

Maximizing Blended Value-
Building Beyond the Blended Value Map to
Sustainable Investing, Philanthropy and Organizations

By
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This paper is the result of a two year research process into Blended Value. For more information, see the related material available at www.blendedvalue.org.

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Introduction

What is Blended Value?

Conventional wisdom and legal definitions clearly separated “doing well” from “doing good.” Corporations were for-profit entities that sought to maximize economic value, while public interest groups were nonprofits that sought to maximize social or environmental value. It is clear, however, that nonprofit organizations create economic value and for-profit companies have social impact and worth. Consider, for example, the economic value of 170 million boxes of Girl Scout cookies sales or the social impact of Wal-Mart providing employment for 1.4 million people.¹ While not the primary purpose of these organizations, a growing group of practitioners, investors and philanthropists are advancing strategies that intentionally blend social, environmental and economic value. Organizations operating in this middle ground of commercial and social enterprise (regardless of their legal status) have differing aspects of both social and commercial value creation.

In fact, all organizations have the potential to generate a blend of economic, social and environmental value.² Most for-profit corporations, however, have historically under-performed on a social and environmental basis and most nonprofit organizations have under-performed on an economic basis. Practitioners and investors involved in corporate social responsibility, social enterprise, social investing, strategic philanthropy and sustainable development are changing this dynamic by pursuing strategies that strive to blend social, environmental and economic values. Pursuing blended value enables them to capture efficiencies not possible through pursuing purely commercial or purely social strategies. This strategy not only appeals to many on an intuitive level—it provides a framework to assist us in better understanding the growing wave of practice across the for-profit and nonprofit sectors, and the concurrent interest by academics, business writers and the press.

Challenges of Maximizing Blended Value

While there are clear efficiencies to be gained by pursuing blended value, maximizing blended value is not without its challenges. In fact, the participants and experts involved

¹ Figures for Girl Scout Cookie Sales from: <http://www.girlscoutcookiesabc.com/famvol/about.htm>.

Figures for Wal-Mart employment from:

http://www.uncw.org/issues_and_actions/walmart_workers_campaign_info/facts_and_figures/walmartgeneralinfo.cfm. January 11, 2005.

² For a discussion of the Blended Value Proposition, see: Emerson, Jed, *The Nature of Returns: A Social Capital Markets Inquiry into the Elements of Investment and the Blended Value Proposition* at <http://www.blendedvalue.org>.

in our research process felt that it was more difficult to pursue blended value than pure philanthropy or pure for-profit ventures. Rockefeller Foundation's Program Venture Experiment (ProVenEx), a fund that makes for-profit investments in areas that will benefit poor and excluded people to further the Foundation's social mission, is one example.³ According to Jackie Khor who runs ProVenEx, "Making blended value investments and running successful blended value ventures is much harder than doing the straight commercial version."⁴ Cynthia Gair of Roberts Enterprise Development Fund, a fund that works with nonprofit social service agencies operating market-based businesses that employ formerly homeless individuals, states that "Decisions between action that best supports financial objectives, and action that best supports social mission objectives can be tough."

While many recognize that the value created by organizations (whether for-profit or non-profit) is a blend of economic, social and environmental elements, existing thinking and practices create real barriers for those attempting to maximize this full, blended value of their organizations—whether through securing capital investments or managing such organizations on a day to day basis. Matt Scott, a recent graduate of Stanford Graduate School of Business, spent six months trying to raise capital for IGNITE, a social venture which builds on the work of Light Up the World Foundation, endeavoring to empower lives in the developing world through innovative products such as the solar powered LED light they are trying to market in India. After this experience he laments,

"Our experience at IGNITE is that investors still live in a bifurcated world, either making social investments or financial investments but very little in between. I've found investors typically have two pockets, one for donations and one for maximizing profits. In my experience, selling the blended value story typically leads to a look of confusion, even mental anguish, as investors struggle to understand the message."⁵

Another kind of mindset issue exists, particularly in the developing world. There is a perception that pursuing social and environmental value will impose barriers on economic development. According to Bill Shireman, President and CEO of the Future 500, a global network of major corporations focused on stakeholder engagement,

"It is important for us to realize that much of the world is poor, and some billions are desperately poor. Because of this, social betterment and even environmental protection is highly reliant on economic improvement. We need to make this point first, so that the developing world knows we realize the primacy of economic improvement. If the message is that they need to compromise on

³For more information on ProVen Ex, see:

<http://www.rockfound.org/display.asp?context=3&SectionTypeID=21>. January 21, 2005.

⁴ Unless otherwise noted, all quotes are drawn from interviews with the researchers and from the Social Edge Blended Value Series discussion, available to view online at:

<http://skoll.socialedge.org/?293@108.ndOea6LgcSV.60252@.3c3e7cf4>.

⁵ For more information on IGNITE, see <http://www.igniteinnovations.com>. January 21, 2005.

economics in order to protect social or environmental assets, this message will seldom find a receptive audience.”

The Blended Value Project: Research Methodology

In the first phase of our research into blended value we wanted to understand which organizations were intentionally working to maximize their blended value and the unique challenges they face. To answer these questions we started by conducting a wide-ranging literature and internet review combined with selected interviews with key experts to develop our hypotheses. The final process involved a review of over 250 journals, papers, websites and the identification of close to 300 resource organizations.⁶

We then engaged over 120 practitioners and thought leaders across the various areas involved in blended value creation to help us refine and better understand the relevant issues. To do this, we convened meetings with participants in North Carolina, Seattle, Utah,⁷ London, New York City, Washington D.C., and the San Francisco Bay Area.⁸ The overall concept of Blended Value was presented and discussed, with participants then being asked to identify which resources, organizations and issues were felt to be most central in their own work.

Following these convenings, we conducted interviews with over 70 additional experts and thought leaders and elicited feedback from another 50 via email. We asked participants to discuss the key issues faced within and across the different sectors involved in blended value as well as ideas for overcoming these issues and potential for collaboration. We then compiled the resource listing of these related areas and wrote-up our findings and conclusions in the final version of the Blended Value Map.⁹

In the second phase of our work, we facilitated a series of online sessions with Social Edge¹⁰ in order to bring a wide variety of stakeholders together in an international exploration of the challenges being encountered in efforts to blend economic, social and environmental value creation. Specifically, participants in these on-line discussions addressed many of the common challenges of capital development, performance metrics and regulatory/policy/tax issues. The following discussion summarizes our findings and

⁶ See the Annotated Bibliography for listing of information resources, resource organizations and leadership examples. Available for download at: <http://www.blendedvalue.org>.

⁷ The Utah session was convened at a major conference of social entrepreneurs and foundation executives.

⁸ Participant lists can be found in Appendix A of the Blended Value Map.

⁹ The product generated from this research initiative was an actual map—the appendices of which list literally hundreds of resources, organizations, standards, codes of conduct, institutions, initiatives, companies, foundations, Web sites, indices, books, articles and metrics that encompass the body of knowledge upon which the blended value proposition will be formulated and refined. The reader is encouraged to review both the Blended Value Map and related documents to make full use of this resource.

¹⁰ Social Edge is an online community of social entrepreneurs, philanthropists and other members of the social sector. The site is an open platform for discussion and debate aimed at advancing and empowering the social sector. See <http://www.skollfoundation.org/socialedge/index.asp>.

conclusions, drawing extensively upon these discussions as well as our continued research into these themes.¹¹

*Pursuing Blended Value*¹²

While all organizations have the potential to pursue economic, social and environmental value, our focus was upon practitioners and investors that were intentionally pursuing the blend of these elements, sitting somewhere between the nonprofit and for-profit sectors. While practitioners and investors pursuing blended value shared much in common, we noted that they were largely aligned in “silos” along specific lines of activity, each being relatively isolated from the others.

In the course of our research we identified five distinct silos involved in intentionally maximizing blended value:

- Corporate Social Responsibility,
- Social Enterprise,
- Social Investing,
- Strategic/Effective Philanthropy and
- Sustainable Development.

Practitioners—those engaged in the direct management of organizations—tend to fall into the first two categories. Investors—those providing a variety of capital to those organizations, both in the form of investments and grants—fall into the next two. The fifth silo, sustainable development, includes both investors and practitioners.

As our research evolved, we found that outside experts and those directly involved with these ventures identified key, cross-cutting issues that were of common concern regardless of which “silo” one occupied. These shared challenges fell into the following general categories:

- The need for the creation of more efficient capital markets,
- A lack of commonly defined performance metrics to assess both organizations and capital returns;
- The evolution of new approaches to entrepreneurial leadership and organizational development; and
- The need to advance a more effective supporting environment through the introduction of new policy and regulations.

¹¹ See <http://skoll.socialledge.org/?293@108.ndOea6LgcSV.60252@.3c3e7cf4> for complete transcripts of these discussions.

¹² The following is a brief summary of findings in “*The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation*” (The Blended Value Map) and “*Building Blended Value – Building Beyond the Blended Value Map to Sustainable Investing, Philanthropy and Organizations*” by Jed Emerson and Sheila Bonini, January 2004 and January 2005. See: <http://www.blendedvalue.org> for copies of the full documents, an executive summary of the Map and an annotated bibliography.

Our research brought us to the conclusion that these challenges—being common across silos of interest—could best be addressed by leveraging the work of each silo toward more effective information sharing perhaps the development of a common agenda for both research and action. Yet, to work across these silos to address such issues will require a new kind of collaboration. This new type of collaborative approach will require both an expanded vision and broader strategy—as opposed to the present approaches which appear to be grounded upon limited tactics attempting to achieve a specific project goal. We believe that meaningful, broad-based change will come only through the creation of cross-silo networks that focus upon the common challenges of maximizing value, much like the alliances and networks built by for-profit firms such as eBay and Cisco Systems.¹³

For this new phase of collaborative networking to occur, an infrastructure needs to be created that will enable individual groups to network and convene around their shared challenges they confront. Resources and network orchestration will also be needed to facilitate and support these linkages. We believe that the foundation community can play an important role in building this infrastructure and enabling this new phase of blended value creation to occur.

Three Challenges for Maximizing Blended Value

There were many reasons such as these cited as to why it is more difficult to successfully function in this middle ground, but the most pervasive responses either had to do with issues of accountability or the lack of a supporting capital market and policy environment infrastructure for creating and investing in blended value.

While there are accepted models regarding value creation in the for-profit marketplace, many organizations in the nonprofit sector do not articulate or track their social outcome goals, let alone hold themselves accountable to particular performance objectives. According to Sally Osberg, CEO of Skoll Foundation,

“One of the more telling moments in a recent Skoll board meeting came as a director noted that his university (an august institution) didn’t have the faintest idea of how to measure its effectiveness – even though by all accounts (if not ‘measures’) its reputation for excellence was assured.”

This is complicated by the fact that there is often disagreement about what should be measured. Jackie Khor advises that, “We stakeholders need to agree on what social outcomes we are looking for, how to assess this credibly and feasibly, and hold ourselves accountable to these outcomes.” Tim Freundlich, Director of Strategic Development at Calvert Foundation made a similar point saying,

¹³ For a discussion of the concept of networks in the for-profit sector, see “*The Future of the Networked Company*,” by Hacki and Lighton, McKinsey Quarterly, 2001, No. 3.

“In the traditional markets we all ascribe to a (roughly) similar set of risk/return measures and factors. This is missing in the blended value space, which becomes anecdotal and ‘heart’ measured. The big challenge here is in the plurality of social value creation. A dollar is a dollar is a dollar (in traditional market terms), but SROI (Social Return on Investment) is all over the place – people value it differently.”

This lack of clarity and resultant lack of accountability has important implications for how we structure the flow of capital to blended value organizations. The inability to assess risk and return characteristics creates a significant barrier to investing. According to Mario Marino, “One area that could be further explored is a more rigorous look at the reporting requirements for nonprofits so that they would be more forthcoming with regard to the organization’s financial performance and health.”

Michael Shuman, author of “Going Local: Creating Self-Reliant Communities in Global Age,”¹⁴ summarized the issue of the social capital market by saying, “The dependence of nonprofits on begging – oops, I mean fundraising – limits the sector’s self-respect, independence, vision, and impact.”

The legal and tax structure, which defines what constitutes a for-profit versus a nonprofit enterprise, also presents difficulties for those pursuing and investing in blended value. According to Penelope Douglas, co-founder and President of Pacific Community Ventures,

“Substantial synergies exist between my organization’s for-profit investment activities and its non-profit business support services arm. However, current tax and legal codes have required a bifurcated organizational structure that results in significant operational inefficiencies in its management - in essence, the underbelly of a holistic model.”

Creating and investing in blended value presents unique challenges for practitioners and investors alike. The inefficiency of raising capital, the lack of accountability and the current policy and tax structure all present barriers to pursuing blended value. Our research suggests that there is promising work being done to address these issues, but that more needs to occur. This paper presents a summary of our research and conclusions regarding the challenges of capital, metrics and policy in respect to maximizing blended value.

¹⁴ Shuman’s book focuses on how communities can create self-reliance by anchoring wealth within the community. See: Shuman, Michael, “*Going Local: Creating Self-Reliant Communities in a Global Age*,” Free Press, 1998.

The Capital Challenge

Introduction

Capital is the fuel that allows for the creation of organizations (whether for-profit or non-profit) capable of creating value within a given market. Capital is the resource that enables entrepreneurs to build organizations that can bring services to clients and customers. It is the necessary element that permits businesses to grow and prosper.

In the Blended Value Map, we discussed some of the inefficiencies of the social capital market, including:

- ❖ high transaction costs,
- ❖ lack of adequate information flow,
- ❖ lack of market responsiveness,
- ❖ lack of connection between organizational performance and capital allocation,
- ❖ lack of common standards and definitions,
- ❖ lack of intermediation, and
- ❖ lack of common understanding of relation between risk and various returns.

We also highlighted the lack of appropriate financial instruments necessary to support the work of diverse organizations pursuing various types of returns that blend financial, social and environmental components of value creation. This inefficiency of the capital market combined with a lack of instruments inhibits the efforts of managers pursuing blended value, whether in mainstream corporations, emerging for-profit social ventures or social purpose enterprises attempting to scale their ventures.

Tim Freundlich of the Calvert Foundation summarized the aspirations for the social capital market,

“Essentially, we must take in hand the formation of a much more efficient/effective capital marketplace for the blended value space, one that includes the elements we take for granted in the traditional capital markets – intermediation, transparency, financial vehicles, including publicly traded securities, liquidity, risk capital (beyond grants) and syndicate/networks of investors who participate.”

In this present phase of our research, we continued to explore these issues with our research participants and experts. We discussed how we might overcome the inefficiencies of the social capital market and what would be needed to create new investment instruments. We also addressed the role of foundations as actors in providing more, and more appropriately structured, capital into blended value organizations. Key themes that emerged from this additional phase of research were those of:

1. Segmentation of supply and demand,
2. Development of more diverse financial instruments and
3. The role of intermediaries.

We explore each of these topics below.

Segmentation of Supply and Demand

While we are beginning to see different subsets of investors and investments in the blended value arena, we still lack a sophisticated market segmentation of either demand or supply. In the Social Capital Market, there is no proper classification system, scant publicly available information on performance and little separation of strategic giving from more heartfelt or “irrational” giving. This lack of segmentation inhibits capital flows, makes it difficult for investors to identify and vet potential investments and limits overall access to capital by emerging ventures.

In the for-profit market, different sectors have different characteristics that are widely known by investors. Classification systems and more effective cataloguing of these characteristics in the nonprofit and social enterprise space would help increase overall market efficiency. According to Mario Marino, Chairman of Venture Philanthropy Partners,

“In the work we’ve done in the field, one aspect that has been both interesting and frustrating is the apparent lack of ‘market segmentation’ applied to both the supply and demand side for capital in the nonprofit sector. Developing the various profiles or segments of investors with similar traits and needs will prove, I believe, critical to finding sustainable capital sources. And...the real challenge will be to understand what each investor segment will want in return for investing their capital.”

Emerson and Wachowicz describe a vision for an “Industry Index” for a given area of nonprofit activity.¹⁵ Such an index would enable social investors to compare organizations within a given market segment such as youth programs or workforce development. Currently, however, no such index exists. Beyond the basic level of segmentation of the nonprofit sector outlined by the Independent Sector¹⁶ and others, Emerson’s California Management Review article¹⁷ outlines a spectrum of general investor institutions and the Blended Value Map¹⁸ lists various types of practitioners and

¹⁵ Emerson, Jed and Jay Wachowicz, “*Riding on the Bleeding Edge: A Framework for Tracking Equity in the Social Sector and the Creation of a Nonprofit Stockmarket*,” REDF Box Set, 2000. Available online at: http://www.redf.org/download/boxset/REDF_Vol2_9.pdf.

¹⁶ The Independent Sector’s Measures Project breaks the sector into eight sub sectors. For more information and to order the publication, see <http://www.independentsector.org>.

¹⁷ Emerson, Jed –The Blended Value Proposition: Integrating Social and Environmental Returns, Summer, 2003.

¹⁸ See “*The Blended Value Map*,” available online at <http://www.blendedvalue.org>.

investors. While this is a start, a much more fine grained segmentation of both supply and demand in the blended value space is needed.

Part of the problem in defining this arena is language.¹⁹ While capital access is clearly an issue for all parties, it is particularly so on the supply side. Steve Lydenberg, Chief Investment Officer of Domini Social Investments, made the point clearly, saying “someone could argue that for-profit management of prisons is a blended-value proposition (providing a public good with a for-profit mentality), but it is not one I would support or want to call a social enterprise.” Having clear definitions regarding different types of social enterprise, for example, is key to creating a well-defined asset class. There are several other important distinctions that should be explored as well:

- Where does investment capital lead to a positive financial return (on equity or loan)?
- Where and how much subsidy is needed for which types of capital instruments?
- In which sectors (for example housing or community development) are there tangible assets such as buildings or properties, inventories, etc. that can be used as the foundation for debt financing?
- In what sectors (such as human services or social services) are the assets and outcomes less tangible?

An additional issue on the capital supply side is the lack of publicly available information or analysis on the performance of various organizations. Creating a method to document and access information on organizational performance within this arena would facilitate better segmentation of capital supply. According to David Bonbright, Director of ACCESS, an organization dedicated to supporting an international dialogue and action on advancing more effective performance metrics for nonprofit organizations,

“There is a considerable volume of good independent analysis of social value creation performance in the developing world that never reaches individual social investors in the United States or anywhere else. This “market intelligence” sits with foundation program officers, aid professionals, and a variety of “development consultants.”

This sentiment is echoed by many authors, for example, a recent McKinsey Quarterly article about knowledge management in philanthropy stated,

“Philanthropic foundations are knowledge-intensive bodies. Almost everything they do, from identifying innovative nonprofit organizations to evaluating grants and publishing policy-shaping reports, depends on the use of human and

¹⁹ To help in advancing a more common language with which to explore these questions, a group of Stanford Business School students, under the supervision of the Blended Value Process Research Team, developed a detailed glossary that presents various key concepts and terms. The glossary is available on the Blended Value Website at: <http://www.blendedvalue.org/Papers/default.aspx>. See also the Language section of the Blended Value Map.

intellectual capital. But many philanthropies...have neither the organization nor the systems to manage their knowledge properly.”²⁰

On the demand side, there are many different sources of capital, or ways for nonprofits to raise money. One segmentation approach that is often used is fund based. For example, funding can be categorized by specific program, endowment, capital project or for general support. Another potential segmentation is by investor intent such as financial return, risk level, desired social outcome or other intangible benefits. As with supply, a more detailed outlining of specific investor interests would facilitate the efficient matching of demand and supply. Shari Berenbach, Executive Director of Calvert Foundation, summed up the problem nicely,

“Some social investors assume they are seeking competitive financial returns, and believe that screening investments into publicly traded stocks and bonds are sufficient. While others, are willing to put their principal at risk, seeing some return as being net positive over straight philanthropy. The more articulate we can become about the sub-classes of social investors, the more we can better match investor interest with blended value product.

A particularly important segmentation for supply is that of “head versus heart.” Several authors have contrasted raising money in the nonprofit sector to the cost of raising capital in for-profit capital market. They point to a variety of inefficiencies, but all focus upon the perceived high cost of raising capital in the nonprofit sector.²¹ This blanket criticism regarding the cost of capital cannot be addressed without a more detailed look at the demand side of the equation and realization that two very broad segments get lumped into one. In the nonprofit space, head versus heart is an important distinction. While the emotional connection that most donors desire creates a sense that the market is irrational, it is no more irrational than the emotional connection or feel-good factor that consumers feel when they buy branded retail products in the for-profit marketplace.

For a for-profit company, the difference between equity investors and customers or buyers of the company’s service or product is relatively clear-cut. Costs of raising capital are capital market costs. Marketing costs are part of the cost of attempting to increase sales. By contrast, in the nonprofit sector, many “investors” are not really investors. For most performing arts organizations, patrons are also the source of the bulk of individual donations.²² In many other nonprofit sectors donors can be considered buyers of an emotional connection or “feel good” factor, for want of a better term. According to Jim Fructerman, founder of Benentech, a 15 year old technology social enterprise organization,

²⁰ Capozzi, Marla M., Stephanie M. Lowell and Les Silverman, “*Knowledge Management Comes to Philanthropy*,” The McKinsey Quarterly, 2003 Number 2.

²¹ For example, see: Bradley, Bill, Paul Jansen and Les Silverman, “*The Non-profit Sector’s \$100 Billion Opportunity*”, Harvard Business Review, May 2003.

²² H. Hansmann, “Nonprofit Enterprise in the Performing Arts,” *The Bell Journal of Economics*, Volume 12, Issue 2 (Autumn, 1981): 341-361.

“Funding sources in the nonprofit sector are a blend of customer and investor. My experience is that the weighting is more on the customer characteristics...So, we spend our time struggling to match these two competing customer bases, while wishing for a capital market that functioned for like the for-profit capital market, where fashion plays a relatively smaller role and has a feedback mechanism that eventually corrects excessive fashion.”

A recent article in the Stanford Social Innovation Review sheds another light on this issue. The authors interviewed 22 individual donors, mostly business people, who collectively donate \$50 million per year. They found that only four out of 22 were strongly interested in getting better data on the performance of nonprofit organizations. The article outlines donor’s inability to see a need for performance measurement, a lack of time to address the topic, a lack of confidence in what is measured, a sense that it is a poor use of scarce resources, and an expectation that institutional funders should engage in performance measurement on their behalf.²³

Research by Paul Schervish of Boston College into donor motivations makes a similar point. Schervish points out the importance of giving by families at the highest end of the distributions of wealth and income. The .08 percent of families with net worth of \$1 million or more made up 45 percent of total charitable contributions in 1994. However, he points out the importance of individuality and personal associations in making these philanthropic choices, concluding that “charitable giving derives from forging an associational and psychological connection between donors and recipients.”²⁴

If one were to split nonprofit fundraising into two categories and think of the money raised from the Government, Institutional Foundations and other large, sophisticated donors as capital market transactions and the marketing and investments in appealing to the multitude of individual donors as costs of sales, we would have a much fairer comparison with the for-profit model.²⁵

According to the AAFRC, of the total \$241 billion of philanthropic giving in 2002, 84% was from individual donors and bequests and only 16% from institutional corporations and foundations. This 16% or \$39 billion can be considered the social capital market whereas the other \$202 billion should be considered gross sales.²⁶

²³ Cunningham, Katie and Marc Ricks, “*Why Measurement*,” Stanford Social Innovation Review, Summer 2004.

²⁴ Schervish, Paul G., “*The Modern Medici: Patterns, Motivations and Giving Strategies of the Wealthy*,” University of Southern California Nonprofit Studies Center, Los Angeles, January 2000.

²⁵ For interesting explorations of capital flows and performance in both the nonprofit and social venture arenas, see: Clark, Cathy and J. Taylor Gaillard, “*RISE Capital Market Report: The Double Bottom Line Private Equity Landscape*,” available online at: <http://www.riseproject.org>. See also: Emerson, Jed and Paul Carttar, “*Money Matters: The Structure, Operation and Challenges of Nonprofit Funding*,” The Bridgespan Group, December 2002.

²⁶ “*Giving USA 2003, The Annual Report on Philanthropy for the Year 2002*,” AAFRC Trust. See: http://www.aafrc.org/press_releases/trustreleases/charityholds.html.

There is nothing wrong with making donors feel good, but we also need to ensure that there is real social value creation underlying the marketing fizz. Increasingly, funding that comes from the head, with a focus on outcomes and impact will play an important role, even with individual giving. GuideStar, which provides basic information about nonprofits and a copy of their IRS-990 forms, is a start.²⁷ E-philanthropies such as Microaid, Netaid and GlobalGiving provide a greater degree of detail about specific organizations.²⁸ These and efforts at donor education may help to increase the differentiation between different donor segments and increase demand for accountability.²⁹

Even if we made this distinction and separated out individual donors, we would still find the social capital market inefficient since foundations and other social investors often demand a higher degree of interaction with the investments that increases the transaction costs. According to Shari Berenbach,

“Where the conventional markets value ‘anonymous’ transactions – usually those seeking a blended value want more direct communication and social feedback with the transactions they actually subsidize. The actual distribution channels of conventional securities often work against that communication and higher touch!”

A better understanding of the various sources and uses of funds in the social capital market is needed. On the supply side, we need a more fine-grained cataloging of the various types of organizations. We also need more publicly available information on the performance of these organizations. In addition, we need more information on the motivations and desires of investors. Finally, we need to manage our expectations regarding the degree to which individual donors will act upon this information, but we believe the foundation community has much to gain from initiatives in this area, and these efforts may also help to increase the use of more strategic thinking in the individual giving arena as well.

²⁷ The Form 990 is the annual information release which must be filed with the IRS by most tax-exempt organizations (501(c)(3)s and 501(c)(4)s). Churches and organizations with few assets or limited revenues are not required to file. For information on how to read and interpret the Form 990, see: http://www.npcny.org/Form_990/990.htm.

²⁸ According to an extensive report by Kellogg Foundation on E-Philanthropy, “e-philanthropy” is becoming widely used as an umbrella term for nonprofit and philanthropic online activity. In this instance, we use the term to mean online philanthropy and donor services. For more information, see the Kellogg report, available online at: http://www.actknowledgeworks.net/ephil/red_cover.

²⁹ A research initiative sponsored by the Ford Foundation, the Hewlett Foundation, the Kellogg Foundation and the Packard Foundation outlines the state of donor education and makes recommendations for strengthening donor education. See: Siegel, Dan and Jenny Yancey, “*Philanthropy’s Forgotten Resource? Engaging the Individual Donor: The State of Donor Education Today & A Leadership Agenda for the Road Ahead.*” New Visions, 2003, Available online at: <http://www.newvisions.prd>.

Development of Financial Instruments

*The Investor's Toolkit: Generating Multiple Returns through a Unified Investment Strategy*³⁰ breaks financial assets into three general capital categories and offers specific details regarding the instruments an investor may draw upon within each category, along with examples of each investment instrument. These categories include:

1. Capital that generates a blend of social and financial return, requiring a market-rate, risk-adjusted financial return
 - Proxy voting and screened market-rate investments
 - Agency debt/bond investments.
2. Capital generating a blend of social and financial return, but accepting financial returns lower than the risk-adjusted market-rate, in exchange for greater social returns
 - Social venture capital
 - Community investments
 - Community development venture capital
 - Direct lending to nonprofits.
3. Capital generating a core mission of social returns, but no financial return
 - Strategic grants.

The authors present the instruments as a continuum from “do-no-harm” investments to proactively aligned investments. They argue that investors should think of their investing as a “Unified Investment Strategy – an approach to financial asset management that maximizes not only economic performance and returns, but also social and environmental impacts.”³¹

The Toolkit is a useful framework for setting up a unified investment strategy, but there remains a key issue of the scarcity of financial instruments to support blended value activities in the second and third categories. One area that offers particular promise in adding to the array of instruments available is for nonprofits to access conventional capital markets. According to Michael Swak of New Hampshire College,

“There is not sufficient capital in the ‘social’ capital market to meet the demand for capital...Accessing conventional capital markets is very feasible and, in fact, necessary if we are going to increase the supply of capital to communities, individuals social enterprises, etc.”

Swak believes that the conventional capital market offers opportunities, particularly in the area of securitization. According to Swak, a group under the banner of Wall Street Without Walls and the Financial Innovation Roundtable have created the first “insured”

³⁰ Emerson, Jed, Timothy Freundlich and Shari Berenbach, *The Investor's Toolkit: Generating Multiple Returns Through a Unified Investment Strategy*, available for download at <http://www.blendedvalue.org>.

³¹ Ibid.

asset backed security transaction of pooled community development loans.³² He believes, however, to successfully build this market “we ultimately need to build an infrastructure of institutions that share data, common documentation and performance standards, and more.”

Calvert Foundation’s Community Investment Note is another example of a new instrument to drive more capital into the market. Calvert Foundation’s Community Investment Note currently manages \$70 million for a couple thousand individuals and small institutions specifically opting for “below market’ rates on a global portfolio of about 200 community development and social enterprises.³³

A critical challenge for many investors in emerging social ventures remains that of exits—namely how will investors be able to re-coup their investment in the future without depleting the overall capital available to such ventures? Wayne Silby, co-founder of the Calvert Group, makes the point that

“One of the main issues of blended value investors is how do they eventually get their capital out, or recycled, when the project is meeting with success...Perhaps some foundations could band together and form a type of long-term credit bank. This bank would make loans to successful blended value enterprises on a reasonably secured basis at modest rates...The borrowers would take the money to pay off their earlier investors...If such a long term credit facility were in practice, perhaps this would mobilize more early investment?”

In the Blended Value Map, a number of options are offered for creating greater liquidity within these capital markets. Such options include strategies for capital market syndication, creation of secondary markets and related general funder innovations that could leverage assets currently invested in mainstream capital investments. While these strategies offer promise, we believe the foundation community must play a more proactive role in building the necessary infrastructure and mobilizing more capital investment by creating alternative asset class offerings and pursuing ideas such as the one offered by Silby above. Indeed, as Eliot Jamison, a partner in Origo, a think tank and consultancy organization that aims to mainstream social and environmental concerns into business practices, stated,

“We are in the process of researching what mechanisms (such as guarantees or the use of subordinated capital from philanthropic investors) could unlock new capital for expansion stage loans to social enterprises in developing countries. We see substantial opportunities for foundations, international development agencies and

³² The Community Reinvestment Fund of Minneapolis has aggregated a range of loans that include small business, affordable housing and community facilities. Many of the loans were originated by CDFI. The pooled loans will be insured and a Wall Street Insurance firm will guarantee payments to investors. Thanks to Michael Swak for this information.

³³ Thanks to Tim Freundlich for this information. For more information on Calvert Foundation’s Community Investment Notes, see: <http://www.calvertfoundation.org/individual/investment/investmentnotes-index.html>.

social investment funds to collaborate in this area despite a limited history of doing so in the past.”

There are some promising explorations in the area of new financial instruments for blended value investing, however there needs to be a great deal more activity to provide the funding necessary. We believe the foundation community can play an important role in experimenting with new instruments and disseminating learning that would help to expand the market.

Intermediaries

Bill Drayton, CEO, chair and founder of Ashoka, a nonprofit that provides fellowships to social entrepreneurs, outlined the contrast between the for-profit capital market and the social capital market in a recent Alliance article,

“Business could not have succeeded as it has without the highly responsive, creative, diverse financial institutions that serve it. Angel investing developed over the last 15 years. Then there are venture capitalists, investment bankers and commercial bankers, leasing firms and other specialists, advisers and brokers, and a host of others. Some firms specialize by risk level, others by industry. Institutions evolve quickly to meet the ever-changing needs of the business sector...Little like this exists to serve social entrepreneurs, and citizen organizations more widely.”³⁴

Many of the entities Drayton describes can be called intermediaries. Intermediaries play an important role, both within the United States and internationally, in facilitating the flow of capital between investors and investees. Intermediaries can have a positive effect in making a market more efficient, particularly when value is not easily calculated.

In the social capital market, intermediaries can increase the efficiency of the relationship of social investors with investees by providing objective evaluations of the quality of investments and by aggregating investments to match the “right” capital instruments with the “right” organizations seeking capital. Intermediaries may also offer a critical link between investors and investees. As Shari Berenbach, executive director of the Calvert Foundation, observed,

“We at Calvert Foundation firmly believe that the social capital market, like any others, requires ‘market makers’ that define standards and norms, enhance transparency and promote more efficient transactions. Presently social investors...seek to establish direct financial relationships with community development and social enterprises. Yet, many direct relationships between investors and investees are intensely inefficient and prohibitively costly. The interests of both the sources and users of capital can best be served through market intermediaries.”

³⁴ Drayton, William, “*Needed: a New Social Financial Services Industry*,” Alliance, March 2004. Available online at: <http://www.allavida.org/alliance/mar04c.html>.

Alex Rossides of the Growth Philanthropy Network, and new nonprofit initiative with the goal of developing a national system to promote geographic expansion of top performing NPOs and social purpose enterprises, makes a similar point when he says,

“If one key challenge is to more efficiently match up the appropriate providers with appropriate recipients, then this may imply a much larger role for intermediaries in order to make a capital system work. In addition to playing a vital role in attracting and distributing capital from major capital aggregators to local end users, intermediaries could also play a larger and more systematic role in building the necessary infrastructure for capital to flow more efficiently (i.e. new products, channels, legal structures and collaboratives based on segmented needs.”

In addition to connecting actors within a given market, intermediaries may also play a role in regulating the market. Stephen Jordan highlighted some of the potential issues that give rise to the need for risk intermediaries capable of overseeing the market when he stated,

“I am increasingly concerned that no one is talking about the potential downside of mainstreaming this concept...Blended Value applied in the wrong hands could be a way to encourage financial institutions to...lend to sub-par markets...A related concern is that it could be used as an argument to justify sub-optimal allocation of resources...I see this discussion as a little bit of a balancing act – how do we get more resources to sub-transparent, higher perceived risk, and less-compensatory markets, without creating distortions in the larger market? In this case, maybe we need to zero in on risk intermediaries as a key part of the long-term institutional development of this field.”

Finally, the internet and related technology tools can offer a virtual platform that may help to connect disparate parts of this emerging market. The e-philanthropies mentioned earlier enable donors to access much more detailed information on their social investments with a reduced cost structure. It still remains to be seen, however, the degree to which donors will choose to use these information portals to make their philanthropic investments. Several of the best funded e-philanthropies such as Charitableway.org and SeaChange have gone out of existence. According to Jacquelyn Novogratz, CEO of Acumen, a venture philanthropy fund making investments in a portfolio of both for-profit and nonprofit organizations, made the observation that,

“There were a number of organizations that were in a pre-nascent stage: Charitableway.com, SeaChange, Helping.org and others. A lot of them crashed and burned...so, while we started as well thinking about the portal, we were lucky not to be a first mover...It certainly taught the world that people don't go to the Web to think about their philanthropic choices – at least, not yet.”³⁵

³⁵ The source of this quote is from an interview with Jacquelyn Novogratz by Sheila Bonini for a Stanford Graduate School of Business case study on Acumen Fund.

Intermediaries play an important role in the efficient functioning of a capital market, however the social capital market is sorely lacking in this area. While the internet and technology tools may help to fill the gap, there needs to be a much more significant investment in the infrastructure of the social capital market if it is to function efficiently.

Summary

For the nonprofit segment of the blended value market, the realization that funding, which comes from individual donors, as much as x% of total nonprofit funding, is not and will not be strategic creates a certain responsibility on the part of foundations and other funders with the capacity to act as strategic investors in this market. While we can hope that the advent of e-philanthropies and the increased focus on donor education will increase the efficiency and effectiveness of mainstream nonprofit funding, we should be realistic about the impact of such efforts and not expect the kinds of efficiencies we see in the for-profit capital market to evolve fully. With the creation of metrics, methods and regulatory frameworks that suit themselves more fully to nonprofit organizations, however, we have hope. The portion of the nonprofit funding equation that can be considered parallel to the for-profit capital market, that of institutional foundations, government and other large funders, has great potential to become more efficient, and we should focus our attention in this area.

To increase the practice of strategic funding and investment, we believe there are three immediate areas to focus upon if we are to create a more efficient social capital market:

- Additional research on segmentation and dissemination of information regarding both supply and demand of blended value capital,
- Increased and well documented experimentation with blended value financial instruments, and
- Expanding support of intermediaries capable of contributing to the efficient functioning of the social capital market.

Segmentation: There is a potential role for ‘information intermediaries’ potentially structured along the lines of GuideStar, but focused on providing objective information, both qualitative and quantitative, on nonprofit and social enterprise organizations. Such an intermediary would create a cataloguing which breaks down by sectors and sub sectors in order to provide comparable results. Similarly, a centralized resource which outlines the different sources of capital and what they are looking for would also benefit the efficient matching of providers and users of capital.

Financial Instruments: There needs to be a greater willingness on the part of foundations and other social investors, not only to experiment with new instruments, but to ensure the knowledge gained by these investors does not sit in isolation. We need better documentation and distribution of existing success stories as well as lessons learned from less successful experiments. Moreover, this experimentation and

documentation should cover the gamut of blended value investments, both nonprofit and for-profit.

Intermediaries: Building upon the capital market analysis already offered in a variety of articles³⁶, analyze the existing infrastructure in the social capital market to identify specific gaps where the greatest potential exists. Once some initial research lays down the foundation for building this market, funding to support the existing and new players will be the next step.

³⁶ For example, see: “*Grants Debt and Equity: The Nonprofit Capital Market and Its Malcontents*,” Emerson (1996).

Measurement and Performance Metrics

Introduction

The global discussion regarding metrics is really quite simple. All we need do is agree upon what data or indices to track, how best to track them in a cost effective manner, how to integrate this data into decision making and finally how to assign accurate valuations. The devil is, of course, in the details!

How we approach the problem is very important. If we begin by asking what is measurable, we will never get to the complete picture. Rather, we must begin by asking the more fundamental question of ‘How do we want to change the world?’ Having grappled with that, we may then begin to identify what actions will lead to the ultimate change we seek, and only then may we begin to work our way down to our specific organization or program activities as part of that bigger picture.

As we explore further the issues of assessing social value creation, there are a number of risks that should be acknowledged:

- In our efforts to be accountable and assess progress, do we risk forcing the creation of numerics that will not have the ability to reflect the true value we are creating through our work?
- Will the focus upon what is measurable force us to compromise in some way our ultimate vision or mission?
- In our rush to solve problems, do we risk leap-frogging over a meaningful discussion of theories of change and focusing more on easily tracked symptoms than the more difficult challenge of addressing root causes?

Finally, we must also ask, with regard to our specific areas of interest and activity, what parts of the theory have already been proven? What parts are truly measurable using existing tools and indices? What assumptions are we making with regard to both our goals and techniques for attaining those goals? And then, how may we best track or communicate those outcomes that are most difficult to measure, quantify and value?

Our challenge is that there is little consensus on how best to approach these questions. There is no commonly endorsed set of metrics by which to assess the performance of non-financial aspects of both organizations and investor funds. Even if we had such a metric and we could measure these non-economic indices, it does not mean we can accurately *value* what has been measured.

The Blended Value Map includes an extensive discussion of issues effecting the creation of a sound approach to metrics, such as the lack of consistently effective approaches and tools for measuring and reporting social value, the lack of consensus regarding the focus of measurement, and the problem of many peoples’ disbelief or lack of confidence in what is actually measured and then reported to external parties.

In this stage of our research, we further examined the work going on in this arena and explored ways to address these issues. The following narrative discusses:

1. The notion of advancing various metrics for different purposes
2. How we change the world: theories of change,
3. What to measure: indicators and data, and
4. How to measure: frameworks and capacity building.

Different metrics for different purposes

Many commentators, ourselves included, have bemoaned the lack of a commonly accepted set of metrics by which we might assess social value creation. There are many promising initiatives developing any number of different measures, but few common frameworks or tools that can be widely applied. Part of the problem is that these measures or tools are being used for different purposes, and we need to clarify what we are trying to achieve before we can begin to look for commonality across application. Understanding the segmentation among various types of metrics is critical to one's understanding both of their particular application and how they might fit within the larger "family of measurements." The first important distinction to be made is with regard to the purpose and audience of the measurement system.

General categories of purpose include systems for:

- Testing a 'theory of change' (often called evaluation).
- Improving management decision making.
- Making investment decisions.
- Reporting progress to external stakeholders.

Each of these is discussed below.

Systems for testing a 'theory of change' (often called evaluation)

This arena is the focus of much of the social science or experimental research presently underway. A 'theory of change' typically expresses a causal relationship to explain how an enterprise will generate social impact. At its most rigorous, control groups and experimental methodologies are used to determine the statistical certainty of a particular causal relationship. Many programs are specifically set up to test a theory of change or particular programmatic intervention, so this type of evaluation is a critical part of the program's goals. Having access to relatively objective testing of theories of change is critical for both investors and funders to evaluate the efficacy of various programs, social venture development and to inform public policy.

In many situations what is referred to as "theory of change" is a framework highlighting the causal relationship between actions, short-term outcomes and long-term outcomes. The consulting firm Bridgespan Group Inc, has a formalized process that it uses to help organizations articulate a "theory of change" in order to align goals and managerial

processes. “Theories of change” is also used to refer to evaluation of community-wide initiatives where experimental methodologies are infeasible.³⁷ ActKnowledge together with the Aspen Roundtable have developed an online tool to help organizations articulate a theory of change.³⁸ A “theory of change” used in this way is a helpful tool with a lot of similarity to the Logic Models discussed in the next category.

In the for-profit area, the relevant theories of change are often referred to as “the business case for sustainability” or other economic arguments for pursuing blended value or triple bottom line business development strategies.³⁹ A large number of studies have been conducted to test the various theories which link Corporate Social Responsibility with Financial Performance.⁴⁰ While the terminology is different, the processes for outlining and testing a theory of change are equally applicable in the nonprofit and for-profit arenas.

Once a theory has been stated, it should be embedded in the mission and strategy of an organization and serve as a roadmap for performance indicators at each relevant level (i.e. organizational, community, national, etc.). Given the importance of the theory of change, which should underlie all other areas of measurement and metrics, we will explore this topic in more depth in the next section.

Systems to improve management decision making

These metrics are typically internal to an organization or program and focus on determining how well an organization is progressing towards its goals. The purpose is to provide feedback to managers in order to improve performance. Referred to as the “social management information systems” of organizations,⁴¹ these systems focus on organizational performance and make use of such approaches as the balanced scorecard used by New Profit Inc.,⁴² or the United Way’s Outcome Measurement Resource Network.⁴³

³⁷ For further discussion of these applications, see Clark, Cathy, William Rosenzweig, David Long and Sara Olsen, “*Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures Methods Catalogue*,” available for download at <http://www.riseproject.org/reports.htm>.

³⁸ For more information, see: <http://www.theoryofchange.org/index.html>.

³⁹ For example see: Epstein, Marc and M. J. Roy, “*Making the Business Case for Sustainability: Linking Social and Environmental Actions to Financial Performance*,” *Journal of Corporate Citizenship*, 2003.

⁴⁰ For a review of studies done looking at the relationship between CSR and financial returns, see: Margolis, Jim and James P. Walsh, “*People and Profits: The Search for a Link Between a Company’s Social and Financial Performance*,” Lawrence Erlbaum Assoc., May 2001.

⁴¹ For an extensive discussion of Social MIS and accountability issues, see Emerson, Jed, “*Mutual Accountability and the Wisdom of Frank Capra*,” *Foundation News and Commentary*, March/April, 2001.

⁴² For more information on New Profit Inc., see: http://www.newprofit.com/who_network.html. For more information on the Balanced Scorecard, see: Kaplan, Robert S., and David P. Norton. *The Balanced Scorecard: Translating Strategy into Action*. Boston: HBS Press, 1996.

⁴³ For more information on United Way’s Outcome Measurement Resource Network, see: <http://national.unitedway.org/outcomes/>

A Logic Model is one such tool that has received a fair amount of attention lately, although it is still not widely used among nonprofit organizations.⁴⁴ A logic model details the inputs, activities outputs and outcomes expected from a particular organization, program or initiative. For example, a workforce development program's output might be the number of unemployed people receiving training, where the outcome would be the number of unemployed individuals getting jobs. Foundations are increasingly asking their grantees to provide information along these lines and several resources for building a logic model are available.⁴⁵

Systems for investors to make investment decisions

These metrics are for investor's to gauge the performance of investees' progress toward their goals (or investor's specific goals) and enable investor's to compare similar organizations and/or evaluate a portfolio of disparate investments. There are several examples of closed end funds, such as REDF⁴⁶ and Acumen Fund⁴⁷ and many community foundations, which track investment performance. A report by the World Economic Forum Global Leaders Tomorrow on different systems for measuring philanthropic impact separates systems into the categories of results, performance and comparative. They found that the most frequently used systems were results, where:

Inputs -> Activities -> Outputs -> Outcomes = Quantitative Results⁴⁸

In the for-profit arena, the focus is more on comparative tools such as the benchmarking practices of Business in the Community which publishes its "Top 100 Companies that Count" ranking the different corporations in terms of their impact on society and the environment.⁴⁹ Similarly, the Dow Jones Sustainability Index provides benchmarks for sustainability that enables investors to compare diverse investment alternatives.⁵⁰

⁴⁴ Interviews by Shirley Sagawa regarding logic models and outcome measures found that fewer than 10% of nonprofits can complete a logic model.

⁴⁵ For example, Hewlett Foundation asks grantees to describe their objectives and provide a logic model or workplan to achieve them. See the Hewlett Foundation website at: <http://www.hewlett.org/AboutUs/> for more information. For a useful guide on preparing a logic model, see the Kellogg Foundation's Logic Model Development Guide at: <http://www.wkkf.org/Pubs/Tools/Evaluation/Pub3669.pdf>. See also Innovation Network's online Logic Model builder at: <http://www.innonet.org/tools/logic>.

⁴⁶ For more information of REDF's Social Return on Investment model, see: http://www.redf.org/pub_sroi.htm.

⁴⁷ Acumen Fund worked with the consulting firm McKinsey and Company to develop their "dashboard" approach to performance measurement. See: http://www.acumenfund.org/portfolios/measurement_indicators_1.html.

⁴⁸ World Economic Forum Global Leaders Tomorrow Benchmarking Philanthropy Report: "Philanthropy Measures Up," January 2003. Available online at: [http://www.weforum.org/site/homepublic.nsf/Content/Global+Leaders+for+Tomorrow+\(GLTs\)%5CGLT+Activities](http://www.weforum.org/site/homepublic.nsf/Content/Global+Leaders+for+Tomorrow+(GLTs)%5CGLT+Activities).

⁴⁹ For more information, see: <http://www.google.com/search?hl=en&lr=&ie=UTF-8&q=Business+In+the+Community+Benchmarking>.

⁵⁰ For more information, see: <http://www.sustainability-indexes.com/>.

Systems for reporting progress to external stakeholders

These metric systems are used for communicating with stakeholders and ensuring general organizational accountability. GuideStar, ACCESS, SustainAbility, AccountAbility and various other frameworks for reporting on triple bottom-line performance would all fall under this category. In addition, organizational reporting systems for nonprofit and for-profit corporations are also available.⁵¹

While these categories may seem clear, most measurement systems are not exclusively one or the other. In fact, there should be a good deal of overlap between the various types of systems listed above. For example, the approach to metrics for management decision-making and that used for reporting progress toward a given social goal might share several features in common. That being said, it is important in managing expectations for a measurement system to be clear regarding the intended goal and audience as not all systems will be useful to all audiences.

Metrics which are useful for decision-making within an organization or program are not necessarily useful for investors or for reporting purposes to external stakeholders. Rick Aubry, Executive Director of Rubicon Programs (a social enterprise with the goal of creating successful and sustainable ways to serve homeless people, the working (or currently not working) poor and disabled folks), highlighted the issue when discussing Rubicon's own system of performance tracking and measurement,

“The metrics, which are crucial and need to be worked on, are still too far behind the reality of capturing the value people are creating and are still too highly discounted as tools of value. We have spent several years at Rubicon building one of the best measurement systems around, and its value is primarily internal: it helps us measure what works best and do our jobs better. It is of limited value in convincing anyone to fund one project over another.”

Often it is not clear which purpose the particular measurement system or indicator is meant to apply. Eric Weaver, Executive Director of Lenders for Community Development in San Jose, stated that, “As a practitioner, I get scared by the idea of funders and investors continually ramping up their demands for data from us – especially if they each ask for different data in a different format.”

Funders of all types need to realize this and be aware of the demands they make on investees for data. Ruth Norris of Skoll Foundation summed up the issue succinctly,

“What donors need to measure impact of large portfolios and what program implementers need to help them be more effective in their work is different, and expecting implementers to bear the burden of managing the data to achieve both is not realistic.”

⁵¹ Please see the Blended Value Map for these and other specific examples.

Having unclear goals or poorly defined target audience for a measurement system can lead to a great deal of work by those inside and outside a given organization and result in the creation of a reporting system that is of little value to anyone. This issue is made all the more complicated because accountability, while important to funders and other external stakeholders, may not necessarily be key to improving organizational effectiveness or performance. Therefore managers of social ventures or large corporations being asked to report on social and environmental performance could find themselves being asked to track information they view as irrelevant to their own challenges or information requirements.

Regular reporting that enables outside parties to verify an organization's accountability should not be confused with measuring outcomes. If we thought of the issue along the lines of Maslow's hierarchy of needs, the most basic level of accountability could be thought of as simply an organization's complying with legal/tax and other regulations—with each subsequent information need of managers and investors stacking up upon that most fundamental reporting requirement.

In sum, it is vitally important to determine the appropriate audience and goal for any measurement system before selecting an appropriate framework and defining the necessary data upon which it would be based.

How We Change the World: Theories of Change

When data is being used to prove an underlying theory of change versus assessing organizational performance, the requirements are often more stringent and demanding on practitioners. Sara Olsen, Cathy Clark, Will Rosenzweig and David Long, who worked together on the Rockefeller Foundation's Double Bottom Line Project came up with a framework which breaks out five stages of impact assessment according to credibility.⁵² At the highest level you have 'proven impact' where a third party proves an underlying theory, conducting research with the strongest experimental design standards.

According to Olsen, "One can use research results from situations similar to the situation one is trying to assess as 'proxy' data...this technique is far more feasible than performing original experiments, and it can increase the credibility of one's social impact assessment as long as the proxies are highly relevant, transferable and credible in and of themselves." Weaver points out the efficacy of Olsen's approach,

"Selecting high-performing social enterprises and contracting with them to do 'Cadillac' data collection is a great idea, but the reason for doing it would be to prove a certain concept, for example, 'Individual Development Accounts, if delivered in such and such a way help low-income people move out of poverty'...At some point, after the efficacy of a program has been shown, future practitioners shouldn't be held to the Cadillac data collection standard."

⁵² "The Double Bottom Line Methods Catalog," available for download at: <http://www.riseproject.org/reports.htm>.

However, caution should be used in using “proxy” data. Norris warns that, “The concepts involved in measuring social return are variable across languages and cultures. The theories of change by which achievement of intermediate results can be assumed with some level of confidence to lead to identified impacts are not sufficiently well developed and monitored.”

Dean Karlan, a professor at Princeton University and president and founder of Innovations for Poverty Action, an organization using experimental methodologies to measure impact of poverty programs, warns that we should make a distinction between what is needed by an organization to self-evaluate versus the level of credibility of impact assessment for policymakers, donors or investors. He says that many organizations cannot go to the highest level, “But policymakers should. The risk of funding bad ideas is too high, and I see no reason to accept anything less when we are talking about how to spend billions of dollars, and how to solve some of the biggest problems.”

A report by Grantmakers for Effective Organizations echoes this sentiment. According to Judith M. Gueron, president of Manpower Demonstration Research Corporation,

“Showing a return on grant investments is not the only reason – or even the most important reason – why grantmakers should engage in rigorous measurement and evaluation...Rather, grantmakers need information on the impact of their investments in order to demonstrate to policy makers and others what works – and what does not – to address the problems facing society.”⁵³

Within specific areas, people are knowledgeable about the relevant theories of change and know what degree of confidence they should have regarding their efficacy. To the outsider, however, the landscape can seem confusing and murky and, as Norris put it, “we default toward the persuasive if we can’t get the known.” There is a need for tools that would enable us to learn about relevant theories of change outside our specific sector or silo.

Moreover, in some areas, there is considerable debate and disagreement about the appropriate theories of change. As Mario Marino, Chairman of Venture Philanthropy Partners, put it: “As we consider education, out-of-school learning, youth development, human services, etc., there are many ‘theories of change’ for what works, but certainly much less than agreement in the field.”

Finally, some elements of social value may be extremely difficult or even beyond measurement. And we need to be clear when money and efforts should not be spent on evaluation. According to Ruth Brousseau of the California Wellness Foundation, the scientific method they used to evaluate grants was not matched to the community programs they funded. “The controlled experimentation typical of academic evaluation was virtually impossible – and often undesirable – in the community settings where the

⁵³ “Aligning for Results,” National Conference Report, Grantmakers for Effective Organizations, available online at the GEO website at: <http://www.geofunders.org> .

Foundation made grants. As a result, the knowledge gained from these evaluations was often small in comparison to their costs.”⁵⁴

There are several different levels of “proof” or credibility of a theory of change and it is important to understand the reliability of the underlying research. While funders and policymakers should demand the highest level of proof, it is also important to understand the data requirements for such proof and the resulting burden placed upon practitioners. In general, there needs to be an increased awareness regarding the theories of change in a particular area, as well as the debate regarding their relevance. Finally, we also need to understand the practical limitations of evaluation.

What to Measure: Indicators and Data

Determining what data to track is almost by definition controversial. It makes a big difference if the group that is deciding which measures to use is perceived as “top down” (for example, coming from a governmental agency) or through “grass roots”, civic or related community and citizen groups. Consequently, determining who should be at the table during discussions of what metrics are appropriate for a given industry or program can raise shackles with efforts like the Key National Indicators Initiative, a public-private effort to develop indicators with economic, social and environmental components.⁵⁵ In deciding what to measure, the use of external opinions and audits to determine what is relevant should also be considered.

An important factor in determining appropriate indicators is the level of outcome to be tracked. The Environmental Protection Agency’s Draft Report on the Environment 2003 gives a good description,

“Environmental and human health indicators focus on outcomes – actual environmental results, such as cleaner air and water or improved human health or ecosystem condition – rather than on administrative actions, such as the number of permits issued...While administrative measures (of performance) track which actions have been taken, they don’t tell us whether those actions actually improved the environment or human health.”⁵⁶

The report gives good examples of administrative measures, such as regulations and responses to regulations, as well as presenting a hierarchy of environmental measures which range from changes in pressure or stressor quantities on up to ultimate impacts in terms of changes in human health or ecological condition. Not only do we need to understand our ability to affect outcomes at different levels but we also need to ensure

⁵⁴ The paper is available online at http://www.tcwf.org/reflections/mar_2004.htm. Thanks to Cynthia Gair of REDF for this reference.

⁵⁵ See <http://www.keyindicators.org> for more information. Thanks to Paul Epstein of Epstein & Fass Associates for this reference.

⁵⁶ See <http://epa.gov/indicators/roe/html/roePDF.htm> to download a copy of the report. See also <http://epa.gov/indicators/abouteii.htm> for more information about the EPA’s Environmental Indicators Initiative.

that the goals or objectives we are trying to measure match the level of outcome being tracked.

This has implications for understanding how our indicators relate to broader goals. According to Paul Epstein Principal at Epstein & Fass Associates, a firm that designs performance measurement and improvement strategies,

“As programs have different designs and ‘theories of change,’ and communities have different values and priorities, specific outcome indicators and goals will vary from program to program and community to community. But you can still end up relating them to a larger ‘global value’ if people think beyond their immediate silos and make a conscious effort to align the outcomes they aim for with larger community, regional, and global outcomes.”

It is also evident that different indicators should be considered for different levels of application. For example, there are a family of indicators for relative “well being” at the individual, family, organization, community and regional levels. Consideration should also be given to whether the indicators are to be used at the micro, individual programmatic level or the macro, community/regional/societal level.⁵⁷

Within specific sectors, such as housing, education and workforce development, there are concrete metrics which raises the possibility of standardization. However, Peter Tavernise, Senior Manager for Corporate Philanthropy and Senior Program Officer for the Cisco Systems Foundation, notes that currently we don’t have the measures and indicators that we need to “make the case convincingly enough to transform the way people fundamentally conceive of markets and returns.” According to Tavernise, the good news is that Cisco Systems and the Cisco Systems Foundation are currently working with a group of NPO and for-profit partners to begin to map these indicators for their grantees. He says,

“Once we begin aggregating and comparing measurements (by issue area, size of NPO, scope of services, type of constituency served) we can begin to see what are useful metrics. Given that we have technology available that did not exist as econometrics was evolving, the sector should arrive at some useful metrics sets for blended value, and social impact specifically, in far less than 50 years.”

While the Cisco initiative is promising, many felt it premature to standardize social performance indicators, but did accept the notion that various concepts, frameworks and related practices could benefit from standardization. The Government Accounting Standards Board, for example, has backed away from using standardized performance

⁵⁷ A full discussion of these issues is beyond the scope of this document, however, the Blended Value Map includes a host of references offering deeper discussion of this critical question.

measures to report common state and local services and is moving towards “Suggested Criteria” for good reporting.⁵⁸

In sum, determining what to measure is vitally important but controversial. Ensuring the appropriate stakeholders are at the table when deciding what to track is necessary. We also need to determine the appropriate level of outcome and ensure that it matches with our goals. Finally, while there is potential for standardization of indicators, many felt the focus should be more on standardizing frameworks and methodologies.

How to Measure: Frameworks and Capacity Building

Progress toward standardized frameworks has been patchy although there are several initiatives that offer promise. As mentioned earlier, logic models and the balanced scorecard are two such frameworks which are gaining adoption for use in developing systems for improving management decision making.

There is less clarity on frameworks for other measurement systems, however there are some promising initiatives. In several areas it is possible to catalogue and collect the frameworks in use and begin to build a unified standard and future research should focus on this priority.

Tools such as B2P’s ImpactManager™ enable funders or other intermediary organizations to track the performance of grantees, affiliates or chapters.⁵⁹ The online tool helps to set outcomes and measures, track performance and report results. Several closed-end funds such as Acumen Fund, Provenex and REDF also have developed frameworks for tracking investee performance.⁶⁰

The Double Bottom Line Project Report catalogues nine different methods for evaluating the social outcomes or impact of a company or nonprofit organization. In choosing the examples, they looked for “funders that attempt to document, define and report on the non-financial performance of their activities.” Each of these is evaluated in terms of the resources required and potential pitfalls. The authors also developed their own recommendations for using a blend of the methodologies.⁶¹

ACCESS is an initiative that aims to create a reporting standard framework for nonprofit organizations seeking to produce social, environmental and, increasingly, financial returns. ACCESS aims, through a process of stakeholder engagement, to create a framework for reporting that will serve as a common informational basis for understanding nonprofit performance. The ACCESS team believes that using their framework will lead to improved reporting which will in turn lead to improved internal

⁵⁸ See <http://www.gasb.org/> for more information on and publications by GASB. See also <http://seagov.org> for a Special Report with GASB’s current Suggested Criteria. Thanks to Paul Epstein of Epstein & Fass for this reference.

⁵⁹ See http://www.b2p.com/solutions_impactmgr.html for more information.

⁶⁰ See the Blended Value Map and the Annotated Bibliography for a discussion of each of these.

⁶¹ “*The Double Bottom Line Methods Catalog*,” available for download at: <http://www.riseproject.org/reports.htm>.

performance by providing a real-time feedback mechanism, increased accountability with improvements in transparency and, ultimately, an increase in the quality of quantity of social investing.⁶²

An international working group is drafting a framework document and an online primer for Social Return on Investment analysis, drawing upon a number of existing frameworks and models. The framework utilizes a logic model format for outlining social outcomes, describes how to allocate revenues and costs and covers monetization of outcomes and valuation in a discounted cash flow model. While using the framework will not necessarily lead to easily comparable results, the group hopes that the framework will lay the groundwork for such future standardization.⁶³

Even if we can create standardized frameworks and methodologies, the kind of analysis or output of these systems will not necessarily be standardized. According to Stephen Jordan, Executive Director of the US Chamber of Commerce Center for Corporate Citizenship, “It only makes sense to have multiple decision tools, because individual investors are going to have different investment parameters and social objectives that they want to achieve, and there is no single currency or silver bullet metric to capture all of it.”

Our lack of ability to capture all of it, however, may have more to do with a lack of capacity to track and use high quality data on the part of practitioners and funders than anything else. According to the Independent Sector, the issues for nonprofits are both mindset and capacity. An Independent Sector report stated, “By far the most frequently cited challenge (to measurement and evaluation) identified by religious congregations and nonprofit organizations was that some accomplishments and results are intangible and therefore not easily measured.” The report also stated that, “Many of the challenges cited by organizations trying to measure their results were capacity issues that could be resolved if funding were available.”⁶⁴

A recent report by Grantmakers for Effective Organizations outlines some of the challenges that grantmakers face in measuring impact. According to Jason Saul, co-founder of the Center for What Works, there are three major challenges. The first is that foundations are good at doing due diligence and evaluating grant applications on the front-end, “but they don’t do the backend pieces well, such as measuring outcomes, reporting, stating results, sharing best practices and spreading learning to the field.” Secondly, Saul points out that foundations have not found effective ways for foundations to measure grantee performance. Finally, their reporting does not focus on “aggregate

⁶² See: <http://www.greenleaf-publishing.com/pdfs/af02bonb.pdf> for a description of ACCESS.

⁶³ The working group consists of the authors, Stephanie Robertson of the London Business School, Jeremy Nicholls of the New Economic Foundation, Sara Olsen of SVT Consulting, Peter Scholten of De Omslag, Betsy Bieman of Rockefeller Foundation and Robert Tolmach of Glasses for Humanity. For more information, contact Sara Olsen at sara@svtconsulting.com.

⁶⁴ Wiener, Susan J., Arthur D. Kirsch, Michael T. McCormack, “Balancing the Scales: Measuring the Roles and Contributions of Nonprofit Organizations and Religious Congregations,” Independent Sector, 2002. To order a copy of the report, see <http://www.independentsector.org>.

overall portfolio impact,” or looking at the value of the collective portfolio versus the sum of the individual grants.⁶⁵

Beyond deciding what data or indicators to track, there are several practical considerations for how to go about tracking them. Cynthia Gair, Portfolio Director of REDF, points out the importance of understanding the feasibility/cost versus data quality tradeoffs. “At REDF, we’ve stretched ourselves to acquire high quality data and have inevitably encountered and dealt with feasibility and practicality issues.”

Mario Marino, Chairman of Venture Philanthropy Partners, makes a similar point, stating:

“In some nonprofit sub sectors, getting the right information on performance and accountability is certainly feasible, but in others we run the risk of implementing great-looking systems that may not have the required ‘information integrity and relevance’ to support effective decision-making.”

Jim Fruchterman, founder of Benetech, a 15 year old technology social enterprise organization, points out that while ultimate outcome measures can be problematic, tracking organizational progress towards program goals should not be so challenging,

“It’s hard to attach a financial return analysis to helping a truth commission grapple with the aftermath of a civil war, or providing a women’s rights group with more effective tools to advocate for change and justice. But, it is clear that a well-run project can come up with the internal management metrics to measure success.”

The choice of what to measure and how we measure it determines success or failure. Many nonprofits, however, do not have the capacity to gather and use high quality data. According to Fay Twersky, of BTW Consultants,

“The best theoretical framework and standards will be meaningless if the information that goes into that framework is lousy. To the extent that any of our standards will require gathering data from people and organizations, people and organizations will need to become much more skilled and have more resources to devote to gathering, and using, high quality data.”

As Ruth Norris of the Skoll Foundation observed,

“Efforts to consolidate and standardize indicators go back at least a decade, and there was an intense investment in this kind of work in the early 1990’s...Now, after more than a decade and many millions of dollars, not to mention the contributions of the best thinkers in the field, why isn’t this work more advanced?”

⁶⁵ “Aligning for Results,” National Conference Report, Grantmakers for Effective Organizations, available online at the GEO website at: <http://www.geofunders.org> .

Norris believes that progress in advancing metrics should focus less on the development and standardization of metrics, and more on the internal development of a “culture of evaluation and learning.” Norris believes that focus for investment should be on:

- 1) Enabling organizations to develop theories of change and attendant benchmarks and means of testing assumptions.
- 2) Supporting organizations in working effectively with data in planning and decision processes, including skills in knowing what is ‘out there’ and how to use externally generated data.
- 3) Sharing of data and lessons learned from the application of indicators.

There are a number of promising initiatives working at standardizing frameworks for evaluating social impact which could lay the groundwork for future standardization of methodologies. However, without investment to build the necessary systems and, more importantly, to build capacity and share learning, no efforts at standardization will be fruitful. As summarized succinctly by Fay Twersky, “Standards will be useful, and then coaching and training on how to meet those standards and optimize the use of the information will be critical.”

Summary

In our follow-up discussions with participants in the Blended Value Map process, we found a general consensus that we could each advance our own efforts by joining together in the following four tasks:

- Building capacity for measurement,
- Taking responsibility for testing theories of change,
- Standardization of frameworks/methodologies, and
- Building knowledge centers.

Build Capacity for Measurement: Many organizations do not have the necessary capacity to develop and clearly enunciate their underlying theory regarding the activities in which they are engaged, let alone define and track high quality data related to those activities. Foundation and other investor support to assist in building this capacity is vital. Investors, regardless of type, should also provide resources to managers of both nonprofit and for-profit ventures to support this effort. If the demand for accountability is made, yet to provision for creating meaningful information systems is not, whatever data and indicators are presented to outside stakeholders will be hollow.

Responsibility for Testing Theories of Change: To a certain extent, everybody should be concerned about the validity of the underlying theory of change they are working within. There was consensus among our participants, however, that responsibility for testing a theory of change should fall on foundations, academics, government and other international organizations like the World Bank, leaving front-line organizations with the responsibility of managing their effectiveness of getting to intermediate outcomes. This

“division of labor” has implications not only for the focus of activities, but for funding as well.

Standardization of frameworks/methodologies: While it may be premature to define standards for data, standardizing frameworks and methodologies across various industry and organizational groups is a more promising goal. For example, a good deal of work regarding logic models indicates many of those in the field are beginning to use a standard format and framework. Similar processes for developing common approaches to evaluation of organizational performance, investor returns and external reporting should also be considered.

Knowledge Centers: An international network of regional repositories for data, theories of change and related areas of interest should be created in order to facilitate better knowledge sharing across and between silos. A coordinated effort on the part of the foundation community to centralize their performance measurement knowledge and data sets could be a first step in creating such repositories. Combining this with relevant academic, government and corporate sources would be a phenomenal achievement for the field and help ensure that we don’t collectively “re-invent the wheel” in our enthusiasm to experiment and test “new” ideas. The foundation community can help to create the proper incentives for information aggregation and knowledge sharing so we can move away from the fragmented nature of today’s knowledge management towards integrated knowledge centers.

Policy

Introduction

While there is significant debate regarding the degree to which governmental entities should intervene within markets and their overall role in society, the fact remains that governmental regulations, policies and tax code have a significant (perhaps primary) effect upon the degree to which market forces are allowed to work to create blended value. The impact of CRA and various tax credits such as the Low-Income Housing Tax Credit have had significant implications for funding in these areas. In the for-profit arena the business case may have been convincingly made for companies and their investors but many among the mainstream corporate and stakeholder communities predict it will be the stick and not the carrot that will get publicly traded firms to act on social and environmental issues.

Lobbying and advocacy can have a significant impact, however many philanthropies shy away from these activities. We recognize that these activities are potentially controversial and political, however because of the significant potential returns from these activities, we believe that they should be an important part of a blended value strategy. The authors of a recent article in Alliance magazine point to examples of successful efforts such as the lobbying for improvements in AmeriCorps, Campaign for Fiscal Equity and Children's Rights to demonstrate internal rates of return of several hundred percent on investment in lobbying and advocacy. While not all lobbying efforts will be this successful, we agree with their conclusion that, "If donors leave these tactics aside, or don't provide appropriate resources to enable charities to pursue them, even outstanding social service organizations will never do more than ameliorate a bad situation."⁶⁶

In the Blended Value Map we discussed this critical role of government, the challenges of lobbying, the issue of tax, regulatory and other policy initiatives that undermine efforts to pursue full, blended value and the need for a common advocacy agenda that supports sustainable investing and the development of blended value organizations.

In this section, based upon our more recent work and discussions, we address the issue of the non-profit versus for-profit divide, the need for a policy focus and lessons regarding collaboration in the policy area.

Non-profit – for-profit divide

Many participants commented on the blurring of the distinction between for-profit and nonprofit in the social enterprise arena. As discussed earlier in this paper, these organizations face challenges in raising capital and among some circles there is a lively debate taking place with regard to the potential for creating a new 'hybrid' legal structure which would be neither for-profit nor nonprofit, but have aspects of each. Such a

⁶⁶ Scott, Jason and Neil Carlson, "Who's Afraid of Returns," Alliance, Volume 8 Number 3, September 2003.

structure, sometimes called a ‘for-benefit’ organization, would have the benefit of providing clarity for investors and enabling the development of new financial instruments.

According to Heerad Sabeti whose organization, Fourth Sector Network, focuses on for-benefit or fourth sector organizations,

“While there are numerous examples to the contrary, I think, more often than not, the reality is that voluntary adoption of socially and environmentally responsible practices create competitive disadvantages for commercial firms. Similarly, many non-profits that venture into the market find themselves disconnected from the supportive infrastructure (like traditional sources of capital) of their sector. To break past these obstacles, and for CSR, sustainability, or social enterprise to truly realize their intended aims, I think we need to move beyond just strategic and tactical responses. Change also needs to happen at both the organizational structure and ecosystem levels.”

Michael Shuman, author of *Going Local*, made a similar point saying,

“The entire nonprofit infrastructure in this country needs to be rethought, from the ground up. The foregoing of profit, in my view, bears little relationship with the social virtues of an enterprise. And there’s a very good argument that many of the attributes of typical nonprofits – heavy reporting requirements, self-reappointing boards, poor access to capital, awful labor standards (in the name of the public interest) – make them lousy vehicles for social change...I think we need to rethink the structure of do-good enterprises. Personally, I favor the creation of community corporations – for-profit structures owned exclusively by residents of a community.”

The idea of creating a new corporate structure is not one to which all subscribe. According to Jim Fruchterman, the issue of hybrid organizations was brought up at the Social enterprise Alliance (<http://www.se-alliance.org>) an organization representing nonprofits that run business enterprises. Fruchterman did not believe that there was much support for a new nonprofit status, but said, “There’s a shared interest in keeping the IRS from clamping down on mission-related earned income ventures...As long as you get a reasonable hearing from the IRS, and your earned income venture is mission related, you are likely to fit under 501(c)(3).”

Jim Salmons and Timlynn Bibitsky, co-founders and research directors of Sohodojo, an independent, nonprofit R&D lab supporting solo and family-based entrepreneurs in rural and distressed urban communities, made a different argument against a new structure:

“We believe that the effort to define and mainstream a ‘hybrid’ organization is unnecessary and impractical...You can get exactly the hybrid combination of

structure and function that you want by creatively composing a network enterprise.”⁶⁷

They further observed that developing the hybrid corporate structure would be impractical not only because there is not enough coherence in the community of interest to sufficiently define and structure the organization, but also because of the laundry list of action items that would need to be accomplished. Such actions would include engaging both houses of Congress to change the Federal tax code, lobbying legislatures on a state by state basis to amend incorporation laws, influencing the Financial Accounting Standards Board (FASB), not to mention the re-education of accountants, lawyers and other support services as well as capital sources.

Aron Goldman, head of Policy Development, a nonprofit public policy and capacity-building consulting group, notes that with hospitals and credit unions the difference between nonprofits and for-profits is blurred. He believes that as organizations innovate, the tax law breaks down. He says,

“There will always be a need to crack down on illegitimate organizations, but there are a lot of great things happening that won’t survive the United States’ old-fashioned tax code...Our challenge is to find ways to adapt policy to enable these promising movements and expect more of nonprofits, not less.”

Whether one advocates the creation of new corporate structures or not, the key point is that regardless of specific corporate structure, all organizations generate a blend of value. We must remember that the corporate structure is itself simply a means to an end. That being said, there is obviously a great deal of debate in this area and more research needs to be done to better understand the real legal challenges facing blended value organizations in order to make strides to overcome them.

Policy Focus

As Stephen Jordan aptly pointed out, “Almost every policy affects blended value creation because every policy reflects choices about resources – their use, allocation, deployment, commitment, etc.” This ubiquity creates a challenge to achieving the focus necessary for coordinated action among the various actors pursuing blended value. Not only are there a multitude of issue areas to choose from, there are many different points to enter the policy process as well as different ways of influencing that process. Conducting relevant research, sponsoring or conducting education campaigns, lobbying and supporting advocacy groups are all means to influence the policy making process. Achieving a common advocacy agenda to promote blended value requires not only agreement around the issue but also consensus with regard to specific tactics to be employed to achieve the desired results.

⁶⁷ For more information on network enterprise organization model, see the Sohodojo website at: <http://sohodojo.com>.

David Bell, Director of York Centre for Applied Sustainability, lays out a useful framework for understanding the relevant policy levers in his paper “The Role of Government in Advancing Corporate Sustainability.”⁶⁸ According to Bell, there are five categories of policy levers that governments can use to promote sustainability. These include:

1. Rebalancing the roles of government and public enterprise (including public-private partnerships, outsourcing, etc.),
2. Direct regulation,
3. Market instruments and economic/fiscal measures (including subsidies, taxes, public procurement policies, ecolabelling, etc.),
4. Voluntary/non voluntary initiatives,
5. Education/persuasion/information for decision making (including reporting, goal-setting, etc.).

Determining the potential impact of each of these levers and how they work together will require additional research. Furthermore, any or all of these levers can be the focus of a collaborative policy initiative. In our Blended Value meetings, both on-line and in real time, there was very little discussion of rebalancing the role of government, although it is perhaps an area that deserves greater attention.

In general, participants also shied away from direct regulation as it is often too blunt an instrument, although it may be necessary in certain circumstances. For example, Ann Wrixon of the Institute of Computer Technology agrees that legislation and regulation to ‘level the playing field’ has potential benefits, but points out a potential downside as well,

“The Clean Water Act and Clean Air Act seem like great examples of leveling the playing field. My concern is that, in my experience, this did not set up blended values...Corporations affected resisted the regulation (and continue to resist whenever it is up for renewal) even though it leveled the marketplace playing field by placing heavy penalties on those companies who did not protect the environment...I think we need to find economic value that shareholders would agree is real...so that it doesn’t appear that social value conflicts with economic interests.”

On the other hand, and in contrast to direct regulation, it would seem that market-based instruments appeal to many. The effects of the Community Reinvestment Act, Green House Gas Trading and other efforts have been lauded by many and show real promise to creating market-oriented interventions that are economically viable. However, Aron Goldman warns, “Tax credits seem more market friendly and less expensive for taxpayers, but they are really just politically acceptable ways to transfer public

⁶⁸ Bell, David V. J., “*The Role of Government in Advancing Corporate Sustainability*,” A Background Paper prepared by the Sustainable Enterprise Academy, York University under contract to Environment Canada for the G8 Environmental Futures Forum (EFF) in Vancouver, March 2002. Available for download at: <http://www.g7.utoronto.ca/scholar/2002/bell11062002.pdf>.

dollars...Perhaps understanding tax credits as another form of subsidy will help us track our social return on investment and target the issues we care about most.”

Alison Wise of Sea Change Sustainable Business Interest Group, believes that the kind of legislation we need to focus on, “is not command-and-control regulation, but innovative policies that use market forces to propel better decision-making.” Mario Marino, Chairman of Venture Philanthropy Partners, agreed, commenting that innovative policies can act as a catalyst for broader change:

“The low-income housing tax credit has been a big assist to the innovation in capital formation and financing in the nonprofit housing sub sector. Similarly, a change to pension fund legislation that opened up funding that flowed to venture capital firms in the late 1980’s and 1990’s and changed the amount of money available to this part of the capital market. And, going way back to something as galvanizing as the GI-Bill, which not only encouraged veterans to gain a college education, but spurred housing construction, purchasing and home-owning for generations, has had lasting impact.”

From our research, transparency and accountability surfaced as the most frequent themes, suggesting that the most promising initiatives to focus on initially would be the fourth and fifth categories of voluntary compliance programs and initiatives targeting general education/persuasion.

Increased transparency and accountability can be pursued along several avenues which include efforts to increase transparency and information regarding current policies, greater transparency and information in the reporting of sustainable practices by for-profit, nonprofit and government organizations, and efforts to improve governance.

Bell’s paper outlines sustainability policy trends in G8 countries. Greater exploration of these trends and more detail on comparative policies across different countries would help to pinpoint specific gaps or opportunities for coordinated action. Additionally, more detailed information about policies could give substance to arguments such as Michael Shuman’s that, “subsidy policies at all levels favor (probably by a factor of 99-to-1) large, non-local businesses (of all stripes) over small, community-rooted businesses, which has the effect of disabling civil society’s creative activities.” Ernie Ting, a management consultant and facilitator, focusing on strategic planning, financial management and innovative policy development, made a similar point stating that,

“Almost all large business markets are already substantially ‘tilted’ one way or another by imperfect competitive conditions and the patchwork of existing tax, fiscal and regulatory policies. Reflecting those conditions, all business strategies then flow ‘downhill’ to seek growth, greater profits and enhanced returns on investment. If you are able to alter the tilt of the table – even a little – by incorporating blended value interests in public policies, you can get a huge impact on the conduct of business actors and make it much easier to get their attention to social objectives and measures.”

More clear information and discussions with regard to the degree to which tax and regulatory structures favor large business over small or the implications of this ‘tilt’ would better enable the building of a coherent policy agenda. Stephen Jordan of the US Chamber of Commerce CCC outlined five key areas that should be analyzed,

1. Market structuring – e.g. pollution tax credits, bandwidth auctions, etc.
2. Market governance – e.g. SEC establishment, Sarbanes-Oxley modifications, etc.
3. Market subsidies and externality management – e.g. AID funding, HUD funding, etc.
4. Market information tools – e.g. IRS Form 990s, Annual Reports, etc.
5. Market operations and regulatory structures. – e.g. OSHA, EEOC, etc.

There is a need to focus on the development and promotion of policies geared toward increased information and accountability of sustainable practices. This translates to some kind of standardization of reporting, for both for-profit and non-profit organizations, as well as for governmental entities and departments. Reporting initiatives bring more information for policymakers to ensure sound decision-making.

Susan Frank, Vice President for Public Policy at the Steven and Michele Kirsch Foundation, says, “I do think reporting initiatives can be used to bring about important policy changes and result in sound decision-making.” Frank points out that the Coalition for Environmentally Responsible Economies (CERES) with their Global Reporting Initiative has had success in informing and making change, particularly at the federal government level.⁶⁹

Building upon our previous discussion in the Metrics Section of this paper regarding data and indicators, the issue of appropriate indicators for policy decision-making is both important and controversial. A calculation of Gross Domestic Product (GDP) has been the default scorecard for a nation’s health, but increasingly there is an awareness that we need to take into account social and environmental factors in order to weigh our society’s progress against a more meaningful, blended scorecard. One such effort is the Genuine Progress Indicator (GPI) which has been promoted by Redefining Progress, an organization working to shift public policy towards sustainability. The GPI takes into account a variety of social and environmental factors in addition to economic one.⁷⁰

While recent years have seen a great deal of work done in addressing the challenge of nonprofit performance at the organizational level, Lester Salamon, Director of the Center for Civil Society at Johns Hopkins Institute for Policy Studies, has focused his efforts upon the sector as a whole, as it is emerging in nations around the globe. His efforts to

⁶⁹ See http://www.ceres.org/our_work/gri.htm for more information.

⁷⁰ See: <http://www.redefiningprogress.org/projects/gpi/> for more information.

advance international “charts of accounts” by which governmental, nonprofit and business leaders may assess the contribution value of the nonprofit sector within any given nation has helped create a broad based framework within which to assess the value of social impacts of nonprofit organizations.⁷¹ According to Salamon,

“Civil society is too important to operate any longer in the dark. Hopefully, by indexing its progress from place to place and over time in a coherent and reliable way, we can focus more attention on its status and encourage its development.”⁷²

As these systems become more routine, their core metrics may be applied within the for-profit sector as well to assist in analyzing the social value generated within a given country in the same way we presently calculate Gross Domestic Product.

According to Alison Wise, executive director of Sea Change Sustainable Interest Group, a nonprofit 501c-6 organized to lobby on behalf of policies that will give sustainable business a competitive advantage, “We have a unique opportunity to re-think the way we craft legislation at this fulcrum between a fossil fuel economy and perhaps a future, more sustainable economy...In thinking about the terms of play, we have to make sure we have the right rules, and this would also assume the right scorecard.” With regard to the importance of how we constitute a societal scorecard, Wise also makes the point that,

“Metrics that can be applied to processes that are ‘upstream’ as opposed to just measuring downstream outcomes would be potentially exponential in their capture of good information and, in turn, changes that could be made. Measuring or surveying decision-making policies at corporations and government instead of just the outcome of those decisions is an example.”

Whether this is achieved by regulation or voluntary/non regulatory initiatives is yet to be determined, but the area is certainly promising for cross-silo collaboration.

A related area of interest is that of governance. In the post-Enron/Tyco/World-com era, public statements of CEO commitments to good governance have become the “flavor of the month.” Aron Goldman, head of Policy Development, a nonprofit public policy and capacity-building consulting group, commented,

“At the moment, both the for-profit and the nonprofit worlds have low credibility when it comes to governance. Let’s take advantage of this moment to help fill this intellectual vacuum. I urge us to retain a balanced of for-profit and nonprofit models, and work towards policy prescriptions that capitalize on the best of both worlds.”

Betsy Adler, a Principal at Silk, Adler & Colvin, specializing in the nonprofit sector, echoes this sentiment, “Good governance is the flavor of the month. The currently

⁷¹ For more information see: <http://www.jhu.edu/~ccss/pubs/ccsswork/>.

⁷² Salamon, Lester, “*How Healthy is your Civil Society Sector?*” Alliance Magazine, June 2004. Available online at: <http://www.allavida.org/alliance/jun04b.html>.

fashionable nature of this issue may provide an opportunity for some cross-silo thinking about principles and their practical implementation.” However, she does not believe solutions from the for-profit sector that are designed for large publicly traded businesses, like Sarbanes-Oxley, translate across sectors. Along with many others, Adler does believe “that some of the fundamental principles of corporate good governance can be translated out of corporate-speak into plain English so that they can inform the practices of large and small nonprofits.” One such example would be disclosure of conflicts of interest, which would not necessarily be financial in the nonprofit sector, but could be political or other.

There are a number of initiatives already in progress in this area including reform of Form 990, guidelines to fight funding for terrorist organizations, NASDAQ and NYSE reviewing corporate governance criteria and Sarbanes-Oxley. More needs to be done and the timing is critical. Research is needed to map the current initiatives and understand the potential impact of these and other potential measures.

In sum, there are many different areas for policy focus, but our research points to policies aimed at increasing transparency and accountability. These include efforts to increase transparency and information regarding current policies, greater transparency and information in the reporting of sustainable practices by for-profit, nonprofit and government organizations, and efforts to improve governance.

Coordinated action

Carla Dickson, Senior Program Officer for Research and Policy Development at Coastal Enterprises, Inc., a community development finance institution, says that policy affects all of their work and is particularly interested in how practitioners can gain scale and consequent impact from that work. According to Dickson, “We can demonstrate many interesting and one-off projects, but it takes advocacy focused on the policy process to raise additional resources to institutionalize a successful project, and it takes consistent public policy to make sure that other economic or social factors do not undermine the project’s goals.”

Dickson discussed the importance of working across silos to create a policy agenda, but was realistic about the challenges of doing so. Dickson was part of a working group in Maine that brought together various environmental, economic development, community and socially responsible business interests to look at how to move a state wide policy agenda. According to Dickson, they had success in discussing issues, sponsoring conferences, showcasing best practices, and writing a policy action agenda but not in actually selecting specific policy issues to support as a coalition. Dickson thought the lack of support was due to a lack of focus,

“We did not get to the stage of identifying one or two pivotal pieces of legislation that could affect a large number of interests and enlist broad support. Instead, the group identified a number of interesting policies individual members were advocating as representative of sustainable development issues, and these

members tried to enlist others' support...Coalition building is difficult when the agenda is broad.”

Susan Frank, Vice President for Public Policy at the Steven and Michele Kirsch Foundation, discussed the model of Coalition for the Advancement of Medical Research (CAMR), which is made up of private entities, public institutions, patient advocacy organizations, foundation, and research organizations working toward the goal of protecting stem cell research. According to Frank, CAMR has been able to stop legislation at the federal level that would have harmed stem cell research in the U.S. despite the fact that the groups have disparate interests. Frank says, “The key...is a willingness to unite around ONE CAUSE/ONE ISSUE, recognizing that you might not agree on a host of other issues and being okay with that reality.”

Alison Wise discusses the importance of organizations such as Sea Change Sustainable Business Interest Group that bring together disparate parties to gain scale in lobbying,

“One way in which to cross-fertilize is to create organizational vehicles that break down the conceptual silos themselves, in other words, to bring together players that typically think of themselves as members of different teams. These organizations can then lobby as a cohesive entity representing what previously had been construed to be disparate interests.”

Another key component to effective policy work is creating the necessary links between policy, research and practice. According to Betsy Adler, a Principal at Silk, Adler & Colvin, “We need more efforts like PolicyLink that recognize, honor, and amplify the many kinds of practical work that connect policy and reality. Without those connections, links if you will, conversations about policy are missing a crucial reality check.”

Dickson believes that the credibility of practitioners is important for engaging in policy issues, but she goes on to say, “Our ability as practitioners to engage depends on having sufficient capacity without jeopardizing our work as practitioners, which gives us legitimacy in policy work. Even working in coalitions or with national organizations requires a capacity dedicated to policy work.”

In sum, for cross silo lobbying and advocacy to be effective, a clear focus on one or two key issues will be necessary. Additionally, we need to ensure that policy is linked to practice and that practitioners have the capacity necessary to engage in this important work.

Summary

As Alison Wise summarized, “Policies are the tangible product of human dialogue and negotiation, a historical legacy that can shape lives and create a more prosperous future for the generations that will follow us.” We believe that dialogue needs to take place from both the macro top-down (with a cross silo perspective) and the micro bottom-up (taking advantage of the deep expertise that evolves within the silos through specialization).

To facilitate an effective strategy for lobbying and advocacy, we believe that the focus should be upon the following areas:

- A research agenda into blended value policies
- Support for policies aimed at greater transparency
- Support for coordinated cross-silo discussions and activities.

Research Agenda: A better understanding is needed of challenges facing blended value organizations caused by their legal status (i.e. nonprofit/for-profit differences). Similarly, we need to understand the degree to which tax and regulatory structures favor large business as opposed to small businesses. Additionally, a clear mapping of the current policy situation for blended value organizations is important before embarking on a particular policy agenda. Such a mapping would detail the current tax credits and subsidies, information tools such as the 990 and governance and regulatory structures as well as the various reforms taking place with respect to governance.

Greater Transparency: Policy makers and those involved with policy reform are increasingly concerned with the issues of transparency, accountability and governance. We believe that a policy agenda for blended value should focus on these areas and that evaluation to increase transparency will play an increasingly important role. We believe that the Foundation community can play a role by investing in refining and implementing reporting initiatives that focus on increasing the transparency of social and environmental activities of corporations, government and nonprofits alike. Similarly, we believe that there should be support for efforts such as the GPI and Lester Salamon's charts of accounts to force greater transparency in reporting of country's health in social, environmental and economic terms versus the GDP which focuses solely on the country's economic health.

Support for Coordinated Action: In order to get traction in these and other areas of blended value focused reform, the funding community needs to act in concert to support coordinated action. Such support requires not only that foundations and other funders be willing to use their voice in the policy arena, but that they support organizations operating in this area. Support can be in the form of facilitating coordinated activities such as those of CAMR, or helping to build the organizational capacity of practitioners to be involved in these activities.

Concluding Thoughts

The potential benefits of pursuing integrated social, environmental and economic value are great, but building this blended value is clearly not without challenges. In addition to the dominant mindsets that wed us to the traditional view that nonprofits create purely social and environmental value and for-profits create only financial value, there are challenges of designing appropriate capital investment instruments, how best to assess both capital and organizational performance and how to create an effective policy, tax and regulatory environment. Overcoming these challenges will require a commitment to working across silos of related concern and interest. While there are many stakeholders who must be engaged in this process, it is our belief that individual donors and leaders within the foundation community can play important roles in furthering work to address each of these challenges. Specifically:

The Capital Challenge:

Regarding the issue of the efficient flow of capital to organizations seeking to maximize their full, blended value, our focus should be on the key themes of:

- Supporting additional research into how best to segment and manage both the supply and demand for capital in the blended value space
- Increasing experimentation with below-market and related financial instruments to provide new avenues of funding for blended value organizations—whether they are for-profit or not-for-profit corporations.
- The building of an expanded financial infrastructure that would include increased support for financial intermediaries capable of encouraging a more efficient, well-functioning, social capital market.

Measurement and Performance Metrics:

In the area of performance measurement and metrics for the non-financial aspects of organizations and funds we believe that the focus should be on:

- Supporting the creation of greater capacity for measurement on the part of organizations attempting to document the full breadth of their value creation efforts.
- Investment of philanthropic funds in a more deliberate testing of underlying the theory of change being pursued by organizations—a process of testing that is often beyond the capacity of individual managers within organizations.
- Supporting the exploration of how best to create standardized frameworks for measurement and performance metrics, such as the emerging work on Social Return on Investment.⁷³

⁷³ While some may object that it is too early for formal standardization—and it may well be—it is still realistic to assume that we could collectively do a much better job tracking various metrics and

- Creation of networks of “knowledge centers” capable of centralizing regional data and approaches to tracking non-financial performance of capital and organizations in order to help avoid the tendency to “recreate the wheel” in supported work.

Public Policy:

In the area of policy, tax and regulatory environment, we believe there are several avenues that can be pursued:

- We must begin by supporting the creation and pursuit of an expanded research agenda to assist us in better understanding the specific barriers and opportunities offered by existing legal, regulatory and policy structures
- We must expand the level of transparency of the legislative and regulatory process in order to help ensure that the concerns and interests of those building organizations capable of generating full, blended value are taken into account within public policy forums.
- Expanded support for cross-silo, coordinated action in policy arenas should be provided in order to enable the expertise and perspective of those active in this field to be fully heard and responded to.

It is clear that if we are willing and able to overcome these challenges, there is virtually unlimited potential for us to expand not only the number of organizations intentionally generating blended value, but the capacity of other, mainstream organizations to do the same. While there are obvious funding opportunities in this work, the implications for individual investors, organizational managers and various stakeholder groups are also clear—each of these actors must be engaged in advancing the new conceptual and practice frameworks necessary to enable the creation of full, blended value. This paper, and the 24 months of research upon which it is based, is simply a first step in exploring this extremely promising area of work—an area that when successful could unleash the full power and potential of business, civil society and governmental entities to the greatest benefit of shareholder and stakeholder alike.

performance frameworks presently in use and disseminating our knowledge of how to engage in such work. Initiatives such as ACCESS are good steps in this direction.