Guide to Effective Social Investing

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Introduction – Appreciating and Grieving for the Social Sector

Where government agencies and commercial organizations cannot or will not get involved, nonprofit organizations create supports and opportunities for structurally marginalized groups and otherwise disadvantaged individuals and families. These organizations work tirelessly to improve the lives and life prospects of people young and old who are in crisis, poor, sick, disabled, homeless, from broken homes, seeking help for domestic violence or child neglect and abuse, uneducated or undereducated, unemployed or underemployed, displaced by catastrophes, caught up in and often poorly provided for by public systems and programs. The work to help people who have made bad choices, have been criminals, have abused substances, are suffering from mental illness, are profoundly lonely, and are trying to build decent lives for which their experiences have done little to prepare them. It is no exaggeration to say that nonprofit social services are not only a safety net for the least privileged and most disadvantaged people in our society…but also a crucial bulwark against anomie, social unrest, chaos and despair.[1]

Given this picture, it is an immense tragedy that the sector of nonprofit social services (which for the sake of brevity we will refer to as the social sector) is chronically under-resourced. There are many reasons for this – some of which we discuss farther on – but certainly one of them is the fact that the revenues supporting this sector are fragmented, lack coherent rationality in their apportionment, and are more often than not transitory and unreliable. In short, the government programs, foundations, social investment funds, corporate funders, and individual donors who collectively support the social sector lack any shared standards for selecting the nonprofit organizations and programs they support, for the kinds of information they want from the recipients of their funds, and even for deciding whether anything of value is being accomplished with the resources they provide.

This Guide is intended to provide a means for bringing greater rationality to the ways in which nonprofits are selected to receive funds, and for clarifying how to think about the measurable social value that they – and those who invest in them – can and should be held accountable for creating.[2]

Telling Tales

Here are a few true events (disguised to preserve confidentiality) in which the authors participated in one way or another. They all concern how social entrepreneurs, social investors,

[1] We recognize that some nonprofit organizations – like trade organizations or learning communities – exist to address or promote the specific needs of members and do not necessarily seek to deliver social value beyond that framework. This paper focuses on the vast number of nonprofit organizations that exist to advance some kind of wider social good, generally for the poor, the weak, the sick, the disabled, the marginalized. Similarly, our investment rating tool is designed only to apply to such organizations.

[2] Another *caveat.* We do not include in our considerations those nonprofit organizations such as private universities, hospitals, and museums that have highly resourced public relations, marketing, and revenue raising operations and rely mostly on brand value and appeal to the prestige donors acquire by associating themselves with them.

and more traditional funders approach the issue of whether they or the nonprofits they fund are creating measurable social value.

The Good Samaritan. Recently one of us had dinner with an old friend from high school. He had recently sold his software company for a large sum and now, to complement his "new life" of energetic recreation, he had decided to "give back" – to use his wealth to do something for people living in poverty. He wanted to be a Good Samaritan, and prospect filled him and his wife with joy.

"We want to build a school in rural Guatemala," he said.

"Really. How are you going about it?"

"Well, we're trying to get some of my friends to go in on it with us, others who've recently made it, then to get other funders to join us once they see we're serious."

The interlocutor persisted. "What I mean is…how you are going about it? Like…how did you decide on Guatemala? How are you selecting where in Guatemala you want to build the school, are you doing it through a local public school system, as an adjunct to such a system, as an alternative to whatever local schools there are, with or without the sponsorship of the government? And then, will you do it in a place where other big investors in education are already working or where there aren't any at all? And will you want to employ local teachers or bring in outsiders such as volunteers from the U.S.? What are the curricula you want to see implemented? Do you know they will work with this population? And what is the school intended to accomplish? Educate children who will grow up and build their lives locally, or prepare students to move away…likely to urban centers…with skills that will help them enter the competitive work force…and if so, in any particular sector of the economy?

The Good Samaritan was stunned. "I hadn't thought about most of those questions," he admitted.

"But those are just a few questions that come to mind off the top of my head. There are lots – lots! – more that you absolutely have to answer. And …and I don't want to be negative…but how can you already be looking for investors?"

"Well…I've already got people interested in giving money," the Samaritan said softly. Then, after a rather long silence he sighed. "I guess it's premature…"

The Considerate, Strategic and Accountable Foundation. Several years ago one of us was invited to meet with the Board of Directors of a small foundation that wanted, in the words of its president, to "become more strategic and accountable in our grantmaking." The agenda of the meeting focused on efforts to revise the grant application process in order to further that objective.

At the heart of the proposed new application process was a standardized protocol that all applicants would be expected to complete. One question was of particular interest to the consultant.

"In your application you ask the applicant to discuss what you call the 'root causes' of the problem they want to address," he noted.

"Yes," the president responded. "We're proud of that. We don't want just to address social symptoms. We want to address what causes them."

"I see. But you leave space for at most 100 words. How good an analysis of the 'root cause' of any social problem can you expect in 100 words or less?"

"Well, we don't want to burden the applicants."

"Fair enough," the advisor conceded. "But don't you think you are burdening them by making them answer a profound question in a way that they are bound to regard as trivializing…something they have to do to comply with your demand, rather than as an intrinsically important piece of analysis?"

"But…root causes *are* important! We want to hold ourselves and our grantees accountable for strategically meaningful results."

There was a long moment of silence. The visitor took a deep breath. "Let me come at this from another direction. How big are your grants?"

"Well, we give away anywhere from $1,000.00 to $5,000.00 per grant. And they can re-apply up to three times."

"I see. So for a maximum of $15,000.00 over three years…you expect them to go beyond addressing social symptoms and attack the 'root causes' of social problems? And hold them accountable for doing so? And on top of all this, require them to apply three separate times?"

"Well…"

"And this eases the burden on your grantees…how? And you are confident that your grants are going to address 'root causes' meaningfully…why?"

"I guess," the president acknowledged, "we really haven't thought this through very well."

A Most Generous Board Member. Last year, an organization that works with low income adults celebrated its biggest fundraising success ever. A gala had produced donations of over $4 million, and the next night the Board of Directors' meeting was celebratory.

There was one dissenting voice, that of a relatively new member who had been asking, since joining the board, what data the organization was collecting to understand whether indeed it was producing good results for its clients.

"It really is amazing," he observed, "those success stories that were presented really fired up the guests…and nobody ever asked about how representative they are. This is fortunate, because as far as I know we don't have any data about our outcomes."

He paused and looked around the room. Not receiving an answer he added, “And then they shelled out their dough big-time!”

“Well hell. We know we’re good and they know we’re good. That’s the way it’s done,” the executive director answered.

“Obviously it is the way it’s done…but…”

“Damned right,” another board member declared. “I’m so psyched by our success, right here and how I’m writing a check for another million dollars. Right this second!”

The check was written and accepted, and the donor was acknowledged for the record as *A Most Generous Board Member.*

“We’ll be giving you a framed certificate commemorating that vote,” the executive director announced to a round of applause, though the newest member sat on his hands.

The Embodiment of Charity Done Well. Recently one of us was asked to help a foundation assess what its grants were accomplishing. After reviewing the grant portfolio the consultant suggested to the board of directors that there was no discernable strategy to their giving, that they seemed to be spreading money around to as many local nonprofit agencies as possible.

“Sure,” the board chair acknowledged. “That’s what charity is all about.”

“Okay…but then why bother evaluating your grants?”

“Well that’s what people expect nowadays,” the chair answered, drawing nods from other board members.

“Well,” the questioner persisted, “it’s hard for me to understand what good evaluating charity does…by its nature, charity is all about giving with no notion that one expects anything in return. So why evaluate what your grants are achieving?”

“As I said,” the president said more than a bit impatiently, “that’s what’s expected of foundations these days.”

“Sure,” the consultant persisted. “But foundations that evaluate the results of their grants generally have strategies for their grantmaking, strategies that give their grants a certain focus. And the best performing ones also have carefully developed theories of change that spell out how their grantmaking will create some kind of social value. They have pretty rigorous grantee selection criteria and processes, outcomes that they are investing against, systems for monitoring grantee progress toward achieving these outcomes, and some metrics they track across their grants to provide a basis for evaluating them. As you’ve acknowledged, this foundation doesn’t have any of this.”

The president smiled. “All those things require a big professional staff, databases, and other things that add up to big administrative costs. We’re lean and mean. We take pride in making

sure that over 90 cents on every grant dollar go directly to front line services. That's the embodiment of charity done well."

Investing is Investing, No Matter Where it's Done

In the financial sector, it is assumed that investors should conduct painstaking due diligence research and engage in recurrent monitoring and measurement to ensure that their investments achieve desired results. They are supposed to consider an enterprise's leadership strength, financial viability, organizational depth, and other key factors that contribute to performance. They may be looking for income from their investments or the growth of their share value; they may even be speculating in search of big gains from future success with an unproven company or product. In any case, the idea is that first they should contemplate and hypothesize, then research, then assess the knowable risks against the reward potential, then invest, and then pay very close attention all along the way. And when they don't (which admittedly is perhaps more often than we think), they are open to criticism and possibly even law suits. Not so in the social sector.

In the social sector, many of the donors, foundations, social venture funds, and corporate giving programs writing the checks are inexplicably unsystematic and often undisciplined when it comes to funding nonprofits agencies. They contribute with a desire to make a difference, but often fail to engage in the proper research, analysis, planning, and oversight to ensure their social investments achieve desired results. And rarely are they criticized for this – let alone threatened with legal consequences. It's as if, as several of the stories we've just shared illustrate, giving for giving's sake – doing charity – is good enough. And perhaps for ***feeling*** good it is…but as we see it, this certainly isn't adequate for ***doing*** good!

We believe that our society cannot afford a social sector that lacks standards and shared metrics for making decisions about how to allocate funds to organizations. Too much is at stake: Nonprofits often tackle our society's most serious and intractable problems. We need a vibrant, strong, and accountable social sector. But this will be an impossible dream unless revenues in this sector are channeled with clarity of thought and a high degree of intentionality to create and sustain the social good they are intended to produce or protect.

Unfortunately, if we are to build a robust and effective social sector, there is a major cultural obstacle to be surmounted. While the commercial investor is expected to rely on well developed and thoroughly tested metrics to guide and assess the potential of an investment and then understand its return, this is generally not the case when it comes to nonprofits and their funders. Indeed, many people believe that applying similar metrics to "charitable giving" (the foundational concept that created the nonprofit sector) would be antithetical to everything that charity represents – not to mention the "fact" that such metrics are impossible to create without, on the one hand, making them so nuanced as to be inapplicable across the sector and hence trivial or, on the other hand, making them universal but ponderous, blunt, and thus inherently destructive.

This paper is grounded in our conviction that, at least for the purpose of funding agencies in the social sector, ***funders must let go of the concept of "charity" and replace it with a commitment to pragmatic, unsentimental "social investing."***

Social Investing – Its Promise and Some Implications

What do we mean by social investing? Like any investment activity, social investing is a means to create something of value. Whereas investing in the commercial sector has financial objectives such as creating profits and shareholder value, ***social investing seeks to create value for the people who depend on the services and programs, the supports and opportunities, provided by nonprofit agencies to help them improve their lives and life prospects.*** Like commercial investing, it requires hard work up front and throughout the investment period.[3]

While approaches differ, it is fair to say that social investing will often involve:

- using ***rigorous selection criteria*** to chose nonprofit organizations to support,
- ***structuring investments to strengthen organizations in which investments are made***[4] in order to enhance their ability to provide effective services reliably and sustainably at high levels of quality,
- ***tracking performance*** and providing ***non-financial supports***[5] as indicated, thus helping these agencies succeed in helping the people they serve actually improve their lives and life prospects,
- ***diminishing transaction costs*** to help these organizations stay focused on achieving their respective missions, and
- helping them to ***build reliable revenue streams*** that will support them sustainably at the appropriate level of scale[6] – before terminating the investment.

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[3] This is yet another obstacle: in contrast to social investing, doing "charity" requires little work and provides great emotional rewards.

[4] In practice this typically involves several things such as making long (multi-year), relatively unrestricted investments that the organization can use in whatever ways it needs to in order to succeed against a series of ***pre-negotiated milestones*** – including such things as the ability to create a robust operating reserve, establish or build up its endowment, make capital and infrastructure improvements, and build essential organizational capacities such as an effective board, strong financial and human resource management, effective and efficient program management (with the use of external evaluations when indicated), and organizational performance management. Continued investment should depend – at least to a significant degree – on the organization's ability to achieve its milestones.

[5] These are especially critical if it appears that the organization is experiencing unforeseen setbacks; this is not the time for an investor to cut and run (unless, for example, there was malfeasance or deception involved) – rather, it is the time to roll up one's sleeves and figure out how best to help bring things back on course…to protect one's investment. This does not, however, imply uncritical acceptance of the organization's behavior…it could, for example, lead to tough conversations with the board of directors that might result in the replacement of an executive director.

It is only fair to stipulate here that transitioning from charitable giving to intentional social investing, if widely done, has major implications, some of which admittedly are a cause of discomfort and concern. Easiest to accept is ***the hope*** (and for some investors even the expectation, yet to be proven true) ***that social investing will promote the cultivation and growth of high-performing, nonprofit social service organizations*.**

Less comfortable, perhaps, are its intended corollaries. ***Social investing, if widely adopted***:

- will help ***channel funding streams*** that are directed by measurable performance rather than sentiment., and

- has the potential (yet to be realized and admittedly perhaps never to be achieved) ***to advance a selection process*** that either forces poor performers to evolve and improve or weeds them out.

The bottom line is that social investing, if it succeeds, offers the potential to reduce the enormous opportunity cost of funding organizations that are not high-performers*.* It means scarce resources can be better spent, and intended beneficiaries perhaps will more likely achieve what they have been promised.

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It should be noted that the creation of this guide, our social investment tool that is appended, and the call for transition from charity to social investing, are the results of over three decades of collective experience working in, and with, public and nonprofit organizations to design and implement processes and practices that promote empirical, measurable effectiveness. Among other things, the authors have led and improved the performance of large social service agencies, led successful (and award-winning) efforts to improve organizational effectiveness, helped foundations shift their grantmaking toward more clarity and accountability, created and run and evaluated programs for a variety of public agencies and non-profit organizations, and designed and implemented sophisticated performance management systems that have been used to drive up the performance of many non-profits as well as government services.

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[6] This will vary greatly from one social services organization to the next. Some are inextricably bound to the neighborhoods and communities in which they emerged and evolved, and their strategies may call for them to grow locally up to a certain point (which can be thought of in terms of "market penetration.") Others adopt strategies of aggressive regional and even national growth – through such means as replication, franchising, etc. There is no inherently right approach to scale. But it is fair to say that all approaches to scaling up pose enormous challenges to an organization's ability to maintain its quality and ability to create social value – that is, good results for the people it serves. These matters should be looked at very carefully during the investor's due diligence selection process, and watched carefully throughout the investment period.

Social Value and Its Creation – the Core Issue in Social Investing

As we have indicated already, social investing done well is hard work. Our Guide is not intended to diminish this; rather, we hope it will improve how well this work can be done and lead to sector-wide improvements in grantmaking practices.

Due Diligence in Social Investing. There is probably nothing a social investor can do that is more important than choosing which organizations(s) to support. This requires the investor to examine prospective organizations carefully, and requires that she or he have a clear-eyed view of what makes an organization strong, sustainable, and reliable in its ability to deliver high quality and effective services – and perhaps to replicate or grow while maintaining the quality of its operations and effectiveness of its program(s).

The term (borrowed from the commercial sector) commonly used for such assessments is due diligence, and it there are no shortcuts if it is to be done well.

There is little mystery about what one should look at when conducting due diligence assessments of organizations that constitute prospective investment opportunities. While one might organize these categories in a variety of ways, inevitably they will include evaluating an organization's:

- leadership (board and executive)
- management (senior, mid-level and program)
- financial robustness
- capacities and operational processes
- infrastructure
- strategic partners and other key stakeholders
- legal exposure

We would add, of course, the ability of its program(s) to be of real benefit to the people it serves, i.e., to provide the social return that investors are seeking.

There are many resources the social investor can consult that provide both analytical discussions of, and tools for assessing, the bulleted items. Thus we do not address them here. However, currently there is a dearth of lucidity on how to assess an organization's ability to create social value and sustain it over time – whether it is maintaining its current size or growing in scale. This is the area in which nonprofit funders of all kinds tend to do the least incisive due diligence – and indeed they often shy away from assessing this matter altogether – not from a conviction that it is unimportant but rather from a sense of helplessness regarding how to go about it.

This Guide, therefore, looks only at the due diligence challenge of assessing an organization's capacity to create and deliver social value to the people it serves reliably, at high levels of quality, and sustainable. And the tool we append to the Guide similarly is confined to this matter. For the other key areas of due diligence enumerated above we assume that funders will have the capacity to collect pertinent data or analyze publically available data to make their evaluations of nonprofit agencies in which they might invest.

Introducing a Tool for the Social Investor to Assess the Capacity of an Organization to Create and deliver Social Value.

To support rational and pragmatic social investing, we have developed an instrument that uses clear, easily applied, and meaningful metrics to calculate the potential risk and value of an investment in a nonprofit organization – looked at from the point of view of the likelihood that the organization's programs deliver services that have measurable social value. This tool enables social investors to think about each and every investment they make with the same rigor as commercial investors – and (with regard to the area of the likely social return on their investment) makes it possible for them to ***segment their investments into "blue chip" investments (investments that return predictably high social value with relatively low risk) and "social venture" investments (risky investments with less immediate social value but with developmental possibilities for future creation of high social value)***…or to know they are investing somewhere in between.

In describing and discussing our instrument we intend that the rationale for a more reasoned and accountable approach to funding nonprofit organizations will become evident – and the possibility of doing so with meaningful metrics to inform decisions and understand what social value such investments purchase will be made clear.

Basic Assumptions. Here is how we see things. A social investor needs to understand the implications related to making a specific investment. For instance***, when making a "blue chip" investment the investor basically "purchases" social value while taking on little risk of failure.*** In consequence, the investor can make the deal without much subsequent work to ensure that it will bear fruit. But, it is worth adding immediately, ***relatively few such investment opportunities exist!***

A "social venture" investment is quite different and such opportunities far more plentiful. Like investing in a commercial start-up, a social venture investment is more risky. Social value and social return on investment is not a sure thing, and perhaps not even likely in the short run. In this situation, an investor must look at the potential of the organization, its leadership, its management, its depth, its viability, its focus – and ***its capacity to create social value measured as benefits that accrue to the people it serves*** (which is all we are addressing here). A social venture investment requires the investor to work with the organization and monitor its development to help cultivate it into a high-performer capable of generating social value reliably.

How can one differentiate up front between "blue chip" investments that purchase social value with minimal risk and "social venture" investments that bet on long term potential? And how can one know when the risk for any kind of investment is simply too high, that the poor prospects of creating social value through it are not worth the money and effort? What makes for a good bet…and what makes for a poor one?

To create our investment tool that is designed to help social investors reach such decisions, we have made some key assumptions:

- Whereas investing in the commercial sector ultimately must lead to investors' financial gain and greater shareholder profits, ***in the nonprofit sector the fundamental investment objective is the creation of social value*** – a change for the better for people who receive an agency's services where neither the commercial sector nor government is doing enough to accomplish what needs to be done.

- ***It makes for more effective investing if the social investor will support whole organizations*** (rather than single programs within organizations) ***and as the investment dictates, dedicate energy to strengthening them and helping them*** to deliver their programs and services reliably, sustainably, and at high levels of quality.

- ***Social investors must be clear on what kinds and levels of social value they are seeking to produce through their investments***. For example, an early childhood intervention program results in quite a different set of outcomes than a juvenile justice diversionary program, and investors ought to be clear on such differences and fully conscious of the logic they follow when selecting for investment nonprofit organizations and the programs they run. ***We cannot emphasize this enough: Readers must understand that our investment instrument will not suggest which outcomes are worth investing in*** – knowing what the research says about such matters is up to the investor. ***Rather, our instrument is designed to inform the next step: selecting among nonprofit organizations that are working for similar outcomes – to make informed "blue chip" or "social venture" investments, or something in between.***

The Metrics of the Social Investment Rating Tool

But is that really possible? Can there be a measurable way to assess an organization's ability to create social value that is meaningful and has utility across all the domains where nonprofit social service organizations labor? While currently the widely shared belief that the answer is 'no' still prevails, we are convinced that in fact the answer is, resoundingly, 'yes.' We believe that such an assessment depends on three major performance domains. We call them ***Program Value***, ***Tactical Data Orientation***, and ***Strategic Data Orientation***.

Each performance domain is composed of two performance indicators. We begin by explaining each of the three major domains and their indicators, and then show how their interactions can empirically and measurably indicate the likelihood that a given nonprofit organization creates and is likely to sustain social value (program participant benefits). The information needed to assess organizations using these performance indicators is collected through a relatively short but comprehensive set of some thirty survey questions that we have developed over the course of many years of work with nonprofits, and for which we have field tested parts with well over a hundred agencies to date.

Because in our experience Program Value tends to be found in organizations with strong Tactical and Strategic Data orientations,[7] we have organized our presentation accordingly: we start by

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[7] This correlation does not necessarily work in both directions. Many organizations have tactical and strategic data orientation but are not necessarily providing programs with much value.

presenting the concept of Tactical Data Orientation, then discuss Strategic Data Orientation, and finally look at Program Value. However, we want to emphasize that it is Program Value that primarily drives the creation of social value, and ***any investment in an organization lacking high Program Value is fundamentally risky[8] and requires a clear-eyed investment rationale.***

Matrix 1: Tactical Data Orientation Performance Domain (TD)

The Tactical Data Orientation Performance Domain is defined by two performance indicators:

Indicator 1: Data Management Discipline. This performance indicator has to do with the organization's data collection diligence. All high performing organizations are dedicated collectors of performance data. Without such data, it is impossible to manage effectively and efficiently. Consider an organization that provides reentry services to young people coming out of juvenile detention and prides itself on the culture of data primacy it has carefully developed. Everybody in what we will call Organization A fully understands the importance of collecting clients' demographic and baseline data, program participation data, staff activity data, and process measures – and there is no one in the organization who even questions this "data driven" culture that has the organization working hard and productively, and supplying funders with all the data they require. In fact, being "data driven" is a source of tremendous organizational pride and key to its brand – and endears it mightily to funders.

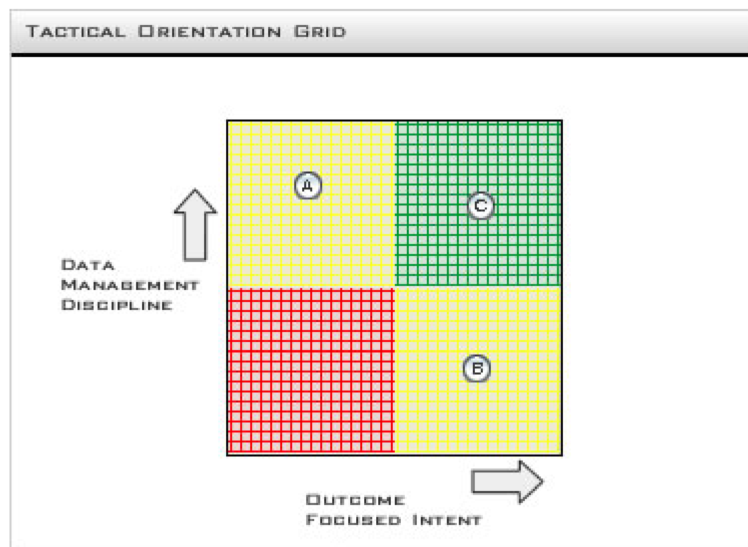

Figure 1

But Organization A has a problem – it does not have a clear set of outcomes and indicators toward which it is striving. ***So while its staff is working hard and productively, it may not be***

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[8] The risk is not simply that funds for a given investment will be spent with minimal likelihood that they will engender social good. A much more dangerous risk is that such investments, in aggregate, will keep funds flowing to organizations offering ineffective programs to people who need help badly but get no benefit. Thus the social opportunity costs of such investments are very high indeed.

working well…at least when the value of its work is considered! This is the condition of those institutions that, like this organization, rate high in "data management discipline" but low in "outcome focused intent." Such organizations are located in the yellow upper left quadrant of the Tactical Data Orientation Performance Domain (TD) illustrated in Figure 1.

Indicator 2: Outcome Focused Intent. This performance indicator assesses an organization's focus on measurable outcomes. An organization works in the homeless sector; and it rates high on this dimension – see Organization B in Figure 1. It has a clear set of outcomes defined by measurable indicators, and even a program logic model for achieving them. And its staff is justifiably proud of the outcomes they are pursuing for clients. "We don't just get people housing," they state proudly (and communicate to funders). "We also look at the fact that they have to be able to get work to keep their housing…and we focus on work all the time."

However, Organization B also has a problem – it is not diligent in collecting the data it needs in order to know whether it in fact is achieving its targeted outcomes, and consequently it can do little to adjust performance if it is having trouble achieving them. Further, it lacks other performance data to help it manage well. Thus it will score high on the "Outcome Focused Intent Performance Indicator," but low on the "Data Management Discipline Performance Indicator." This is the meaning of Organization B having a rating that places it in the lower right quadrant of the Tactical Data Orientation Performance Domain (TD) illustrated in Figure 1.

To summarize: in order to score well (organization C in figure 1) in the Tactical Orientation Performance Domain (TD), an organization must not only be diligent in collecting data, but must also be clear on the outcomes toward which it is working. ***From our point of view, only organizations with ratings in the upper right quadrant of the Tactical Data Orientation Performance Domain (TD) would be eligible to receive a "blue chip," low risk investment rating.***

But Tactical Data orientation, while necessary, is not sufficient. Organizations must use
Their data strategically in order to make good management decisions reliably.

Matrix 2: Strategic Data Orientation Performance Domain (SD)

The Tactical Data Orientation Performance Domain is defined by two performance indicators:

Indicator 1: Relating Efforts to Outcomes. As organizations seek to understand and manage what about their program(s) is working and why it is working, they must be able to connect the performance of their program staff to what is happening with clients. Without such a connection, organizations will not be able to analyze and evaluate the effectiveness of their programming in an ongoing manner and make adjustments in service activities, frequency, and duration in order to maintain and improve results for clients.

Thus it is not good enough to collect outcome data alone. Consider what would happen if an organization working to help school dropouts become attached to the workforce only collected outcome data (youth are employed) but little or no data on program participation, service utilization, or staff activities. There would be no way to differentiate between those clients who

have been through rigorous social and work skills development or who have established a meaningful relationship with a coach who follows and supports them – and youth who simply attended workshops and also ended up employed…even if there is evidence that the latter don't hold on to jobs as well as the former. So outcome collection, while necessary, is not enough. Organizations must also track services delivered (efforts) in order to build a basis for understanding and managing their ability to create social value.[9]

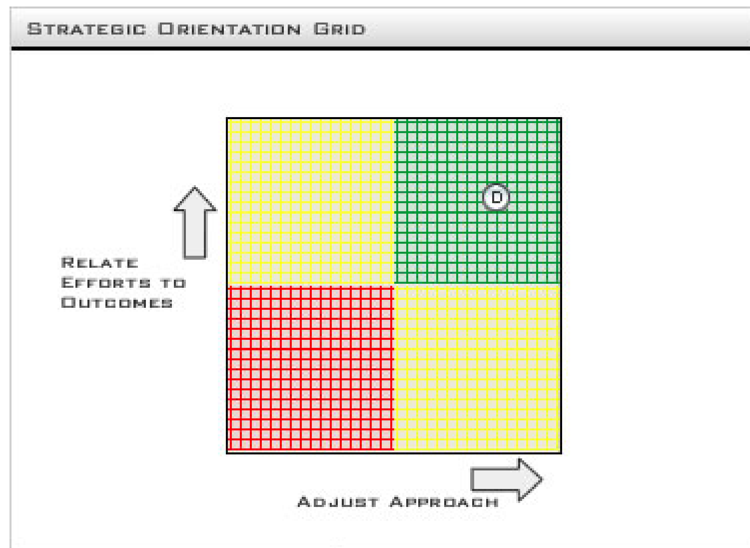

Figure 2

Indicator 2: Adjusting Approach. With relevant internal performance data, a focus on achieving measureable outcomes, and the ability to link efforts to desired outcomes, an organization is equipped with the kinds of information needed to optimize their performance. The "Adjusting Approach Performance Indicator" assesses the organization's capacity to use information to fine tune its work continuously to maximize the effectiveness of its programs and services. Take, for example, an organization that runs a group-based program to combat domestic violence. For a period of time this organization conducted group therapy sessions for abused women and also group sessions for men who abused their wives. To its credit, the organization constantly monitored outcomes and noticed that the men in its group for batterers actually engaged in domestic violence more frequently than they had before entering the group – the group provided a venue where the men reinforced each other's pathological tendencies. As soon as the organization discovered this it ended the group for male batterers and looked for other ways to work with them one-on-one. This organization's ability to alter approach quickly based on the information they collected would earn this organization a good "Adjust Approach Performance Indicator" score; and combined with its focus on relating staff efforts to client outcomes, it would be placed in the green upper right quadrant of the "Strategic Data Orientation Performance Domain (SD)" (organization D in figure 2) ***We believe that only organizations positioned in the upper right quadrant of the Strategic Data Orientation***

[9] True, they can hire external evaluators to do this for them. But the information they get, while scientifically rigorous (one hopes), generally will be too slow in coming to inform day to day management decisions.

Performance Domain (SD) would be eligible to receive a "blue chip," low risk investment rating.

The Tactical Data Orientation Performance Domain (TD) and Strategic Data orientation Domain (SD), while conceptually distinct, are not unrelated. High SD performance relies heavily on the presence of a TD capacity. And both are essential for organizations to develop and maintain our final and most fundamental performance domain, Program Value (PV).

Matrix 3: Program Value Performance Domain (PV)

The Program Value Performance Domain (PV) assesses the likelihood that a program in fact will deliver the social value to participants that it is intended to provide. It is illustrated in Figure 3 and differs from the other domains in that it is the only one with an indicator (Social Value) that focuses on a single program at a time, rather than on the capacities and practices of the organization as a whole. The Matrix is defined by two performance indicators:

Indicator 1: Program Impact Data. This performance indicator assesses the confidence one can have that the program is able to help participants achieve its intended outcomes. Because many programs are billed as worthy investments but are unable to show data supporting their claims of effectiveness – or produce evidence that is so thin that only a wild speculator would care to place a bet on it – this performance indicator plays an critical role in assessing the likely benefit of a social investment.

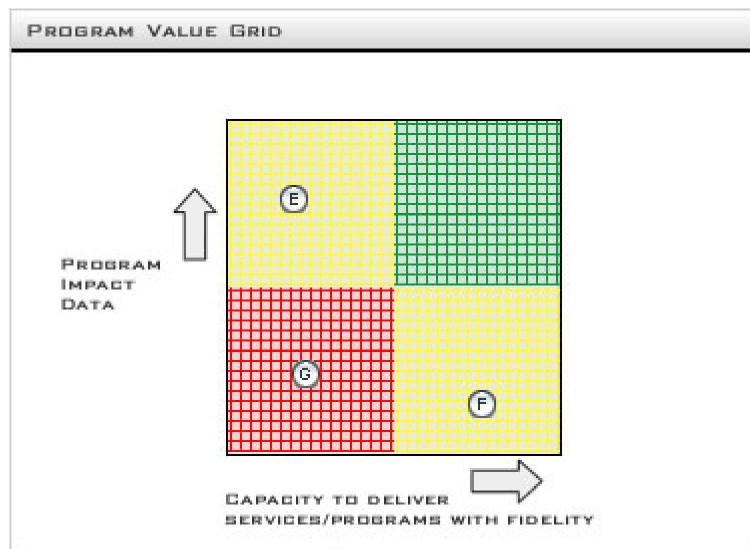

Figure 3

It should be obvious that the social value of a program depends greatly on how well its claims to produce impacts are substantiated through systematic data collection and analysis. A very widely adopted program that arranges for police officers to visit schools and lecture about the dangers of drug use enjoys enormous political, public, and funder support (with ubiquitous bumper stickers advertising it). Yet when it was evaluated systematically it was found not to reduce drug use by the students at all. And another prestigious program, intended to dissuade

young people from continued criminal activities by arranging prison visits where "lifers" paint a grim picture of their likely futures…has turned out, upon evaluation, to increase the participants' violent tendencies. Both these programs would be rated very low on the indicator of Program impact Data – and would be located in a lower quadrant of this Matrix – either the red left hand quadrant (Organization G) or the yellow right hand quadrant (Organization F) in Figure 3.

Clearly, it is not easy for organizations to collect rigorous, quantitative and believable data supporting their claims that the programs they offer indeed produce social value. But on the other hand, it is less difficult than many practitioners and funders in this sector believe. While social investors may want to support organizations' efforts to develop such data they should do so with a clear understanding that this is by its nature a speculative undertaking because in the end the data might show that the program they are supporting produces little social value. However, if it turns out that the program's social value is high, the speculation will have paid off with high social return – that is, if the organization also rates high on the other five indicators we discuss here.

If organizations offer more than one program – a very likely scenario – the question arises how to assess the "Impact Data" indicator across all programs. One approach is to subject each program that is intended to produce outcomes to its own evaluation.[10] Another is to evaluate how well clients of the organization do regardless of the combination of programs in which they participate. Both strategies are challenging and have their strong and weak points. Our approach accommodates either method, but a***dmittedly our Matrix favors organizations that are focused on providing a single program that performs well.*** Why? Because it is easier to rate high on Matrices 1 ("Tactical Data Orientation") and 2 ("strategic Data orientation), to adduce strong evidence that a program is producing its intended outcomes, and also for it to deliver all program elements and services with fidelity (see Indicator 2 below) if an agency concentrated on providing a single program than if its energies and managerial challenges are spread across several.

Indicator 2: Capacity to Deliver Services/Programs with Fidelity. This indicator assesses an organization's ability to run all its programs dependably, at high levels of quality, and with fidelity to program models (regardless of the evidence for each program's effectiveness). Key here is whether or not the organization has a clear understanding of what its program(s) must do, has a clear understanding of all elements and necessary staff/volunteer activities, and has assigned appropriately trained people with the requisite competencies to perform them – that is, whether it has codified its program model(s) and has implemented a system for capturing and managing data related to their performance.

Take for instance an agency we will call Organization E, which works with young people aging out of foster care to divert them from criminal involvement using a program that has been proven effective in multiple evaluations. However, the agency does not have a data system for

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[10] Not all programs necessarily are intended to produce outcomes for clients. Some are outreach programs that are intended to bring marginalized people into programs. Others are programs that make the organization as a whole more attractive to neighborhood residents and thereby increase the likelihood that they will seek services there. Still others appeal to local funders and thereby strengthen the organization's ability to tap revenue streams. Such "hook and glue" programs are beyond the scope of our discussion.

tracking key aspects of implementation and has no internal processes for keeping these elements true to the original program model. Therefore, although it would rate high on "Social Value," it would rate very low in terms of "Capacity to Deliver Services/Programs with Fidelity" – placing it in the yellow upper left quadrant of Figure 3. Or consider Organization F, which works with teenaged girls to help them defer pregnancy and uses a robust performance management system to make sure that all services are delivered just as they were designed, with the proper intensity, and for the prescribed duration. While rated highly in terms its "Capacity to Deliver Services/Programming with Fidelity," it turns out that the evidence it has that its program works as intended is a single study that looked only at graduates who have kept in touch with staff or are otherwise easy to locate – an evaluation very susceptible to what researchers would call "selection bias" and hence not to be relied on as strong proof that the program works as intended. This accounts for the position of Organization F in the yellow lower right quadrant of Figure 3.

It should be obvious that, as with the Tactical Data Orientation and Strategic Data Orientation domains, in the Program Value Performance Domain (PV), robust social value – and hence "blue chip" investment prospects – are to be found most reliably in the green upper right Matrix quadrant.

The Rating Tool: Determining Social Value (SV) as a Basis for Investment in Nonprofit Organizations

It is our belief that the six performance indicators that define the three performance domain Matrices constitute those aspects of an organization that should be looked at closely when a social investor is attempting to determine the likelihood that an organization is able to generate social value (SV) reliably and sustainably. We have developed a short but comprehensive set of 26 weighted questions that, when answered and scored using our formula, produce ratings of organizations in each of the performance domains and display these ratings as shown in Figures 1 – 3. (The tool is appended to this Guide.) These Matrices indicate any agency's social investment profile – the kinds and degrees of risk involved in investing in it to generate social return (and where it will need help to improve its rating).

Clearly, organizations that rate in the red lower left quadrant in all three Matrices are the riskiest investments. That does not mean they should be avoided at all costs.[11] But it does mean that a social investor should proceed with open eyes and the understanding that simply giving such organizations money most likely will not solve their problems. And we propose that the intended results of any such risky investment be the development of the organization itself, not (in the foreseeable future) any outcomes it seeks for the people it serves. Such organizations will need considerable time and significant nonfinancial support – and a high degree of involvement from investors – to help them improve to the point where they are reliable sources of social value. These kinds of high risk social investments (with great opportunity costs) can be considered the equivalent to venture capital investments in start-ups

[11] When this tool is used for benchmarking purposes among organizations it is essential that comparisons be confined to agencies working to achieve comparable outcomes with similar populations.

in the commercial sector…with the enormous risks but high potential that such investments represent. Examples include many beloved grass roots, community-based, neighborhood, and faith-based organizations.

Investments in organizations with domain ratings mostly in the yellow top left and bottom right quadrants are somewhat less risky, but most will require no less by way of vigilance, nonfinancial support and investor involvement if they are to mature into high SV institutions. Again, the opportunity costs are significant and should not be underestimated. But, then again, they offer investors the chance to roll up their sleeves and help nonprofits that they find attractive do what is necessary to become high SV organizations – a real contribution to society when done successfully.

By now it will come as no surprise that ***we see only those organizations with green upper right quadrant ratings <u>in all three</u> Matrices as "blue chip" social investment opportunities*** – where investors' dollars are essentially purchasing proven SV and there is little need for further investor efforts. However, even with such highly rated organizations there is a need for periodic annual reassessment. We believe that by applying this method initially, and at least annually thereafter, investors can usefully track the investment types ("blue chip," "social venture") and risk levels across their social investment portfolios, plan the kind and degree of their involvement with the nonprofits in which they invest, and calculate how best to make future investments align with and enhance the SV for the outcomes that they care about. ***An organization's rating should be seen as something that captures a snapshot of the organization at a single point in time.*** Organizations that are defined as "risky" investments using the rating tool on a given date may, in fact, be on an upward trajectory over a two or three year period that a social venture investor might reasonably expect to see realized. These organizations are perhaps the best long run "bets" of the social venture investor, provided they continue to improve and when appropriate undertake rigorous program evaluations. Of course, in the same line of thinking, a "risky" organization trending the wrong way through periodic use of the assessment tool should be avoided altogether – unless the investment is made very intentionally to arrest or reverse the organization's decline (in which case there should be a time limit after which no further investments are made if no improvement is evident).

Steps to Successful Social Investing

Are these good metrics to guide social investing? Some early reviewers have noted that they don't address the common and critical domains of good organizational due diligence: leadership, organizational depth, financial viability, and so forth. We acknowledge this fully and recognize that this Guide supports only one part of what must be done for a full and rigorous due diligence assessment of any potential social investment. We proffer it because it addresses the consideration of social value – the area that, in our experience, social investors find most challenging to evaluate.

Clearly, social investing can't be reduced to simple formulas. Investors must make judgments. The metrics we have advanced are intended to sharpen and support social investment decision making. Here are a series of steps that an effective social investor will want to take. They are not dissimilar from the ways in which corporate investors make investment decisions:

1. ***Select the domain(s) in which a given investment is intended to produce social value.*** Improve the air we breathe, lower infant mortality, reform public education, save endangered species, reduce fuel consumption, shift public discourse in one direction or another, help high school drop-outs reengage in education and graduate, help structurally unemployed groups attach themselves to the workforce, etc.

2. ***Decide whether to make a "blue chip" or "social venture" investment.*** Some domains such as medicine, where research has amassed lots of rigorous information about evidence-based practice, lend themselves rather well to "blue chip" investments. Other domains, where a field is amorphous or young and still emerging may entirely lack "blue chip" investment possibilities. In these circumstances "social venture" investments must be seen as high risk and long term…but with luck, hard work, and creativity on the part of the investor(s) may result in high social value creation many years down the road – leading to the creation of a new "blue chip" social investments.

3. ***Perform rigorous due diligence.*** Assess the leadership, leadership (board and executive), management (senior, mid-level and program), financial robustness, capacities and operational processes, infrastructure, strategic partners and other key stakeholders, and legal exposure of organizations that appear to be good investment candidates.

4. ***Invest with high intentionality.*** If the investment is clearly of the speculative "social venture" kind, be prepared to bring considerable non-financial supports to bear and look to stay in for the long haul in order to realize a good social return. "Blue chip" investments generally require less ongoing efforts by investors…but it is essential to keep track of how they are doing and be ready to step in if data suggest that an organization's performance is declining.

5. ***Share investment performance data.*** Social investing should not be secretive and competitive. The social sector requires that social investors share the results of their investments and collaborate to create rational revenue streams with clear, highly transparent selection criteria – both for speculative "social venture" and for less risky "blue chip" investing. Only in this way will the social sector become strong enough to meet the awesome responsibilities invested in it by the social and public policies of our society.