) 840-0466 (Document Distributed by: National Association of Workforce Development Professionals, 202-887-6120).

  In his treatment of the subject, Benson outlines three types of ROI (ROI to Taxpayers, Disposable Income and Economic Impact), while making a concise and user-friendly presentation of the basic concept of ROI and how it may be applied to workforce development programs.

Related work you should know about:

- Success Measures Project
(Kathy Tholin, SMP Project Director, Development Leadership Network, 601 S. LaSalle Building, #D-514, Chicago, IL, 60605, (773) 486-8804).

A practitioner-driven process, the SMP is a multi-year initiative to create a commonly embraced set of measures by which community development practitioners may assess the impact of their work. Operating through a number of working groups, practitioners are proposing potential success measures in the areas of housing and business development, as well as comprehensive community initiatives. The goal of this ongoing effort is to publish a Success Measures Guidebook in 2000. While it does not tie these measures back to the capital investments required to achieve the stated impact, the SMP represents a significant effort by practitioners to specify how best to assess the impact of community development efforts.

- SmithOBrien
(www.smithobrien.com)

SmithOBrien is a management consulting and research firm that helps companies operate responsibly, in ways that quantifiably increase profitability. S/O's services are built on a simple premise: organizations that build mutually beneficial relationships with all stakeholders— including employees, customers, the community, and the environment—uncover opportunities for, and eliminate barriers to, competitive advantage. They have developed two interesting approaches to valuation of both economic and non-economic factors: The Corporate Responsibility Audit and the Econometric Impact Index. Both these tools are used to assist for-profit corporation and governmental leaders in their decision- making process.

- London Benchmarking Group
(www.philanthropy.org/benchmarking/contents.html)

The push for greater accountability and measurement of social impacts is not only coming from the foundation and practitioner communities, but is increasingly reflected in the work of the business community as well. The London Benchmarking Group is a working group of for-profit corporations developing templates for quantifying the impact of corporate community involvement and related activities.

- Balanced Scorecard
Presented in an article by Robert Kaplan and David Norton, published in the 1996 January-February issue of the Harvard Business Review, the Balanced Scorecard approach is not a form of SROI, but does present a framework for understanding value creation process of both for-profit and tax-exempt organizations. The Scorecard measures performance against four perspectives—financial, customer, internal business processes and learning and growth—in order to understand what drives performance and how organizations achieve improved performance. The Balanced Scorecard approach has been used to assess performance of such organizations as The Special Olympics, United Way and New Profit, Inc.

- Public Health Research
Many of us are generally familiar with the application of cost/benefit analysis in the arena of public health services (a dollar spent on polio vaccine generates $25 in benefit to society, etc.). Given the significant work already done in this field, a review of how public health practitioners understand social/health impacts is of value to those exploring concepts for valuing social impact alone. Of particular interest are the following articles:

"Toward the Incorporation of Costs, Cost-Effectiveness Analysis and Cost-Benefit Analysis Into Clinical Research," Brian Yates, Journal of Consulting/Clinical Psychology, Vol.62,#4,1994.

Clinical Decision Analysis, Chapter 8: "Clinical Decisions and Limited Resources," Weinstein and Fineberg.

"500 Life-Saving Interventions and Their Cost-Effectiveness," Tammy Tengs, et al., Risk Analysis, Vol.15, #3, 1995, pg. 369.

SOCIAL COSTS SURVEY

The following social costs survey was developed by REDF Portfolio investees with BTW Consultants. It reflects the strategy, priorities and populations of the REDF Portfolio. While it is provided by way of example, the reader should be cautioned that the process of developing such tools is in many ways more important than either the tool itself or the ultimate data such a tool may generate. If the process is forced or if managers and other staff are not fully invested in the process, the data will be subject to the classic problem of "garbage in, garbage out." Each organization in the REDF Portfolio was offered the option of either being funded to conduct the interviews internally or having BTW Consultants conduct the interviews. Future REDF publications will discuss how these tools—both the survey and web-based reporting systems—were developed and the challenge of doing so.

REDF Portfolio Business Name Baseline Employee Survey

Date: _____/_____/_____

Interviewer: ________________________ Employee Name: ________________________

Name of REDF Portfolio Business:

- Name of Business A
- Name of Business B
- Name of Business C
- Name of Business D

Employee I.D.

First 3 Letters of First Name: ____ ____ ____

First 3 Letters of Last Name: ____ ____ ____

Date of Birth: ______ / ______ / ______
month day year

INSTRUCTIONS TO INTERVIEWER

Please read the following to your client before starting this assessment:

Thank you very much for taking the time to speak with me today. This interview is part of a study of how Name of REDF Portfolio Organization programs that provide work opportunities make a difference in people's lives. Also, by speaking with people like yourself directly, we can better understand what kind of support you need in order to become successfully employed.

Everything we discuss will be kept confidential, which means that there will be no way of linking your name to your answers. I would like to ask you some questions about your current housing situation, your work history and the kinds of support services you use. There are also some general questions about how you describe yourself and your situation.

Some of these questions are personal. However, I would appreciate your honest answers, remembering that everything will be kept confidential and that your answers will not be used in any way to influence decisions made by your business manager or supervisor. Still,if there are questions you are uncomfortable answering, please let me know and we will skip that question and continue with the interview.

The interview should take about 20-30 minutes. Do you have any questions before we start?

Living and Housing Situation

1. How would you describe where you live? *(Check one)*

- ❑ In a rented apartment
- ❑ In a rented house
- ❑ In a house you own
- ❑ Public housing complex unit
- ❑ In an SRO Hotel
- ❑ In a transitional living program (halfway house)
- ❑ In a group home
- ❑ Shelter
- ❑ In an institution (jail, detention facility, hospital, treatment facility or other: ______________________________)
- ❑ With several different friends and family members ("sofa-surfing")
- ❑ Street / Homeless
- ❑ Other: (specify)______________________________
- ❑ No answer

2. How many people do you live with (not including yourself)?________________

- ❑ No answer

3. How satisfied are you with your current living situation?

- ❑ Very satisfied
- ❑ Satisfied
- ❑ Neutral – neither satisfied nor dissatisfied
- ❑ Dissatisfied
- ❑ Very dissatisfied
- ❑ No answer

Comments: ______________________________
____
____
____

4. What do you currently pay for your monthly housing costs?

$ ______________________ per month

- ❑ Unsure
- ❑ Not applicable
- ❑ No answer

5. In the past six (6) months have you received Section 8 subsidy to help pay your housing expenses?

- ❑ Yes
- ❑ No
- ❑ Unsure
- ❑ No answer

Employment / Benefits

The following questions refer to jobs you may have had before getting a job with this REDF Portfolio business.

6. Approximately how many jobs have you had in your lifetime (not including your job with this REDF Portfolio business, if applicable)? ________ *(If none, enter zero and skip to question 10)*

- ❑ No answer

7. What was the longest period of time you've ever held a single job? ________ months

- ❑ No answer

8. Have you ever received a promotion?

- ❑ Yes
- ❑ No
- ❑ No answer

9. Have you ever been fired from a job?

- ❑ Yes
- ❑ No
- ❑ No answer
- ❑ Not yet employed by REDF Portfolio business. Skip to question 15.

These next questions ask about your employment with this REDF Portfolio business. (If the interviewee has not yet been hired by REDF Portfolio business, check here ❑ and follow instructions in box.)

10. When did you begin working at REDF business?

Date: _____ / _____ / _____
mo day yr

- ❑ Not applicable
- ❑ No answer

11. In the past month, on average, how many hours did you work each week at this REDF Portfolio business? ________hours

- ❑ No answer

12. What is your hourly wage* at this REDF business? $____________/hour
**including tips,commissions,etc*

❑ Don't know
❑ No answer

13. What is your estimated annual salary* at this REDF business? $____________/year
**including tips,commissions,etc*

❑ Don't know
❑ No answer

Approximately how much income do you make per month from these work sources, added together? $__________/month

14. Do you receive income from any other work that you do?

❑ Yes
❑ No
❑ No answer

Use of Social / Support Services

15. Do you have health insurance, including private insurance or Medi-Cal?

❑ Yes
❑ No

16. Who pays for your health insurance?
(Check all that apply.)

❑ Self
❑ Employer
❑ Covered by spouse/parent/family member's plan
❑ Medi-Cal F How many months have you been on Medi-Cal? _______ months
❑ How many times have you used it in the past six (6) months? ______ times
❑ Other: ______________________________

17. Please specify if you have:
(Check all that apply.)

❑ Medical insurance
❑ Dental insurance

18. Does this insurance include coverage for any other family member's care?

❑ Yes
❑ No
❑ Unsure
❑ Not applicable
❑ No answer

19. During the past six (6) months, how many times have you gone to the emergency room for medical treatment? _______ times

20. Have you,in the past six (6) months, been to a public health or community clinic?

❑ Yes
❑ No
❑ No answer

Approximately how many times in the past 6 months? __________

21. During the past six (6) months have you received or used any of the following?

AFDC / TANF

❑ Yes
# of months: ______________
Approx.amount received monthly
$ ______________
❑ No

Food stamps

❑ Yes
# of months: ______________
Approx. amount received monthly
$ ______________
❑ No

Supplemental Security Insurance (SSI)

❑ Yes
# of months: ______________
Approx. amount received monthly
$ ______________
❑ No

General Assistance (GA)

❑ Yes
# of months: ______________
Approx. amount received monthly
$ ______________
❑ No

❑ None of the above
❑ No answer

22. Have you, in the past six (6) months, participated in any type of substance abuse treatment program (AA, residential or outpatient)?
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

23. Have you, in the past six (6) months, participated in any type of mental health program or counseling?
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

24. Have you, in the past six (6) months, gotten bags of groceries from a community food bank, eaten meals at an agency, or received food from another source?
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

25. Have you, in the past six (6) months, accessed any other support services in your community, such as shelter services or case management?
- ❑ Yes
- ❑ No
- ❑ No answer

(If Yes) What other services have you used?

Case Management
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Outreach/Drop-in center
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Housing (shelter, group home, transitional living)
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Legal/advocacy services
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Other
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Other
- ❑ Yes
  Approximately how many times in the past 6 months? __________
- ❑ No
- ❑ No answer

Criminal Justice History

26. Have you ever been convicted of a crime?
- ❑ Yes
- ❑ No *(Skip to Question #29)*
- ❑ No answer

27. Have you been convicted of a crime in the past six (6) months?
- ❑ Yes
- ❑ No
- ❑ No answer

28. Are you currently on probation or parole?
- ❑ Yes
- ❑ No
- ❑ No answer

For this next section I will read a statement, and I want you to tell me how much you agree or disagree with the statement. The choices are:

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

How I Feel About My Life

29. There are a lot of people I like to hang out with.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

30. I like to get together with friends as much as possible.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

31. I have people in my life who really care about what's happening to me.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

32. If for some reason I were put in jail, there are people I could call who would bail me out.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

33. If I were sick or hurt bad and I needed someone to take me to the hospital, I would have no trouble finding someone.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

34. If I were hungry and had no money to buy food, there are people I know who would give me food.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

35. If I were in trouble and some people were going to try to hurt me, there are other people I could get protection from.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

How I Feel About Myself

36. I feel that I have a number of good qualities.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

37. Overall, I am happy and satisfied with myself.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

38. Overall,I feel that I am a failure.

- ❑ Strongly agree
- ❑ Agree a little

- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

39. At times, I think I am no good at all.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

40. At times, I feel useless.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

41. I feel socially accepted.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

42. I have a lot to be proud of.

- ❑ Strongly agree
- ❑ Agree a little
- ❑ Neither agree or disagree
- ❑ Disagree a little
- ❑ Strongly disagree
- ❑ No answer

Please tell us about yourself

The next several questions are about your background. Again what you include here is confidential and your name will not be included with this information. If there are any questions here that you feel uncomfortable answering, please let me know and we can skip them.

43. Indicate respondent's gender:

- ❑ Male
- ❑ Female

44. How old are you today? ________

- ❑ No answer

45. What is your race/ethnicity? (Interviewer: Ask question as worded and allow respondent to specify race/ethnicity. Code their answer into one of the categories below)

- ❑ African American
- ❑ Asian/Pacific Islander
- ❑ Latino/a
- ❑ Native American / Alaskan Native
- ❑ White
- ❑ Other
  (specify)__________________________
- ❑ Multi-ethnic
  (specify) __________________________
- ❑ No answer

46. What is the highest level of education you have achieved?
(Check one)

- ❑ Middle school / Jr. high school graduate
- ❑ Some high school
- ❑ G. E. D. / high school graduate
- ❑ Some college
- ❑ Associates' (AA) degree
- ❑ Bachelors' (BA) degree
- ❑ Masters' (MA) degree
- ❑ Doctorate
- ❑ Don't know
- ❑ No answer

47. Have you attended any post-high school trade/technical training?

- ❑ Yes
- ❑ No
- ❑ No answer

a. Did you complete / receive certificate?

- ❑ Yes
- ❑ No
- ❑ No answer

48. Prior to your involvement with this REDF Portfolio business, had you ever participated in a job training program such as JTPA (Job Training and Placement Assistance)?

- ❑ Yes
- ❑ No
- ❑ No answer

Did you get a job as a result of joining this program?

Name of Program:

____

How long were you employed?

- ❑ Yes
  # __________ months
- ❑ No
- ❑ No answer
- ❑ Unsure

Name of Program:

____

How long were you employed?

- ❑ Yes
  # __________ months
- ❑ No
- ❑ No answer
- ❑ Unsure

Name of Program:

____

How long were you employed?

- ❑ Yes
  # __________ months
- ❑ No
- ❑ No answer
- ❑ Unsure

Name of Program:

____

How long were you employed?

- ❑ Yes
  # __________ months
- ❑ No
- ❑ No answer
- ❑ Unsure

Name of Program:

____

How long were you employed?

- ❑ Yes
  # __________ months
- ❑ No
- ❑ No answer
- ❑ Unsure

49. Do you currently have any dependent children (children 17 years old or younger who you are financially responsible for)?

- ❑ Yes
  Number of Children ______________
  Ages of Children ________________
  ____
- ❑ No
- ❑ No answer

50. How often (if ever) during the past six (6) months have the following things made it difficult for you to find or keep a job?

Lack of childcare

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Lack of transportation

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Need for education/skills training

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Adult family member who needs care

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Unstable housing

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Cultural/language issues

- ❑ Regularly

- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Legal issues

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Physical health issues

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Emotional health issues

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Other ______________________

- ❑ Regularly
- ❑ Sometimes
- ❑ Almost never
- ❑ Never
- ❑ No answer

Interviewer Comments/Observations: ______________________________

Contact Information

READ: You may be contacted in 6 months to complete a follow-up to this questionnaire. If you agree to come back for the follow-up interview you'll be given a [gift certificate, voucher, etc]. We'll be asking some similar questions to those I just asked you to see if things have changed for you over time. So I want to make sure we'll be able to reach you in 6 months.

If you have a phone number, in whose name is the phone listed? ___________________________

What is your phone number? (__________) __________—___________________

Is there another phone number where you can usually be reached?

(__________) __________—___________________

- ❑ Telephone (whose? ____________________)
- ❑ Pager
- ❑ Voicemail
- ❑ Other: _____________________________________

To what address could we send you a notice in 6 months to schedule a follow-up interview?

Address:____ Apt.#________________

City: ____State _____ Zip:____________

In case we have trouble reaching you, we would like to have the names of two people (such as a grandparent or parent) who would most likely know how to reach you or who you keep in close contact with. The only reason we would contact these people would be if we cannot locate you when we do our follow-up evaluation.

FIRST CONTACT:

Name: ____

Relationship ____

Address:____ Apt.#________________

City: ____State _____ Zip:____________

Phone: (__________) __________—___________________

SECOND CONTACT:

Name: ____

Relationship ____

Address:____ Apt.#________________

City: ____State _____ Zip:____________

Phone: (__________) __________—___________________

Footnotes

1 During prior periods, evaluation services were provided by Harder+Company Community Research, however, in 1998 the principals involved in the REDF work launched their own firm, BTW Consultants.

2 See "WebTrack and Beyond: Documenting the Impact of Social Purpose Enterprises", Chapter 7 of this book.

3 "The Meaning of Social Entrepreneurship," J. Gregory Dees, paper published in October, 1998.

4 The reader should know that Mark Moore of the Hauser Center, Kennedy School of Government, (Harvard University) has presented a framework for understanding "Business Value" and "Public Value." Business Value focuses primarily upon issues of financial and competitive performance. Public Value addresses issues such as Legitimacy and Support, as well as such factors as Social Capital, Advocacy, Client Services and Channels for Self Expression (such as volunteerism, board participation and other forms of engagement). The REDF framework focuses primarily upon understanding Socio-Economic Value, as defined in this paper, and was conceived apart from Dr. Moore's substantial work and contributions to the field.

5 These quotes are taken from a personal email from Greg Dees to Jed Emerson as they debated the nature of Social Value and efforts to describe its essence.

6 While this specific definition of Transformative Value is the author's, the label itself was coined by Chris Letts of the Hauser Center, Kennedy School of Government,(Harvard University).

7 The consulting group of SmithOBrien has developed what it calls a "Full ROI Assessment" which attempts to conduct just such an analysis of for-profit corporations.

8 Please see the chapter on True Cost Accounting for a description of this issue.

9 *Evaluating Social and Economic Effects of Small Business Development Assistance: Framework for Analysis and Application to the Small Business Assistance Programs of Coastal Enterprises*, Josephine LaPlante, Ph.D., Edmund Muskis Institute of Public Affairs, University of Southern Maine, pg. 215.

10 While this is generally the case, it must also be acknowledged that loan officers and lending institutions do have a great degree of flexibility when it comes to how loans are structured and what rates are charged for loaned capital.

11 For a presentation of this initial framework please see *New Social Entrepreneurs: The Success, Challenge and Lessons of Social Purpose Venture Creation*, published in 1996 by The Roberts Foundation and available at www.redf.org.

12 It should be acknowledged, however, that these funds are not truly "no cost" to the grant recipient in that most nonprofits invest significant staff and board time and resources in soliciting and meeting the demands of outside funders, whether foundation or governmental. While technically such funds do not carry a discount rate, realistically they do come with some degree of expense.

13 Please see the chapter entitled, "The U.S. Nonprofit Capital Market: An Introductory Overview," for additional information on PRIs and how they fit within the capital structure of nonprofit organizations.

14 It has also been argued that, in fact, the appropriate starting point for calculating a discount rate for use in an SROI calculation is negative 100% given that no principal is returned to the investor/foundation. This issue will be addressed in future SROI papers, but for the present,since the standard for the field is not to assume a –100% starting point we will save that issue for future discussions.

15 The following overview of Social Betas was written by Steven LaFrance of BTW Consultants, in consultation with Fay Twersky of BTW Consultants and Jed Emerson.

16 To our knowledge, the idea of applying a test of "degree of difficulty" in SROI analysis was first advanced by Carol Guyer of the James C. Penny Foundation.

17 For a full discussion of the information management activities undertaken by REDF with its portfolio, please see Chapter 7, WebTrack and Beyond.

18 For a discussion of Equity values in this context, please see the Chapter 9.

19 Please see the chapter entitled, "True Cost Accounting" for further discussion of this challenge.

20 In truth, the question is even larger than that: Was it the program, the parents, the peers, the teacher and so forth. For the purpose of simplicity, the issue is causality and we will simply leave it at that!

21 *Return on Investment: Guidelines to Determine Workforce Development Impact*, Dennis Benson, Appropriate Solutions,1996.

22 This is not an actual quote, but simply a concern of the authors!

23 This analogy was first made by Carol Guyer, of the James C. Penny Foundation.

24 See "Documents You May Be Interested in Reading" in the following pages for a brief presentation and references to the work of several organizations that may be of interest.

25 Please see "Grants, Debt and Equity: The Nonprofit Capital Market and Its Malcontents," a chapter in *New Social Entrepreneurs*.