

# California Management Review

The Blended Value Proposition:  
Integrating Social and Financial Returns

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# The Blended Value Proposition:

## INTEGRATING SOCIAL AND FINANCIAL RETURNS

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In recent years, we have witnessed:

- the rise of anti-globalization and alternative globalization forces calling for a “non-corporate” vision of our world’s future;
- a significant rise in the number of mainstream corporate CEOs discussing the social and environmental performance of their firms not as a means for advancing PR and marketing campaigns, but as a strategy for increasing the total value of their companies;
- the spread of social purpose enterprises, as nonprofit organizations launch market-based businesses pursuing social value; and
- the increase of discussions within various investor groups (both market-rate and philanthropic/social investors) about how to track and assess the relative value of non-financial performance of capital investment portfolios.

While it would be easy to view each of these developments as discrete activities, in fact they are all part of the same process of exploring the true nature of value. They are part of an emerging set of institutions, performance methodologies, and capital investment instruments capable of maximizing that value. They are all manifestations of the reality of the Blended Value Proposition.

### **Exploring the Intersect between Financial Investing and Social Returns: What’s Wrong with This Picture?**

Our world is currently defined in clear terms: Investors seek to either do well or do good. We work for either a for-profit corporation or a nonprofit

organization. Ultimately, it would appear we want to either make money or give it away.

As we explore this world more closely, however, it is clear things are not nearly so cut and dry. In general, those in pursuit of capital may receive it in a variety of forms:

- A grant (which is a form of capital investment seeking to support the creation of social value with no expectation of principal or interest return).
- A recoverable grant (capital with no interest, but the expectation of principal return).
- A Program-Related Investment (a loan, usually provided by a foundation, which requires principal return, but carries a below market interest rate of 1% to 3%).
- A loan or equity investment from a Community Development Finance Institution (these are received by the borrower on market-rate terms, but the lending capital comes to the CDFI from foundation or governmental sources on below market-rate terms).
- A market-rate loan or equity investment from a mainstream capital market player in pursuit of full financial returns.

This continuum of investment instruments runs along an investment plane (see Chart 1). At one end of the plane are those instruments (grants) that seek full social value and returns, with no consideration of financial performance and return, while at the other end of the plane are those instruments (market rate loans and equity) that do not take social value into consideration and measure performance strictly on financial and economic terms.

As presented in Chart 2, these instruments are, in turn, put into use by an array of capital market players, ranging from mainstream capital asset managers to philanthropic institutions. This arrangement has served us well, creating both a thriving nonprofit sector and economically efficient for-profit economy. Our understanding of both investment and return is founded upon a traditional separation in the creation of social versus economic value. It is logical. It is the common understanding of the world. It is also inherently wrong.

The fundamental challenge to be addressed is that even a child knows the value of a quarter is the same, yet different, from the value of a lollipop one has bought with that same quarter. The tension experienced by communities

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attempting to trade economic vitality for environmental health is the same as that balanced by the conscientious investor pursuing both financial rationality and social sense. Yet historic definitions of investment and return ask us to somehow

choose between the two. It is a dissonance that rings in our ears because all know it to be a false dichotomy, a *non*-Faustian bargain we are being asked to

**CHART I.** The Sinking Economic Return: Traditional Perspectives of Financial Capital Markets versus Philanthropic Gifts

Full Financial Market Rate of Return Sought by Investor, No Defined Social Return Component	Full Financial Market Rate of Return Sought by Investor, No Defined Social Return Component	Program Related Investment with 3% ROI	Grant with Principal Recovery Provision, No ROI	Pure Financial Market: -100% Social Return
				Social Capital Market: Blended ROI and SROI
			Grant or Charitable Gift From Foundation: No Principal or Interest Return, Social Returns on Investment	Pure Social Market: -100% Financial Return

make, since we know only half the investment is on the table and only half its true value under consideration.

The buzzing in our ears is the *Zero-Sum Dissonance* of a traditional and artificial market that only considers and values financial returns. In practice, investors and managers don't know how to play in a space that expands the framework to include other than strictly financial metrics. Therefore, being unable to find comfort in the natural middle, players come to be artificially forced to one side or the other. Socially responsible investment funds tout the fact that they make market returns, while being unable to formally track their investment in social value. Formerly "bottom-line" oriented business people make excuses for poor performance or prospects for nonprofit entities since "they are trying to do good" and therefore shouldn't be held to the same financial or managerial disciplines as their for-profit counterparts. By the same token, nonprofit managers "know" that a program is good and fight for it even if they suspect the returns and use of resources are marginal at best, since they justify their efforts on the basis of perceived social intent—thereby confusing programmatic intent with documented social impact.

**In truth, the core nature of investment and return is not a trade off between social and financial interest but rather the pursuit of an embedded value proposition composed of both.**

**CHART 2.** A Spectrum of Investor Institutions and Factors Related to their Activities\*

<b>Traditional Philanthropy</b>	<b>Venture Philanthropy</b>	<b>Community Debt Financing</b>	<b>Community Development Equity</b>
<ul style="list-style-type: none"> <li>• Seeks to Maximize Social Return</li> <li>• Majority of applied funds not viewed as type of investment</li> <li>• May engage in Program Related Investments</li> <li>• "Evaluation" used to assess relative social impact</li> <li>• Often invests endowment in Traditional Capital Institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Seed Capital for innovative social or economic programs</li> <li>• No Market ROI</li> <li>• Documented SROI</li> <li>• Application of Venture Capital practice within Philanthropic context</li> </ul>	<ul style="list-style-type: none"> <li>• Positive Financial Return (fixed rate)</li> <li>• Positive assumed social impact</li> <li>• Modest financial returns on investment compared to market rates</li> <li>• Includes CDFIs</li> </ul>	<ul style="list-style-type: none"> <li>• High Risk</li> <li>• No Liquidity Event</li> <li>• Financial Returns Minimized</li> <li>• Probably never going to get major money out, so how do you assess risk/reward?</li> </ul>

**Social Equity Investors** ←

\*This continuum of returns is based in part on the work of Shari Berenbach (Calvert Foundation), as further developed by Timothy Freundlich (Calvert Foundation) and the author. This table was originally released by the author as a working paper in October 1999.

What is required is a unifying framework that expands the definition of investment and return beyond the historic one of finance and toward a new definition capable of holding a broader understanding of value than that most frequently reflected in traditionally endorsed financial operating ratios. In truth, the core nature of investment and return is not a trade off between social and financial interest but rather the pursuit of an embedded value proposition composed of both.


It is not a question of either/or, but rather both/and. We need new metrics, new conceptions of the fundamental value proposition that are not simply a "quid pro quo" trade off between two seemingly competing goals perceived to be locked in a zero-sum battle. Existing frameworks and understandings of both investment and return are inadequate, and we must address the deficiencies of current approaches. We must advance both a framework for and the tools to track performance of a Blended Value Proposition (BVP).

We face three challenges:

- First, we must breed 21st Century Managers capable of operating simultaneously within the present tension of the double bottom-line while at the same time advancing the new, blended operating systems of the future.
- Second, we must build better social management information and tracking systems, while evolving a new set of metrics upon which to assess our progress.
- Third, we must consistently advance a Blended Value Proposition that integrates and affirms the greatest maximization of social, environmental, *and* economic value within a single firm (whether for-profit or nonprofit),

**CHART 2.** A Spectrum of Investor Institutions and Factors ... (continued)

<b>Angel Investors and Social Venture Capital</b>	<b>Socially Responsible Investment Funds</b>	<b>Traditional Capital Institutions (Banks, Mutual Funds, etc.)</b>
<ul style="list-style-type: none"> <li>• Seed funding of business start-ups</li> <li>• Seeks Market rate financial returns</li> <li>• “Qualitative” or anecdotal social impact assessment</li> <li>• “Do no harm” screen or perhaps facilitate some type of social good</li> </ul>	<ul style="list-style-type: none"> <li>• Seeks Market rate financial returns</li> <li>• Seeks to minimize negative social, environmental or other impacts</li> <li>• Pro-active social, environmental or other screen for investing</li> <li>• Engages in Social Audits and “follow-along” monitoring</li> <li>• Shareholder Activism</li> </ul>	<ul style="list-style-type: none"> <li>• No calculation of SROI</li> <li>• Seeks to Maximize Financial return</li> <li>• May engage in CRA lending, but not part of core mission</li> <li>• Analysts simply “observe” performance and make no direct effort to influence the operation of the investee corporation</li> <li>• May engage in traditional philanthropy by making grants to nonprofit organizations</li> <li>• No thought of SROI</li> </ul>


**Private Equity Investors**

investment opportunity, or community. This value proposition must be framed in terms that make sense to all investor stakeholders along the spectrum.

With regard to the first, it is only a matter of time before we begin reaping the rewards of grooming a new managerial class. Whether it is Kauffman Denali Fellows, NetImpact Interns, Farber Fellows, or any number of other programs, managers are increasingly pursuing careers in for-profit and nonprofit corporations exploring the challenges of operating within a BVP. These managers are joined by yet others who, having either made their nest egg or found their original career goals now lacking, are leaving traditional for-profits. These individuals are taking the skills they honed in pursuit of profit and are applying them to the creation of profitable social value in ways not seen before in this country or abroad.

While many have referred to members of this managerial class as “social entrepreneurs,” the label “21st Century Manager” focuses less on “start-up” skills than those required for *sustainable* management of modern corporations. While some may have begun as social entrepreneurs, they must evolve into 21st Century Managers if they are to ultimately survive. They must engage in more than simply the social application of entrepreneurial skills and practice. At their best, they must create new knowledge and live within a higher level of economic, social, and environmental integration.

Secondly, we must build information systems and processes capable of measuring the creation of value in this changed context. Various emerging efforts include: The Balanced Scorecard (Kaplan, 1999),<sup>1</sup> Family of Measures (Sawhill, 1999),<sup>2</sup> Social Return on Investment (Emerson, et al, 1996/2000),<sup>3</sup> WebTrack/OASIS (Twersky, 2000),<sup>4</sup> and other types of impact documentation all being advanced as alternative frameworks for tracking performance. Some

emphasize managerial performance and others capital performance. However, all such efforts are important. We need to understand how different practitioners and investors are assessing the impact of their work and capital.

The third challenge is that many of these approaches do not move to the next level of understanding, namely, an ability to enunciate what the *underlying* value is of the element being measured. What we are lacking is a common cultural currency to compare relative investments and understand the various forms of value creation taking place, whether social, economic, environmental, and so forth. At this point, we know that something is “one,” yet don’t *really* know how much a unit of “one” is worth or what its fundamental value is.

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For many of those active in the social sector, it has been taken as a virtual given that most elements of social value stand beyond measurement and quantification. Any who advocate the social sector be held to greater accountability and reporting on the progress achieved toward the attain-

ment of societal goals are told in no uncertain terms that, indeed, “some things simply can’t be measured and social value is one of them.” Such logic is unpersuasive.

There are numerous ways to “triangulate” around a given element in order to understand its worth from a variety of perspectives—numeric and otherwise. Efforts to engage in social audits of corporate activity and “redefine” such givens as the basis for calculating a country’s gross national product are aimed at understanding the total value proposition. The Aspen Institute Roundtable has produced an impressive set of papers exploring just this point, and Redefining Progress is also working in this area. The International Network on Sustainability Indicators provides a global forum for the exploration of such “new metrics.” Even the government of Bhutan releases an annual report on that nation’s “Gross National Happiness” as part of a strategy for formally addressing what is supposedly “immeasurable.”

A numeric, quantitative approach to understanding social value creation is simply a different language by which we may potentially describe the integrity and worth of the incredible work taking place. Because so many actors in the Social Sector are not fluent in the language of numeracy, any effort to measure, quantify, or describe the creation of social value—any effort to move beyond rhetorical claim to documented fact—has traditionally been challenged as inappropriate, inaccurate, and invalid. Furthermore, those in the for-profit sector must labor within an accounting and investment framework that doesn’t “charge” for those public goods converted to private gain; so while we have excellent tools being advanced by the London Benchmarking Group, the Global Reporting Initiative, and others, there are few widely accepted metrics that managers and investors may apply in practice.



Rather than have a distinct set of units, some of which are measurable and more of which are not, it must first be recognized that there is a wide array of value creation taking place in the Market, including those elements that are easily quantifiable and those that really do not lend themselves to existing approaches of measurement. Mark Moore has described this challenge as one requiring an awareness of the multiple dimensions of value as opposed to simply understanding value as the tradeoff between “competing measures.”<sup>5</sup> Indeed, there is much greater ability to quantify and assess non-financial value creation than we have yet to understand. It is simply a question of becoming as fluent in the language of numbers as the sector is in the language of words. It involves creating a new metrics wherein what we have called “Interactive Social Capital” may be understood in the future as well as “Transactive Social Capital” is understood today.<sup>6</sup>

Much of the focus of current discussions relative to the documentation of social impact and measurement founders upon this partial truth that much of the work of the social sector is “beyond quantification.” It is a partial truth simply because while various aspects of social valuation stand beyond current metrics, they are beyond existing metrics simply because we have not committed ourselves to the creation of new words and numbers pegged to expressing that which we seek to explain. On the whole, we have been intellectually lazy and as a result lack the constructs to adequately describe and track that which we ultimately value. In a very real sense, we really *do* know the worth of all things and the value of nothing. We track performance of investments in the stock market, yet have little notion of how time invested in sitting with a child will generate what level of return. We can state how many units of service a nonprofit organization delivered, but have little sense of the ultimate value of its having done so. We each know the worth of our financial assets, yet can say little more than “it means something” if we invest time in our community and the people of whom we are a part.

We must evolve a *narrative numeracy* that allows us to go beyond the spoken word and compliment it in other ways. The numbers that express SROI are simply symbols, like the letters of the alphabet, which we organize in certain ways to more fully understand our world. A balance sheet, budget, or set of financial ratios simply tell a story; they give testimony to our values and priorities as they express our progress through time, history, and the experience of life.

In sum, Social Share Value, Social Equity Ratios, and Social Return on Investment are all simply efforts to advance this language capable of more deeply expressing the story of our complex world, community, and individual lives. In a very real sense, “the truth is out there” and we have simply to this point not taken adequate steps to meaningfully understand its relevance for our life’s work. The challenge of the future is that of building a new framework for a lexicon of valuation. A framework that helps us see the Whole; A lexicon that may

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## Evolving Metrics, Emerging Frameworks

A central premise of the Blended Value Proposition is that comprehensive assessment of total performance and return will require the creation of new metrics and frameworks. While no single approach currently in use could be said to capture the full measure of value creation taking place, there are examples of promising approaches to this challenge. These approaches should be viewed as functioning at one of three levels of application: Societal, Capital Market, and Organizational.

At the Societal Level are frameworks such as "The Dashboard" approach and community sustainability indicator projects. The Dashboard approach consists of frameworks that combine evaluation of social, economic, and environmental performance within nations or regional geographic areas. A sampling of these frameworks may be found at The Dashboard Collection (<[esl.jrc.it/dc/](http://esl.jrc.it/dc/)>). They include The WEHAB Dashboard (<[esl.jrc.it/dc/wehab/weh\\_fva.htm](http://esl.jrc.it/dc/wehab/weh_fva.htm)>), The Dashboard of Sustainability (<[www.iisd.org/cgsdi/intro\\_dashboard.htm](http://www.iisd.org/cgsdi/intro_dashboard.htm)>), The Environmental Sustainability Index presented at the World Economic Forum (<[esl.jrc.it/dc/esi\\_2002/index.htm](http://esl.jrc.it/dc/esi_2002/index.htm)>), and the Millennium Development Goals (<[esl.jrc.it/dc/mdgoals/index.htm](http://esl.jrc.it/dc/mdgoals/index.htm)>).

Complementing these national level indicators are local and regional sustainability indicator initiatives. These efforts engage communities in the process of developing and applying a wide range of reporting metrics to track such aspects of community health and performance as environmental pollution levels, econometrics related to jobs and capital flows, and a variety of health indicators, among other measures. Specific examples of such initiatives may be found at the home page of I.S.I.N., The International Sustainability Indicators Network (<[www.sustainabilityindicators.org/](http://www.sustainabilityindicators.org/)>).

At the Capital Markets level, the Dow Jones Sustainability World Indexes is one example of efforts to analyze the blended returns of firms operating in accordance with generally accepted sustainable development practices.<sup>a</sup> The DJSI-World tracks the performance of 307 corporations representing 62 industries in 26 countries. The DJSI-World provides an overall reporting framework to assess the performance of firms on the basis of metrics that track more than the traditional "P&L" performance of companies. At the portfolio level, Innovest Strategic Value Advisors has developed the EcoValue21 ratings system and applied it to over 1,000 domestic and international equities—finding that those with above average ratings consistently out-perform lower rated firms.<sup>b</sup>

While these broad-based performance metrics evaluating communities and corporations on the basis of the blended value they represent are promising, of real interest to many is the potential to drive these types of reporting and performance tracking systems down to the level of operating managers and decision-makers within organizations.

Marc Epstein and Marie-Josée Roy have presented an integrated framework that assesses the degree to which firms develop reporting systems capable of tracking the link between financial, social, and environmental performance of the firm.<sup>c</sup> Ranging from Level One (descriptive information not linked to financial performance) to Level Four (monetized information on benefits in addition to measures of costs; fully linked to financial performance), Epstein and Roy

present a set of indices ranging from compliance-cost avoidance to increased employee productivity to increased revenues (through access to multicultural markets) as representing various types of Level Four performance.

Examples of companies that have successfully implemented integrated reporting systems include Dow Chemical (which through its sustainability index tracks 21 measures of business performance), the Co-operative Bank (which regularly assesses the degree to which key stakeholders are successfully engaged by the Bank), and British Airways (which creates action plans and performance targets for staff throughout the firm in part on the basis of employee surveys).<sup>d</sup>

While all the examples of metric frameworks presented at all three levels of application are evolving and in development, the fact remains they represent real investments in the creation of new reporting systems and frameworks capable of tracking far more than simple financial and economic performance. These efforts reflect the overall realization on the part of investors, managers, and academics that the metrics of the past, while initially useful, have become largely incomplete and unable to report upon the wide range of performance elements sought by managers, analysts, and stakeholders alike who seek to understand the full, blended value of the firm and the capital invested in it.

- a. The following information is taken from Charles O. Holliday, Jr., Stephan Schmidheiny, and Philip Watts, *Walking the Talk: the Business Case for Sustainable Development* (San Francisco, CA: Greenleaf Berrett-Koehler, 2002), p. 37.
- b. *Ibid.*, p. 29.
- c. Marc J. Epstein and Marie-Josée Roy, "Making the Business Case for Sustainability: Linking Social and Environmental Actions to Financial Performance," *The Journal of Corporate Citizenship*, 9 (Spring 2003): 79-96.
- d. *Ibid.*

create the narrative numeracy necessary to communicate the full and complete breadth of our social reality in an integrated manner, moving beyond our present inability to track a blended return and communicate the complexity of social and financial value creation.

## **Resolving the Dissonance: The Meaning of a Blended Value Proposition and the Nature of Returns**

How can we approach this integrated definition of Investment, Return, and the core Blended Value Proposition present in the Integrated Capital Market?

First, we must move beyond the traditional belief that an organization's Economic Value is separate and at odds with its Social Value. While one might attempt to track the two (such as by examining the financials of the corporation and then reading the social audit completed by an outside observer), they are wrongly viewed as two separate aspects of the corporation's value proposition. Second, it is a two-dimensional, linear understanding of value that attempts to "freeze" the analysis under observation. While this may be helpful to a point, it

fundamentally undervalues the *transformative* nature of the investment and the dynamic interplay between its social and economic components. It does not reflect the dynamic interplay of investment and return.

In contrast to a traditional Investment/Return framework with its implicit “sinking economic returns” assumption, a Blended Value Proposition of any given investment understands that *both* functions need to be integrated and fully assessed in order to maximize social and financial value creation and shareholder returns.

While some view this as an emerging “Fourth Sector” and call for the creation of “For-Benefit” corporations that simultaneously pursue both social and economic value, such proposals (while creative responses to the present dissonance that are worth exploring) risk missing the larger truth that beneath the “non-profit/for-profit” legal structure of corporations, value itself already consists of a mix of various components. Indeed, *all* corporations (and their investments) generate a type of return best understood as a Blended ROI. The Blended ROI is the tool by which one assesses the returns generated by the application of social capital in this integrated market place. The task at hand may not be to create yet one more sector and corporate legal entity, but rather to simply acknowledge that value is itself the result of a blend of three primary elements. The challenge is in creating the appropriate tools to track and assess the performance of this value—not to create yet more institutional forms where it may be marginalized from the mainstream.

## Defining the Nature of Return in a Blended ROI

A Blended Value orientation at corporate and sectoral levels assumes that the optimum investment is one that acknowledges the reality of blended economic and social value and attempts to maximize total returns. What understanding of returns would advance a unifying theory of the whole?

Societies cannot function strictly on the basis of their economic enterprise. It is social commerce that allows individuals and institutions to pursue the traditional financial returns sought by mainstream financial capital market players. As the crash of Enron, WorldCom, and others have demonstrated so clearly, it is the financial imperative *combined with* the framework of socially determined mores, laws, and regulations that allows our collective potential as a shared community of interest to be realized. This Blended Value Proposition, then, is what makes possible a Blended Return on Investment.

It is the social dynamics of financial capital markets that give numeric, financial returns *ultimate* value. It is the interplay of these complementary forces, the genomic embrace of interactive social capital with transactive social capital, which generates a dynamic tension that, in its totality, creates a “value vortex.” It is out of this value vortex that the ultimate return, the *raison d’être* for getting up each day and going to work—the *blended* return on investment—is generated. The ultimate value is the outcome of a drive to maximize the greatest potential of both. We all, whether investor or investee, capital player or pawn,

are driven by a desire to maximize this blended return for our selves, our families and our investment portfolios—regardless of whether they are presently defined as portfolios of community or commerce.

### ***Implications of a Blended Value Proposition and Return on Investment***

Within a Blended Value Proposition Framework, one acknowledges that *all* organizations create blended value. Since all entities are fully integrated, the investor becomes less concerned with the particular legal structure and corporate status of an organization than with its fundamental value generation. A “for-profit versus nonprofit versus hybrid” discussion is only relevant in the degree to which the investors seek various types of returns for their specific portfolios. Since nonprofit corporations may invest in for-profit subsidiaries and for-profit companies may establish nonprofit support organizations to advance partisan causes, there is no difference anymore. They are all the same. The periodic debates regarding Unrelated Business Income Tax (a concept that was, in any event, never seriously adhered to in the Social Sector) and related “hot-button” topics are simply archaic holdovers from a prior age. Until the improbable time as a single corporate structure is established by Congress—at which point all divisions will cease to exist—the question is: What is the fundamental value one is attempting to capture and which legal structure will best facilitate its attainment?

All investments are understood to operate simultaneously in economic, social, and environmental realms. There is no “trade off” between the three, but rather a concurrent pursuit of value—social, financial, and environmental. Regardless of the equation involved, the parts operate together, in concert, at all times. They cannot be separated and considered as distinct propositions, but are one and the same. All business enterprises have within them a component or function of social value creation and all nonprofit organizations generate a level of economic value and worth. They are inseparable. Therefore, all returns generated from investing in this capital market space create value that is economic, social, and environmental—a blended value.

A donor gives to a cause, receiving both psychic reward and monetary tax advantage. A corporation provides on-site childcare, generating employee good will, higher productivity levels, and profits. A social service agency provides needed support to those in crisis, creating cost savings for the public sector by virtue of its successful efforts and, at the same time, making a monthly payroll that provides support to its employees with real dollar economic impact.

The value created will be defined differently based upon the particular time period against which the investment itself is framed. Investors think in terms of the time value of money and ask: What is the present value of a future dollar? As we come to explore definitions of both the BVP and Blended ROI, the question of time becomes central to our understanding of value. Many financial instruments (e.g., loans, bonds) are tied to short-term time periods of quarters or years. Such artificial demarcations of reality do not lend themselves to effective

use when one is valuing investments whose returns exceed historic definitions of traditional time periods. Depending upon the species within it, the life cycle of a forest is fifty to one hundred and fifty years or more; the time cycle of a community may be defined in terms of generational change and growth; and the investment time frame of a child may be a lifetime or a day. The challenge of assessing and establishing effective time periods for use in calculating a Blended Return on Investment becomes an important one to our ability to apply such definitions of ROI to any portfolio of investments. We must work to advance an integrated understanding of both natural and financial systems, creating new frameworks for assessing how the value components interact within any given time continuum.

Ultimately, the investment of social and financial capital takes place within a continual and evolving investment time frame. That time frame may, for the purpose of the specific investor, be defined by the terms of the investment itself—whether for a day, a quarter, or a year—but for the functioning of the larger Market is viewed as endless.

There is a natural tendency to view a Blended ROI as simply an extension of Financial ROI. Yet to assume a linear relationship between the component parts of capital is to propose a static analysis of what has already been described as a dynamic reality. Fractals are the graphic representation of mathematical

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formulas; “vibrating strings” the fundamental building block of physics. By extension, true capital market functioning is best envisioned as interlocking sets of progressively expansive ropes, consisting of braided “DNA ladders” that are themselves a composite of financial, social and environmental elements, each building off and contributing to the strength of the other. There is no

inverse relationship between social, environmental, and financial returns; they are each present in every activity and investment within the Market. Each is simply the shadow-side of the other—closely intertwined threads of mutually interdependent elements of value creation, bending in and upon each other as they move forward in time, within and around themselves.

Accordingly, there is no purely “new” investment in this market—all investments build upon and are a part of previous contributions to the collective stock of social capital. It is a stock of capital that has been a part of us and evolving since the first interactions of humanity, a humanity that is, at its very core, social by nature. Social capital can, however, deteriorate if not valued, affirmed, and renewed. It is for this reason we should each seek to support its function in our lives. Social Capital, in connecting us to our selves and community roots us in our past, guides us to our future and provides inherent potential value that makes it a future worth pursuing.

A Blended ROI may not ultimately be assigned to any single investor, but is held by individual investors as a part of a common trust. Social capital has



various components, some of which may be divided into equity units and assigned to particular investors and others of which cannot be held in isolation. The key question to be addressed is not simply whether a given investment generates a financial return to a particular investor. The question is what *forms* of return are generated to what sets of shareholders and stakeholders; and which social/economic functions are fulfilled in what ways for the stakeholder aggregate (i.e., the social stakeholder and consolidated community of interest)? In traditional terms, this is referred to as the generation of collateral benefits. At its most basic level, while parts of a Blended ROI are owned by the individual, the total BROI is held by the common weal in its entirety.

### **Implications for Investment Instruments, MIS, and Accounting**

The future will see the introduction of an increasing number of investment vehicles and strategies that pursue the Blended Value Proposition and report on investment performance on the basis of a Blended ROI. We are only at the earliest stages of this development, but it is clear that coming years will witness an increasing number of funds and investment pools created with the direct intent of providing capital to investees on the basis of both social and financial performance. These investments will be assessed on the basis of a Blended ROI. One promising area of activity is that of private foundation asset management strategies.<sup>7</sup> Historically, those managing the investment portfolio of many foundations have operated in relative isolation from individuals managing the philanthropic investments of those same institutions. As the trustees of these foundations come to understand the intrinsic link between financial investment policy and philanthropic investment policy, the two will come to be discussed, structured, and executed in sync.

Many might say that foundations already operate in this manner, however, most foundations do not invest their assets with the intent of creating social value and most do not view their grantmaking as part of a larger capital market process. This will change. Smaller, private foundations have been leading the way in experimenting with ways to combine financial and philanthropic investing. For example, The Jessie Smith Noyes Foundation has been engaged in active socially responsible investing of its corpus along with the execution of their philanthropic investment strategies for a number of years.

In addition to this approach to asset management, we will see the introduction of mainstream investment instruments that allow for both principle/interest return *as well as* pursuit of social value. A.G. Edwards & Sons, Inc., (of Plymouth, MA) has introduced a "Socially Responsible Equity-Linked Note" that may be issued by nonprofit corporations in search of mainstream capital with which to pursue their social or environmental mission, while providing a competitive financial return. The Calvert Community Investment Note provides a fixed rate of return combined with directed social impact. As these and other offerings hit the market, they will contribute to an emerging class of "social

### **Moving Toward the BVP: Four Firms in Pursuit of Blended Value**

While there are few examples of firms operating completely within a defined framework for consistently maximizing social, economic, and environmental value, within the for-profit and nonprofit sectors there are examples of organizations moving beyond the traditional definition of value creation (i.e., either simply economic, social, or environmental) toward the establishment of organizations seeking to advance two or more components of blended value.

- The Sekem Group (Egypt, <[www.sekem.com](http://www.sekem.com)>). An agribusiness based in the Middle East, Sekem has four business units: organically grown fruits and vegetables, along with a sourcing network drawing upon farmers in the region; a processing facility for teas and other products; production and processing of organic cotton and related textiles; and a pharmaceuticals firm producing herbal extracts and medicinals. With 2,000 employees and annual revenues of over \$10 million, Sekem is in essence an organics business with a social service infrastructure. Each employee develops a career, personal, and health development strategy that is supported by the firm.
- Stonyfield Farms (the fastest-growing yogurt company in the United States, <[www.stonyfield.com/](http://www.stonyfield.com/)>) is representative of the new type of for-profit company being launched and financed in traditional, mainstream markets. Stonyfield has seen real improvements to its financial position as a result of energy savings and waste reduction efforts. These cost savings help support a profit-sharing program for employees based in part upon improvements in environmental performance.<sup>a</sup>
- Rubicon Programs (Richmond, CA, a 30-year old community program, <[www.rubiconpgms.org/](http://www.rubiconpgms.org/)>) operates high-end bakery, landscaping, and home health care businesses. Performance of these ventures is assessed through a sophisticated social management information system capable of tracking clients and employees, and it generates critical data regarding the social and economic development made by individuals within the firm. Rubicon Programs is able to report out to scores of investors with regard to its social and economic performance, and (more importantly) uses that data to inform both programmatic and managerial-level decision making.

equity investing” that allows investors to place capital into the market on fully blended terms.

Tracking a Blended Value Proposition requires creation of a Social Management Information System (Social MIS) infrastructure and information dissemination system. If the world is driven simply by financial imperative and the “laws” of economics, than traditional accounting MIS is adequate to our needs. If the world were viewed strictly as an interaction of social players and dynamics, mainstream program evaluation and social science tools would rule the day. In truth, the world is neither economic nor social, but both. The accounting and managerial tools required to understand the functioning of an Integrated Capital Market is that of a Social MIS, an evolved infrastructure for identifying, tracking, and assigning value to elements at play in this market. This Social MIS will



- The Jacobs Family Foundation (San Diego, CA, <[www.jacobsfamilyfoundation.org/](http://www.jacobsfamilyfoundation.org/)>) makes use of both a traditional nonprofit foundation structure and a for-profit LLC to not simply support inner-city neighborhood and economic development, but to actually offer community shares to local residents—directly leveraging their market-rate and philanthropic investments to increase the assets of individuals and create blended social and economic returns for both the community and the foundation.

These organizations represent an evolution of role and responsibility. They recognize that the value created by firms and investors is not simply economic, social, or environmental, but rather a fundamental blending of the three. The challenges of managing beyond the triple bottom-line to blended value creation are there; the need to create meaningful, relevant metrics to guide management decisions continues; but the fact remains that the value hidden within firms and created by investors is value that goes well beyond our traditional understanding of for-profit and nonprofit organizational structure and mission. Those firms and leaders capable of understanding this reality and moving toward capturing total value will be the ones who remain to compete in the markets of the future.

a. Information reported on the Business for Social Responsibility web site, <[www.bsrr.org](http://www.bsrr.org/)>.

include Socio-Financial Ratios that allow investors to understand and quantify a Blended ROI.

To reach this goal, what is ultimately required is a new approach to accounting and capital allocation. In one step toward the design and institutionalization of such accounting systems, The National Centre for Business and Sustainability (NCBS), in partnership with the Manchester Business School (England), is offering a *Foundation Course in Social and Ethical Accounting, Auditing and Reporting*. The course is based on emerging work in this area being done by the Institute of Social and Ethical AccountAbility (ISEA) and is designed around the social performance standard AA1000. The course presents financial, social, ethical, governance, and related areas in an effort to assist 21st Century Managers in the development of the operational skills and accounting practices required to effectively guide the application of capital and other assets in the pursuit of the BVP.

In addition to the creation of new approaches to traditional accounting practice, 21st Century Managers will also require the ability to design and operate Social MIS able to track the long-term social, economic, and other value creation impacts of their corporation. The Roberts Enterprise Development Fund (<[www.redf.org](http://www.redf.org/)>) has worked in partnership with its investees and co-investors to create the OASIS System. Other foundations across the country are investing in the creation of what may be viewed as Social MIS frameworks, and such efforts complement those within for-profit firms developing new tools for use by operations managers in making decisions with implications for the firm's social performance. These systems build upon traditional approaches to "evaluation," augmenting the tools of the past with the operating infrastructures of the future

and providing the base upon which a Blended ROI analysis may one day be conducted.

These approaches to assessing social capital returns will increasingly be used in concert with mainstream equity tracking systems currently in use or being developed. Whether through modified use of Socrates, MicroEdge.com, or The Calvert Groups' Community Investment Profiles, capital investors will demand the ability to research and track portfolio performance on a blended basis—one that allows them to assess their various investments and returns without the artificial separation of those investments as exclusively financial or social. As these systems continue to be improved and evolve, our ability to track the value creation process as a whole will continue to improve.

In addition to tools to assist us in understanding the fundamental value of what is being measured, *dissemination* of that data becomes critical. The movement away from traditional evaluation and toward viewing evaluation as a form of information management begins to get at this issue within specific organizations. Guidestar.com, SocialFunds.com, The Dow Jones Sustainability Index, and other financial "sunshine" initiatives seek to use the Internet to make baseline financial data available to investors and practitioners. This addresses the need for the general public and investor community to be able to access commonly shared data regarding capital structure and performance.

Historically, the Social Sector has not aggressively sought to fulfill its accountability to society at large or specific actors within the capital market—whether investor, investee, or local community resident. And recently, many corporate social responsibility and sustainability reports have filled more of a PR than managerial operations function. We must assure the integrity and dissemination of financial and social data if we are to succeed in accurately tracking, documenting, and analyzing the value proposition of capital investments and the returns generated by them. This goal must be pursued both by those who receive *and* those who allocate capital resources.

## **The Challenge of Living in the Blended Value Proposition**

The Blended Value Proposition dictates continual change and innovation, always measuring one's progress against shifting measures of transformative, economic, environmental, and social valuation. However, recognizing this in theory and putting it into operational practice is no small task. Once we embrace the Blended Value Proposition, CEOs must successfully enunciate a deeper corporate vision and have the capacity to lead organizations into as yet uncharted territory. Once we have created the required Social MIS infrastructure, 21st Century Managers must continually advance, analyze, and improve upon that practice. In many ways, effective execution will depend upon an organization's ability to balance sound management with innovation and change.

Fifty years ago, McGregor's *The Human Side of Enterprise* presented the challenge of organizational change as one of managing within a tension of

concern for the creativity of the individual contrasted with the enterprise's need for planning and clarity of organizational objectives.<sup>8</sup> The Stanford Research Institute later framed this dynamic as a three-dimensional cube. Seward Hiltner suggested that, in truth, it was a question of building organizations along mutually supporting polarities of creativity and structure. The Integrated Capital Market, Blended Value Proposition, and concept of Blended ROI presented in this article are the "next stage" constructs for understanding how organizations and the individuals within them must first acknowledge this interplay of forces and, second, undertake the challenge of advancing in practice what we intuit in theory. Learning to live in the Blended Value Proposition and not pretend life is driven strictly by either social *or* financial realities is the next step in this process of understanding how we may use financial resources to expand and sustain the core value of organization, community, and individual.

## Notes

1. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston, MA: Harvard Business School Press, 1996).
2. Family of Measures (Sawhill, 1999)
3. Social Return on Investment (Emerson, et al, 1996/2000)
4. WebTrack/OASIS (Twersky, 2000)
5. (Moore, 1999).
6. (Emerson, 2000).
7. For an expanded discussion of foundation asset management issues, please see the author's paper entitled, "Total Foundation Asset Management: Exploring Elements of Engagement Within Philanthropic Practice," available at the following web site: <<http://gobi.stanford.edu/facultybios/bio.asp?ID=323>>.
8. Douglas McGregor, *The Human Side of Enterprise* (New York, NY: McGraw-Hill, 1960).

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