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Applied Research about the Pittsburgh Region's Nonprofit Sector

Pittsburgh Social Enterprise ACCELERATOR

JEWISH HEALTHCARE FOUNDATION

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Assessing Social Return on Investment *for Social Enterprises in the Pittsburgh Region*

As Tim Zak, President of the Pittsburgh Social Enterprise Accelerator, puts it, "Pittsburgh is poised to become a Silicon Valley of Social Enterprise." By example, the region's nonprofit community gathered for its annual summit in 2001 to learn about social enterprise, and social enterprise was again the subject of the 2004 nonprofit summit (attended by nearly 1,000 people). All the while, local foundations have convened workshops among practitioners to meet with strategists, attorneys, and venture capitalists to discuss social enterprises. Further, peer learning groups have convened and have been expanded to advance leading practices, and local universities have offered substantive social enterprise courses to students and practitioners alike. Along the way, local and national business plan competitions have prepared Pittsburgh's nonprofits to implement and launch promising social enterprise concepts and become more connected to the broader global practices of the social enterprise movement.

For its part, The Forbes Funds has, among other things, sought to track and understand the impact of social enterprise on nonprofit management and performance. In 2002, The Forbes Funds published "Profit Making in Nonprofits: An Assessment of Entrepreneurial Ventures in Nonprofit Organizations." This study, conducted by Olszak Management Consulting, Inc., documented the earned-income revenue strategies of 25 nonprofits located in the Pittsburgh region. Olszak set forth seven "promising practices" and 34 specific activities associated with successful social enterprises. Subsequently, in 2003, The Forbes Funds commissioned Community Wealth Ventures to examine and document the range of financing opportunities potentially available to nonprofits starting or growing social enterprises. Now, in 2004, The Forbes Funds — together with the Jewish Healthcare Foundation and the Pittsburgh Social Enterprise Accelerator — again commissioned Olszak Management Consulting, Inc. to assess tools available to measure as best as possible the return(s) on investment(s) from earned-income activities undertaken by nonprofits.

Nationally, there are a variety of proposed models for assessing the social and financial return on earned-income ventures. Some of these models have been borrowed largely from mainstream methods to inform investors and executives of for-profit corporations. Other models are more familiar to professionals in the nonprofit sector and government agencies. While these models are continually being tested and improved, what is needed is an appropriate method for capturing the costs and benefits of social enterprises in ways that stakeholders in the Pittsburgh region will find useful and that will support the sustainability of earned-income ventures in the area. It is also essential that the efforts to build and assess social enterprises in the Pittsburgh region engage and mesh with similar efforts taking place around the country and even around the world, so as to facilitate the learning between Pittsburgh's nonprofit sector and other metropolitan regions.

FIGURE 1. COMPARISON OF EIGHT METHODS FOR MONITORING PROCESSES AND MEASURING IMPACTS

				PRIMARY APPLICATION TO DATE	
METHOD	**PROCESS**	**IMPACT**	**MONETIZATION**	**NONPROFIT**	**FOR-PROFIT**
Theories of Change	•			•	
Balanced Scorecard (BSc)	•	◓		•	
Acumen Scorecard	•			•	•
Social Return Assessment	•				•
AtKisson Compass Assessment for Investors	•	◓			•
Ongoing Assessment of Social Impacts (OASIS)	•	•		•	
Social Return on Investment (SROI)		•	•	•	
Benefit-Cost Analysis		•	•	•	
Poverty and Social Impact Analysis (PSIA)		•	•	•	•

Source: *Double Bottom Line Project Report*: Clark, Rosenzweig, Long and Olsen, 2003.

Data and Methods

Olszak Management Consulting, Inc. gathered information for this study from three main sources:

- A literature and web review of efforts to develop and implement models for assessing social return on investment;
- A telephone survey of 13 social enterprise stakeholders in the Pittsburgh region, including academicians, nonprofit social enterprise practitioners, grantmakers, and investors;[1] and
- Interviews with selected developers and researchers of existing social enterprise return-on-investment models to understand more rigorously the conceptual and practical underpinnings of their efforts.[2]

Findings from a Survey of Key Local and Regional Informants

Indicators of Social Enterprise Success

Respondents identified the most important **financial** indicators of the impact of social enterprises as:

- more diverse sources of income for the organization (86 percent);
- less dependence on funders (79 percent); and
- positive change in net fund balances/net financial position (71 percent).

… the most important **non-financial** indicators of the impact of social enterprises as:

- efficient, "business-like" practices within the organization (71 percent); and
- more clients/customers/patrons being served (64 percent).

…the most important **community** indicators of the impact of social enterprise as:

- jobs created (57 percent); and
- increased community businesses/business networks (43 percent).

…and the most important **organizational** indicators for the organization as:

- mission-related impacts (43 percent);
- self-sustainability (38 percent);
- generation of income/increased revenues (23 percent); and
- increased diversification of revenue (15 percent).

Assessing Return on Investment Models

Familiarity with Models: Most (77 percent) of the respondents were familiar with at least one measurement model; the most commonly cited examples were the Roberts Enterprise Fund's Social Return on Investment (SROI) (77 percent) and the Balanced Scorecard (69 percent). Other models cited were

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[1] Respondents were asked what they regarded as the most important indicators of the impact of social enterprises in four categories: financial; non-financial; community; and organizational. The list of indicators presented to the respondents for comment were gleaned from the literature, particularly from descriptions of such models as: Economic Rate of Return (ERR); the Roberts Enterprise Development Fund's Social Return on Investment (SROI); the Balanced Scorecard; and Assessment of the Impact of Microfinance Services (AIMS). Respondents also indicated their familiarity with, and use of, social return on investment models.

[2] In addition, an advisory panel of local experts in social enterprise provided suggestions for additional streams of inquiry and feedback on interim findings.

the Poverty and Social Impact Assessment (PSIA); Assessment of the Impact of Microfinance Services (AIMS); the Acumen Scorecard; and the Research Initiative on Social Enterprise (RISE).

Suggested or Recommended Models: When asked if they had any model that they would recommend or suggest for use, four members of the advisory panel offered the following responses:

- Benefit-Cost Analysis or Economic Rate of Return (ERR);
- Balanced Scorecard; and
- Social Return on Investment (SROI).

Findings from an Analysis of the Models for Measuring Return on Investment

Several models were reviewed and categorized according to several criteria, derived from the following questions:

- Does the method measure **processes** or **impacts**? The processes of an enterprise include inputs (the resources required to operate the venture), venture activities, and outcomes (results produced). Impacts, strictly defined, are changes to the social system beyond what would have happened anyway, even if the venture did not exist.
- Does the method monetize impacts? Monetization is the translation of impacts into a dollar value, i.e., the value of what has been generated or changed.
- Is the method primarily used in the nonprofit sector or the for-profit sector?

In a commonly cited study entitled the *Double Bottom Line Project Report*, the authors compared several methods for measuring return on investment; the results are illustrated in figure 1. The chart shows that there are three methods that (1) measure impact, (2) monetize the impacts, and (3) are primarily used in the nonprofit sector: Social Return on Investment (SROI); Benefit-Cost Analysis (also known as Economic Rate of Return, or ERR); and Poverty and Social Impact Analysis (PSIA).

Of additional note, the Balanced Scorecard measures impacts but not fully, using the strict definition described above. Also, methods that measure and monetize impacts require a greater investment of human resources, defined as person-days per month.

From this initial research, four models for measuring the impact of social enterprises were selected for Olszak's further analysis: ERR, SROI, Balanced Scorecard, and AIMS.

The first step of the analysis compared the impacts measured by each model with the indicators identified as "most important" by the survey respondents.

Figure 2 shows that each of the four models aligned with a similar number of important indicators (five or six). However,

FIGURE 2. COMPARISON OF MODEL MEASUREMENTS WITH "MOST IMPORTANT" INDICATORS

		N=13	MODEL			
Domain	**Indicators identified as "most important" by respondents**	%	ERR	SROI	Balanced Scorecard	AIMS
Financial	More diverse sources of income for the organization	86%			X	
	Less dependence on funders	79%				
	Positive change in net fund balances/ net financial position	71%	X	X	X	X
	Additional income available for other programs	50%	X	X		
Non-Financial	Efficient, "business-like" practices	71%			X	
	More clients/customers/patrons being served	64%	X	X	X	X
	Mission-related impacts (specific to organization)	43%		X	X	
Community	Jobs created	57%	X	X		X
	Increased community businesses/ business networks	43%				X
	More self-sufficient families/households	29%		X		X
Organization	Sustainability	38%				
	Income	23%	X	X	X	X
	TOTAL		5	6	6	6

none of the models "hit" on all indicators. Separately and collectively, the models do not adequately address four indicators identified by respondents as *important*: "less dependence on funders"; "more diverse sources of income for the organization"; "efficient, business-like practices"; and "increased community businesses/business networks."

In addition, none of the models directly addresses important concerns about organizational sustainability. While it can be argued that ERR and SROI predict the sustainability of a venture over time (typically five years), these models do not specifically link the sustainability of a venture (which may be only part of an organization's activities) with the long-term health of the organization that initiated it.

In the next step, the models were matched up against six criteria that emerged as important considerations. As figure 3 indicates, the AIMS model does not address many of these key criteria, although it does feature some monetization of impact. ERR and SROI fare well with all of the criteria, although utilizing these models effectively requires a greater investment in human resources to develop and maintain the models, as measured by person-days per month.

Implications

- There is no need to invent a new model for the assessment of return-on-investment. Such existing methods as ERR and SROI are sufficient to do the job for which they were designed: to expand the analysis of monetized impacts beyond the limits of a strict financial analysis. There is, to be sure, still a great deal of work needed to research, refine, and explain the workings of these models even though they have been in use for some time.
- At the same time, there is an expressed need for greater use of existing models — along with coordinated research on the results of these applications — particularly in the Pittsburgh region. As the region moves forward in encouraging social enterprise activities, it will need to develop a body of knowledge that can be used to understand the community wealth and social value being created. This knowledge will be even more useful if it can provide meaningful comparisons within industries, as well as across sectors.
- Several important indicators are not directly measured by ERR or SROI methods and must be tracked using another method like the Balanced Scorecard:
- If the Balanced Scorecard is used to determine whether the launching of a social enterprise led to the development of increased business skills within the organization, there must be sufficient documentation of what business skills existed within the organization before the launch, as well as what skills the organization possessed at some reasonable time thereafter. Also, there must a reasonable connection between the perceived result (increased skills) and the perceived cause (enterprise development), i.e., the change would not have occurred anyway.
- If the Balanced Scorecard is to be used this way, the region's nonprofits must commit to use it in a manner that allows for appropriate comparisons. Perhaps consensus can be developed around a small, manageable set of pre/post measurements that could be used as a common baseline, including business skill development, diversification of revenue, and dependence on funders.

FIGURE 3. COMPARISON OF MODELS WITH SIX CRITERIA

	MODEL			
Criteria	ERR	SROI	Balanced Scoreboard	AIMS
Widespread use in the nonprofit sector	X	X	X	
Opportunities for comparative research	X	X	X	
Familiarity among key respondents	X	X	X	
Matches with priorities of key respondents	5	6	6	6
Measures impacts/outcomes in monetary terms	X	X		X
Approximate person-days per month required to implement during initial year	5-60	48	18	n/a

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