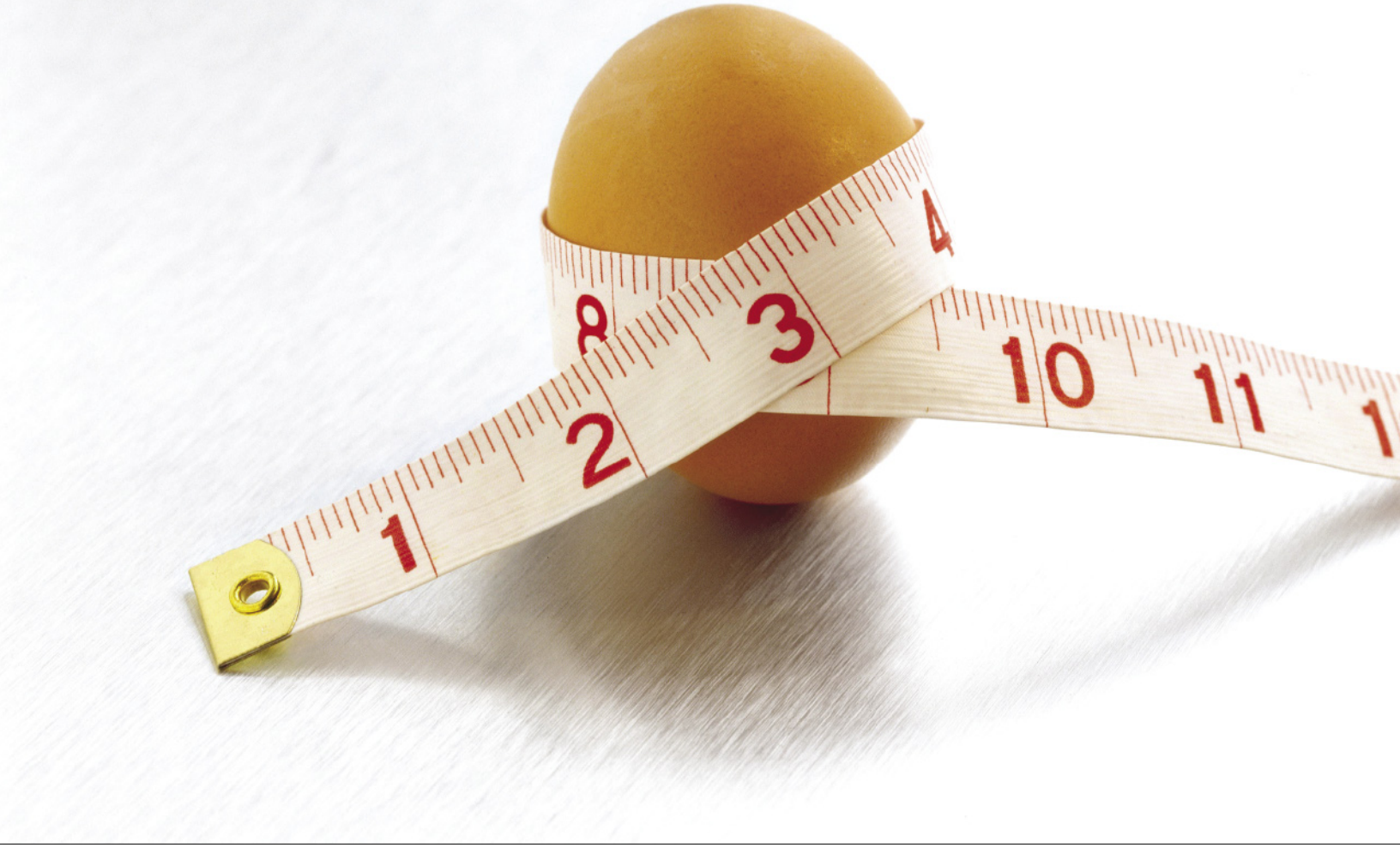
Measuring Innovation:

Evaluation in the Field of Social Entrepreneurship

Mark R. Kramer

April 2005



FSG

skoll FOUNDATION

About the Skoll Foundation

Headquartered in Palo Alto, California, the Skoll Foundation was created in 1999 by Jeff Skoll, the first employee and first president of eBay. Its mission is to advance systemic change by investing in, connecting and celebrating social entrepreneurs, who are individuals dedicated to creating new solutions that result in lasting improvements to communities around the world.

The Skoll Foundation invests in social entrepreneurs through three award programs. The foundation connects social entrepreneurs through its online community, Social Edge, at www.socialedge.org, and via the annual Skoll World Forum on Social Entrepreneurship at the Skoll Centre for Social Entrepreneurship at Oxford University. It celebrates social entrepreneurs through projects such as a four-part public television documentary called "The New Heroes" that will be broadcast in 2005.

For more information, visit www.skollfoundation.org.

About Foundation Strategy Group

Foundation Strategy Group, LLC is a mission-driven social enterprise dedicated to advancing the practice of philanthropy and corporate social investment through consulting to private foundations, community foundations, and corporations.

With offices in Boston, San Francisco, and Geneva, our international team of full-time consultants—drawn from some of the world's top strategy consulting firms—combine the highest standards of strategy consulting with a deep understanding of philanthropy and the nonprofit sector. We invest heavily in research to learn and to develop new ideas, and our thinking is regularly featured in such publications as *Harvard Business Review, Stanford Social Innovation Review, The Chronicle of Philanthropy,* and *Foundation News and Commentary.* Throughout each engagement, we work closely with our client's staff, leadership, and board to ensure broad consensus around creative and pragmatic recommendations. Our goal is to help our clients do good, better.

For more information, please visit www.foundationstrategy.com.

Measuring Innovation:

Evaluation in the Field of Social Entrepreneurship

Mark R. Kramer

Prepared for
The Skoll Foundation
by
Foundation Strategy Group
April, 2005

Acknowledgements

Foundation Strategy Group gratefully acknowledges the support of the Skoll Foundation in the research, writing, and publication of this report. Beyond their financial support, the firsthand learning that came from working alongside the Skoll staff, the enthusiastic cooperation we obtained in our interviews whenever we mentioned the Skoll name, and the leadership of Sally Osberg and Barbara Kibbe have all contributed immensely to the creation of this report.

We are especially grateful to the two dozen leaders in the field of Social Entrepreneurship whom we interviewed. It is only by listening carefully to their candid insights and thoughtful ideas, as well as by reviewing the internal documents they so generously shared with us, that we have been able to gain insight into the challenges and opportunities they face in the practice of evaluation.

Research Support

The research and analysis for this report was compiled from interviews and a literature scan conducted by Fay Hanleybrown, Laura Loker, Abby Pelcyger, and Sunder Ramakrishnan of the Foundation Strategy Group.

Disclaimer

Quotations from interviews are presented in italics throughout this report. All other statements and conclusions, unless specifically attributed to another source, are those of the author and do not necessarily reflect the opinions of the interviewees, the Skoll Foundation, or its donor, staff, and grantees.

Table of Contents

1. Executive Summary 1

2. Social Entrepreneurs and Evaluation 4
   2.1 What Makes a Social Entrepreneur?
   2.2 Evaluation in Philanthropy

3. Evaluation in the Field of Social Entrepreneurship 8
   3.1 A New Field with a Different Vision
   3.2 Conducting Evaluation before the Grant
   3.3 Measuring Progress Against Self-Determined Goals
   3.4 Tracking Stages of Organizational Development and Growth
   3.5 Estimating Economic Benefits and Financial Leverage
   3.6 Shared Learning

4. Conclusion 27

Sidebars:
   List of Interviewees 5
   Fast Company–Monitor Group "Social Capitalist" Awards 12
   Keystone: Standardizing Measures of Performance 17
   REDF: Calculating Social Return on Investment 22

Appendices:
   A. Schwab Foundation for Social Entrepreneurs Selection Process . . 30
   B. Echoing Green Mid-Year and Year-End Reports 35
   C. New Profit, Inc. Balanced Scorecard Summary 38
   D. Ashoka Fellows Ten-Year Anniversary Questionnaire 40

Bibliography 42

I. Executive Summary

Social Entrepreneurship has brought a new vision to the field of philanthropy and, with it, a different perspective on evaluation. In fact, many familiar approaches to evaluation in philanthropy miss the key criteria that funders consider essential to success within the field of Social Entrepreneurship.

Within this young field, funders have invented their own ways of assessing performance, often independently of parallel efforts by their colleagues. As a result, a review of prevailing practices elicits different but overlapping solutions to a common set of problems. The purpose of this paper is to explore the various approaches to evaluation in Social Entrepreneurship today, documenting the practices currently in use so that new entrants to this emerging field will not need to reinvent the tools already developed by its pioneers. At times, these newer ways of thinking seem better suited to the messy realities of social change than some of the more familiar approaches currently used in philanthropy. Conversely, the pragmatic approach to evaluation within the field of Social Entrepreneurship sometimes lacks the discipline and reliability of more well-established approaches. It is our hope, therefore, that this report will offer opportunities for mutual learning between the field of Social Entrepreneurship and the broader field of philanthropy as well.

The purpose of this paper is to explore the various approaches to evaluation in Social Entrepreneurship today, documenting the practices currently in use so that new entrants will not need to reinvent the tools already developed by its pioneers.

Our research is based on a scan of the relevant literature and a series of two dozen interviews with funders, Social Entrepreneurs, and scholars in the field. We do not claim that our study is comprehensive, nor does it provide ready answers the many persistent measurement challenges posed by efforts to fund social change. Any attempt to summarize the many approaches to philanthropy and evaluation used by foundations today – not to mention the different definitions of Social Entrepreneurship – is certain to risk oversimplification. Nevertheless, we hope that the synthesis of issues and collection of examples offered here will stimulate further constructive thought, dialogue, and collaboration.

1. A New Field with a Different Vision – It is impossible to draw clear lines between Social Entrepreneurs, other nonprofit leaders, and for-profit entrepreneurs with socially beneficial businesses. It is similarly difficult to separate those who fund Social Entrepreneurs from other donors. For purposes of this report, however, we define the Social Entrepreneur as one who founded and leads an organization, whether for-profit or not, that is dedicated primarily to creating large scale, lasting, and systemic social change through the promulgation of new ideas, attitudes, and methodologies. This emphasis on the person, the idea, and the organization leads to important differences in the purpose and process of evaluation. Many approaches to evaluation focus on measuring the impact of a specific grant-funded program on its intended beneficiaries. The character and leadership abilities of the people who run the programs, the financial leverage and sustainability of the sponsoring organization, and the extent to which others may copy the program's ideas are often extraneous factors.

In the field of Social Entrepreneurship, however, these are the central criteria for success. The people identified as Social Entrepreneurs are viewed as the essential proponents of social change and, therefore, their personal growth and capabilities as leaders are assessed. Rapidly growing and sustainable organizations – whether for-profit or nonprofit – are the vehicles for delivering social impact, and so their financial health and ability to leverage resources are evaluated. Finally, having an innovative approach is a defining characteristic of Social Entrepreneurs, and the spread of that approach to other organizations or regions is a major criterion for success. As long as their grantees are on track to rapidly deliver large-scale social benefits in a leveraged and sustainable way, those who fund Social Entrepreneurs seem less concerned about choosing among the specific social problems their grantees tackle, the

© 2005 Foundation Strategy Group

regions they work in, or the kinds of social outcomes they deliver.

2. Conducting Evaluation before the Grant – Those who fund Social Entrepreneurs are looking to invest in a person or organization with a demonstrated ability to create change in the hope of expanding the reach of an idea that already seems to work. The factors that matter most – the character of the person; the financial, strategic, and managerial strength of the organization; and the innovativeness and scalability of the idea – can all be evaluated before funding is committed. As a result, the selection process – which normally would be entirely separate from the evaluation of impact – is consistently described as a key element of evaluation by those who fund Social Entrepreneurs. This up-front evaluation often requires six to twelve months of intense scrutiny and joint planning, including site visits and expert reviews. Post-grant evaluation is often more focused on tracking rates of expansion, rather than testing a theory of change.

3. Measuring Progress Against Self-Determined Goals – Social Entrepreneurs might be found tackling any imaginable issue in any country in the world, and their innovative approaches are often specific to the problems and regions where they work. Funders, therefore, most often measure Social Entrepreneurs against the diverse goals they set for themselves, using simple and inexpensive measures tailored to the particular circumstances. Funders in this field also tend to maintain close engagement with a small portfolio of grantees. The depth of knowledge that comes from working closely together reduces the need for more formal evaluation techniques and gives funders the flexibility to readjust goals in light of unanticipated setbacks or changes in direction. Even if the original idea fails, the funder and Social Entrepreneur may continue working together to find alternative solutions. Setting objectives collaboratively with grantees and maintaining closely engaged relationships are not practices unique to Social Entrepreneurship, but there is a noticeable difference in both prevalence and degree when compared to the field of philanthropy more broadly.

4. Tracking Stages of Organizational Development and Growth – There is a consistent emphasis throughout this field on rapid growth in scale of impact. Some funders track the number of "lives touched" as a simple measure of expanding impact, while others look to the growth of the organization at different stages in its life cycle. Early stage funders tend to evaluate the character and effectiveness of the individual Social Entrepreneur as well as the potential of the idea rather than the actual results achieved. Over the organizational life cycle, however, expectations for management performance, cost effectiveness, and scale of impact increase rapidly, requiring very different evaluation criteria at different stages of maturity. The stages of organizational development are often similar, even for organizations pursuing very different objectives, and funders sometimes evaluate these dimensions – such as the quality of governance, management, fundraising, and the like – as measures of success. In these cases, social impact is sometimes inferred as a byproduct of a rapidly growing and well-managed organization.

The hope that philanthropic performance could be boiled down to a single number and compared across different objectives remains tantalizing in this field, but none of our interviewees believed that this goal was yet within reach.

5. Estimating Economic Benefits and Financial Leverage – Another set of measures involves economic performance. In some cases, this refers to traditional business metrics of financial performance, especially for those funders that use debt or equity investments rather than traditional grants. Others attempt to estimate the monetary value of the social benefits that have been created, in order to calculate a social return on investment. This works well for programs that create employment or reduce poverty, but not for other kinds of programs such as those focused on preserving biodiversity or promoting civic engagement. Finally, some funders look at the funds raised from other sources as leverage on their own contribution, a proxy for impact, and a measure of organizational sustainability. None of these measures of economic performance, in themselves, paint a complete picture or prove that a particular approach is the most effective one. The hope that philanthropic performance could be boiled down to a single number and compared across different objectives remains tantalizing in this field, but none of our interviewees believed that this goal was yet within reach.

© 2005 Foundation Strategy Group

6. Shared Learning – Whether they work in the same geography, on similar issues, or in unrelated areas, Social Entrepreneurs have found value in coming together to form networks for mutual learning and support. Increasingly, their funders are measuring the vitality of these networks as much as the success of individual projects. Evaluation in this field, therefore, often includes metrics that track interactions among grantees. Funders also solicit detailed feedback about their ability to support these networks and provide other useful non-monetary services to their grantees. Many other foundations have begun to convene grantees and to assess their own effectiveness in recent years, but outside of Social Entrepreneurship, these practices are less prevalent. Finally, there is a recognition that the success of Social Entrepreneurs always rests, in part, on subtleties like their vision, the momentum behind their idea, changes in popular attitudes, and acceptance by major institutions. In order to capture these intangible indicators, gain practical advice, and inspire new donors, all of our interviewees relied on specific stories, case studies, and anecdotes to supplement their other measures.

Ultimately, the emerging approaches to evaluation within the field of Social Entrepreneurship are a healthy development for the field of philanthropy overall. They focus our thinking on the pragmatic question of how to help more people sooner and, in its essence, helping people is what philanthropy is all about.

In conclusion, evaluation practices within the field of Social Entrepreneurship are often similar to practices in philanthropy more generally, yet they also reflect a pronounced difference in attitude. In part, these differences are rooted in a dichotomy between the academic sources of evaluation in philanthropy, and the venture capital influence behind Social Entrepreneurship. Simply put, the scholar and the businessman test their ideas in very different ways.

Established foundations often develop a theory of change or logic model, then fund demonstration projects and use evaluation to test or improve on their model. If the intervention is successful, they often leave to others the role of large-scale implementation. Within the field of Social Entrepreneurship, however, the primary goal is to catalyze change rapidly on as massive a scale as possible. The measures that matter most are practical indicators that can be tracked and acted on in real time to spread ideas or build strong organizations that can reach more people more cost-effectively. Those who fund Social Entrepreneurs can see for themselves the benefits that come to the lives touched, and they often consider direct observation to be a sufficient basis for their funding decisions. The added precision that comes from more rigorous study is often viewed as too costly and coming too late. There may be uncontrolled variables, unanticipated consequences, or impacts that cannot be measured, but Social Entrepreneurs and their funders seem untroubled by the inability to measure fully and precisely all aspects of their social impact.

Foundations in general might learn from the attention that funders of Social Entrepreneurs pay to building strong organizations and delivering social benefits rapidly on a large scale. The day is long gone when foundations could merely demonstrate an innovative model and then depend on government to deploy it widely. Conversely, funders of Social Entrepreneurs rely heavily on self-reporting by grantees and permit constant flexibility in revising their goals. Their tendency to work in many disparate fields and regions may limit their ability to build expertise, aggregate results, and gain credibility among mainstream funders. Adopting more rigorous evaluation techniques might enable these funders to more systematically understand and strengthen the theory of change that underlies their approach.

Ultimately, the emerging approaches to evaluation within the field of Social Entrepreneurship are a healthy development for the field of philanthropy overall. They focus our thinking on the pragmatic question of how to help more people sooner and, in its essence, helping people is what philanthropy is all about.

© 2005 Foundation Strategy Group

2. Social Entrepreneurs and Evaluation

By far the highest leverage you have is when you change expectations.

In recent years, the term "Social Entrepreneur" has captured the imagination of major foundations and private funders, spreading rapidly throughout the nonprofit sector. One study found the phrase mentioned in mass media publications more than 700 times in a recent three-year period.[1] Already, a critical mass of foundations, academics, nonprofit organizations, and self-identified Social Entrepreneurs has emerged and begun to coalesce into a distinct discipline. Yet the factors that distinguish Social Entrepreneurs, and the strategies of those that fund them, bring a new set of challenges to evaluation. Funders, thought leaders, and the Social Entrepreneurs themselves have responded to these challenges with innovation and insight, developing new approaches to fit their needs. What has been lacking, however, is the opportunity to scan the field as a whole and bring together the collected wisdom that different players have developed independently.

This paper seeks to collect the prevailing practices in evaluation within the emerging field of Social Entrepreneurship, offering a range of examples so that those engaged in this work can learn from each other's experience and also, perhaps, contribute to the current state of thinking about evaluation within philanthropy more broadly.

Our research consisted of 26 interviews during the fall of 2004 with Social Entrepreneurs, foundations that fund them, and thought leaders who study and write about them. (See Sidebar: *List of Interviewees*.) Our interviewees represent only a small sample of those involved in Social Entrepreneurship, yet we believe that it is representative of the different approaches and perspectives within the field. If an interviewee was actively engaged in evaluation, we requested and reviewed copies of internal documents describing the evaluation process, and we also conducted a literature scan. (See Bibliography.)

We discovered, during the course of this research, that the words "Social Entrepreneur" and "evaluation" mean different things to different people, so our first challenge was to define these terms more carefully.

2.1. What Makes a Social Entrepreneur?

The term "Social Entrepreneur" has at least three different definitions, and each carries different implications for evaluation. The earliest use of the term referred to an ordinary nonprofit organization that becomes "entrepreneurial" by starting a profitable business venture on the side to generate earned income. Ideally, the venture will be related to its social mission, but the primary objective is to generate income, – so evaluating success can be determined by looking at the bottom line.

The term "Social Entrepreneur" has at least three different definitions, and each carries different implications for evaluation.

More recently, fueled by its fundraising appeal, the term has been used loosely to apply to any leader of a nonprofit organization who has the charisma and ambition to expand.

1 Taylor, Hobbs, Nilsson, O'Halloran, and Preisser, *The Rise of the Term Social Entrepreneurship in Print Publications*, Babson College, 2001.

© 2005 Foundation Strategy Group

List of Interviewees

- **David Bonbright**, *Founder, Keystone*
- **David Bornstein**, *Author,* How to Change the World: Social Entrepreneurs and the Power of New Ideas, *Oxford University Press, 2004*
- **Susan E. Davis**, *Founder, Capital Missions*
- **Susan M. Davis**, *Chair, Grameen Foundation USA*
- **Greg Dees**, *Adjunct Professor, Center for the Advancement of Social Entrepreneurship, Fuqua School of Business, Duke University*
- **Cheryl Dorsey**, *President, Echoing Green*
- **Dr. Martin Fisher**, *Co-Founder & Executive Director, ApproTEC-International*
- **Tim Freundlich**, *Director, Strategic Development, Calvert Social Investment Foundation*
- **Jim Fruchterman**, *President & CEO, Benetech*
- **Raul Gauto**, *Council Member, AVINA Foundation*
- **Sushmita Ghosh**, *President, Ashoka*
- **David Green**, *Founder, Project Impact*
- **Pamela Hartigan**, *Managing Director, The Schwab Foundation for Social Entrepreneurship*
- **Tammy Hobbs Miracky**, *Account Manager, Monitor Group*
- **Vanessa Kirsch**, *Founder & President, New Profit, Inc.*
- **Mario Morino**, *Chairman and Managing Partner, Venture Philanthropy Partners; Chairman, Morino Institute*
- **Gary Mulhair**, *Managing Partner, Global Partnerships*
- **Dr. Alex Nicholls**, *University Lecturer in Social Entrepreneurship and Fellow of Harris Manchester College, Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford*
- **Jacqueline Novogratz**, *Founder & CEO, Acumen Fund*
- **Julia Novy-Hildesley**, *Executive Director, The Lemelson Foundation*
- **Paul Rice**, *President and CEO, TransFair USA*
- **Carl Schramm**, *President & CEO, The Ewing Marion Kauffman Foundation*
- **Adele Simmons**, *Senior Adviser, World Economic Forum; Senior Executive, Chicago Metropolis 2020 (former President of the John D. and Catherine T. MacArthur Foundation)*
- **Elizabeth Stefanski**, *Director of Operations, Global Giving*
- **Jenny Shilling Stein**, *Executive Director, Draper Richards Foundation*
- **Melinda Tuan**, *Co-Founder, Roberts Enterprise Development Fund*

In the words of one interviewee:

> *Social Entrepreneurship seems to be the "same old stuff" dressed up by more market-savvy leaders who are conning poor foundations into thinking this is something different.*

There is, however, a third definition that applies to an unusual set of social-sector leaders and the organizations they have created. First, these leaders have broken down the barrier between nonprofit and for-profit sectors, insisting that both vehicles can be effective for achieving social change, and adopting the freedom to use either or both financial structures to reach their goals.

A second distinguishing feature of these Social Entrepreneurs is the ambition to create systemic change by introducing a new idea and persuading others to adopt it. The Social Entrepreneur reconceptualizes the problem, seeing ways to prevent or cure it that have not previously been tried. Inherent in the definition of a Social Entrepreneur is this idea of finding a new way of doing things – viewing the world through a different lens, and working to change the attitudes and behavior of others to her way of thinking. This emphasis on a novel approach differs from ordinary nonprofits and non-governmental organizations, which usually work within existing approaches and conventions.

Finally, there is an ambition among Social Entrepreneurs to achieve on a scale that most nonprofits never even imagine – not just to serve a local constituency, nor even to build a national organization, but to create lasting changes in behavior across an entire nation or even around the world, improving the lives of millions of people.

For purposes of this paper, the term "Social Entrepreneur" refers to this third definition: One who has created and leads an organization, whether for-profit or not, that is aimed at creating large scale, lasting, and systemic change through the introduction of new ideas, methodologies, and changes in attitude.

Perhaps the best example of Social Entrepreneurship is the development of microfinance. It was long taken for granted that one could not lend money to the poor. The default rate and transaction costs would outweigh any possible economic return, and the amounts would be too small to provide any meaningful social benefit. By the 1970s, international development organizations had a decades-long record of failure attempting to assist poor populations in developing countries through traditional loan techniques. Then two new organizations, ACCIÓN in Latin America and Grameen Bank in Bangladesh, through a decade of experimentation, developed radically different ways of lending to the poor. Their innovative methodologies, now known as microfinance, have delivered tremendous social impact with the discovery that even $50 might be enough to acquire a sewing machine and fabric, enabling a woman to support her family. The loans also provided attractive financial returns to investors once it was demonstrated that unexpectedly high interest rates of 20% or more were affordable and that the innovative practices developed by ACCIÓN and Grameen consistently resulted in a 97% repayment rate.

Both organizations have grown to a significant scale, but the power of their ideas has far eclipsed them. Today there are several thousand microfinance lending institutions around the world serving 41.6 million households and supporting over 200 million individual family members. Almost none of these lending institutions are related to the social entrepreneurs who founded this field, but all employ variations of the approaches that they invented.

Here, then, are the classic components for social change achieved by Social Entrepreneurs: A visionary leader, a period of experimentation that gives rise to new and more effective ways to create social benefits, an organization with rapidly growing influence, and an idea that has spread around the world, helping millions of people.

Social Entrepreneurs are funded by many different types of donors, of course, from private individuals to large, well-established foundations, governments, and international aid organizations. Yet within these many sources of support, a small set of funders has emerged that are exclusively dedicated to finding and funding Social Entrepreneurs. These funders often act very differently from each other, yet there is an underlying set of shared values that distinguishes them as a group from other donors. The term "funders of Social Entrepreneurs" in this report applies only to this discrete set of self-selected funders, while the term "Social Entrepreneurship" encompasses these funders, thought leaders, and the Social Entrepreneurs themselves.

> Social Entrepreneurs and those who fund them bring a highly pragmatic and flexible approach that evinces a distinctly different attitude toward the process and purposes of evaluation.

© 2005 Foundation Strategy Group

2.2 Evaluation in Philanthropy

Across the field of philanthropy as a whole, evaluation is rare. Of the 60,000 foundations in the United States, we estimate that only a few hundred regularly conduct formal evaluations, and fewer than 50 have evaluation experts on staff. Even the foundations that practice evaluation most consistently do not formally evaluate a majority of their grants.

Among those relatively few foundations that consistently conduct formal evaluations, the purpose of the evaluation, the techniques used, and the degree of rigor vary widely. Some evaluate the process of implementing the grant-funded program to assess whether it is being delivered as planned. Others simply track the program inputs or outputs, such as the cost or number of people served. Still others attempt to track short-term outcomes, such as the changes produced in circumstances or behavior over one to three years. Finally, some attempt to measure the ultimate social impact by assessing the more enduring social changes that can be attributed to a grant or program. The techniques used to evaluate grants and programs are also varied, from a self-report by the grantee to the use of outside evaluation experts and rigorous academic studies that contrast the long-term effect on program participants against a carefully selected control group.

The field of Social Entrepreneurship has invented its own approaches to evaluation that suit its fundamentally different perspective.

Evaluation techniques can also be applied at different levels: to a specific grant, grantee organization, program area, foundation, or a field as a whole. Even the purpose of conducting evaluation has expanded from measuring the results of a grant or testing a logic model to the much broader goals of organizational learning, capacity building for grantees, knowledge management, and improving the performance of foundations themselves.

The field of Social Entrepreneurship draws upon this rich diversity of evaluation approaches, yet the Social Entrepreneurs and those who fund them bring a highly pragmatic and flexible approach that evinces a distinctly different attitude toward the process and purposes of evaluation. For example, summative evaluation – a retrospective study that attempts to measure the outcome or impact of a grant after the program has been implemented – is rarely used in Social Entrepreneurship because it is generally seen as too costly and protracted to provide timely feedback. Funders tend to stay in such close contact with the Social Entrepreneurs they fund that outside evaluators are rarely used to play a facilitative role or to capture learnings that arise during program implementation. The evaluation of organizational capacity is an important factor in the field of Social Entrepreneurship, as discussed in section 3.4, yet much depends on the stage of the life cycle, spread of the idea, and personal growth of the Social Entrepreneur. Cluster evaluation – the assessment of multiple grants or grantees that share a common social objective – is hard to apply because of the diversity of regions and fields in which funders tend to work. In short, the field of Social Entrepreneurship has invented its own approaches to evaluation that suit its fundamentally different perspective.

© 2005 Foundation Strategy Group

3. Evaluation in the Field of Social Entrepreneurship

We're not giving people fish. We're not teaching people how to fish. We're trying to change the whole market of how we deliver fish to people. If you claim to do that, you can't just measure how many fish you deliver.

3.1. A New Field with a Different Vision

Social Entrepreneurs are a diverse group. They might be found tackling any imaginable issue in any country in the world. Their innovative ideas lead them to cross the divisions between traditional disciplines, and the solutions they develop are often uniquely suited to the culture and circumstances of the communities in which they work. Their funders also adopt a variety of approaches: some only make investments in debt or equity, others use charitable grants. Some support the Social Entrepreneur as an individual at her earliest stages of experimentation, others focus more on the growth and efficiency of the organization at later stages of development. Yet beneath this diversity, there is a common perspective that distinguishes the new field of Social Entrepreneurship from other approaches to philanthropy and evaluation.

For example, other donors often begin by choosing which social issue or program area to address and which geographical region to work within. A foundation might decide, for example, to fund housing, health, or education in its home city or in a developing country. In fact, many foundations organize their staff and operations into discrete program areas, each focused on a different issue or geographical area.

Those who fund Social Entrepreneurs, however, think differently. They seem far less concerned about which particular issue to address and which region to work in. Like an investor who seeks a certain rate of return, but doesn't care whether that comes from buying stock in a pharmaceutical or software company, those who fund Social Entrepreneurs seem to focus much more on the scale and sustainability of impact, and the leverage of their dollars, than on the particular social issue being addressed. A few funders have limited themselves to a single field, and others have retrenched into program areas after initially trying to work without them. Our interviews disclosed, however, that within a broad range of human needs, many funders of Social Entrepreneurship seem almost indifferent as to which social issue they tackle.

> Within a broad range of human needs, many funders of Social Entrepreneurship seem almost indifferent as to which social issue they tackle.

> *We didn't even touch the question of whether they were targeting an issue that fits our strategy. We came down with a human social need requirement, but besides that we were agnostic about the issues.*

> *We put weight into thinking about the type of impact they want to have, how sophisticated are they in identifying the need and understanding what levers they need to pull to have impact, and what metrics they've defined to measure the progress they're looking for. But we don't believe at this point that the measurement technology enables us to say that serving 1,000 students*

© 2005 Foundation Strategy Group

with x level of impact compares to serving 45 drug-addicted homeless with y level of impact.

At the end of the day, we're trying to find solutions that work. We don't make a value judgment that malaria bed nets are more important than houses. We say:

- *Are these investments on track doing what they said they'd be doing?*
- *Do we see these having potential towards sustainability?*
- *What are the market forces? If you sell a farmer a $30 drip irrigation kit and their income quadruples, market forces will start forcing that. It may not be at the top of our list or as strong on impact. But in the future, this could transform agriculture globally, and that tells us we made the right bet.*

Instead of focusing on which issue to solve, funders of Social Entrepreneurship are looking for a rare and potent combination: They want to fund a driven and entrepreneurial leader with a system-changing idea and a solid organization that is capable of rapid growth and financial sustainability. These three elements — the person, idea, and organization — came up again and again in our interviews as the primary criteria in choosing projects to fund.

> Evaluation within Social Entrepreneurship tends to be less often about testing a pilot program or validating a theory of change, and more often about tracking the growth or potential for growth of an intervention or idea.

[We look for] an organization driven by an individual who is behaving in the social sector the way an entrepreneur would in the for-profit sector — someone who is impassioned by an idea and trying to direct all resources possible towards that idea and who won't rest until that happens.

When you talk about Social Entrepreneurship, you are really talking about focusing on the Social Entrepreneur, people with unusual entrepreneurial abilities...

It's an idea in the hands of an individual. You have to have both. Just because you have a real Social Entrepreneur doesn't mean the idea's there and they're at that takeoff moment.

Before we undertake any activity, there are two tests each program must pass: 1. Is it a systems-changing idea? 2. What is the ju jitsu point — what's the point of leverage that you're trying to tackle? Why does it make sense?

This difference in perspective has obvious consequences for the role of evaluation. Many approaches to evaluation by foundations do not take into account the leadership qualities of the person with the idea; the financial sustainability, managerial strength, and growth rates of the organization that operates the program; or whether the idea itself is being adopted in other regions. In short, many common evaluation techniques often miss entirely the primary criteria of success as viewed by funders in the field of Social Entrepreneurship.

A second key difference lies in the importance that Social Entrepreneurship attributes to rapidly and cost-effectively delivering widespread social benefits. Many foundations, having once selected the issue and region in which they will work, see their role as testing new ideas through demonstration grants to small-scale pilot programs. These foundations develop a theory of change or logic model that specifies a set of goals and a hypothesis about what programs or interventions will contribute toward reaching those goals. Grants are made to those programs, and evaluation techniques are used to determine whether the programs' outcomes validate the foundation's theory of change by demonstrating progress toward the goals. Whether a successful program actually spreads to other locations, whether it is cost-effective, and whether it is adopted by other funders is typically viewed as a matter of implementation beyond the scope of the evaluation.

Within Social Entrepreneurship, however, large-scale implementation is the paramount objective. Cost-effectiveness, efficiency, and an alignment with market forces or economic incentives are all important factors in assessing the potential for rapid growth. As a result, evaluation within Social Entrepreneurship tends to be less

© 2005 Foundation Strategy Group

often about testing a pilot program or validating a theory of change, and more often about tracking the growth or potential for growth of an intervention or idea.

Our interviews disclosed other differences as well that distinguish the practices of those who fund Social Entrepreneurs from the practices of other donors. Funders of Social Entrepreneurs consistently apply an intensive level of scrutiny to their selection process among grant applicants. Other funders may have rigorous selection processes too, but levels of due diligence vary much more widely in the broader field of philanthropy. Once chosen, funders of Social Entrepreneurs generally commit multi-year support and develop an extremely close working relationship with the grantee, again more consistently than the varied practices of other funders. Considerable attention is paid to the cost-effectiveness and sustainability of the organization to be funded, the market forces that might propel expansion, and the typical financial metrics of business performance such as profitability and cash flow. Intangible objectives also are considered important, such as the personal growth of the entrepreneur, the power of the idea to change expectations, and the value of networking among Social Entrepreneurs. Many foundations take some of these factors into account in their philanthropic practices, but in the emerging field of Social Entrepreneurship, these factors appear consistently among nearly all of the funders we interviewed. And, of course, each of these factors has significant consequences for the practice of evaluation, as discussed in the following sections.

3.2. Conducting Evaluation before the Grant

> *In many ways, we're saying the evaluation piece is most important up front...*
>
> *I think there's a lot of sense in having a very, very careful front-end model. I am 100% convinced that is a sufficient performance measurement model.*

Foundations generally use evaluation to understand the consequences that follow as a result of their grants. Inevitably, the intervention to be studied begins with the grant itself and evaluation must be coincident with or subsequent to the expenditure of grant funds. The selection of which grant proposal to fund and the evaluation of results are viewed as two entirely separate processes. Often, when testing a theory of change, the foundation's perspective is "Let's try something new and then use evaluation to see if it worked."

What matters most to those who fund Social Entrepreneurs, however, is this potent combination of the right person, a system-changing idea, and a scalable organization – and each of these components often can be evaluated based on evidence available before the grant is made. Early stage funders focus more on the track record of the person, while later stage funders pay more attention to the replicability of the idea or the strength of the organization. Either way, the funder of a Social Entrepreneur is generally convinced that she has found a person or project with a demonstrated ability to create positive social impact before the grant or investment is made. In this field, funders are more inclined to say "Let's find something that works and then expand its reach."

What matters most to those who fund Social Entrepreneurs is this potent combination of the right person, a system-changing idea, and a scalable organization — and each of these components often can be evaluated based on evidence available before the grant is made.

Given that view, the idea expressed in many of our interviews — putting evaluation up front ahead of the funding decision — makes sense. There remains the need to assess later whether the foundation's funding and non-monetary assistance actually did help the organization or idea expand its reach and, as discussed below, that is usually tracked carefully. The question of whether the intervention is effective, however, can be determined up front — and this leads to the extraordinary degree of scrutiny that we found in the selection process for Social Entrepreneurs.

> *We have a very rigorous long-term vetting and due diligence process. We get applicants from 70 countries around the world and we fund only 2% of them.... [Our*

© 2005 Foundation Strategy Group

process begins with a] very long-term business plan competition. People who apply start working with us six months before the Fellowship is awarded. We actively walk these Fellows through their business plan, budget, constituencies they'll have to work with, etc. The engagement really begins before they become Fellows.

The main issue to keep in mind is, how do you measure effectiveness that does not in any way derail or distract the Social Entrepreneur, but is in fact the most empowering of the Social Entrepreneur?... Our solution is to front load as much as we possibly can – that's why the selection process is so intense — five steps. Each step is set up to be deliberately independent and look at our four criteria and the questions we have for these criteria. It's really set up for us to make a judgment about this person with this idea — does this have a high probability to make a difference?

A lot of our evaluation is done up front. The selection process is very intense. The first stage [is] a business planning process. Those cycles are eight to ten months long. A lot of the performance metrics are put on paper – from when is the next person going to be hired, to when is the next office going to be opened, to when is the 1,000th child going to be served, to how can you tell if they are truly served well?

We try to court these persons for a few months or a year. We bring them into our network, see how they fit with our goals and philosophy, what they do within the network, and whether the network likes them.

Every budget has to have a narrative that says, this is what I want to do, this is why it's going to tip the whole structure, this is the strategy that's going to tip the structure. In the first round, we only ask for program budgeting, not line by line. In the second round, it gets to the number of Xeroxes you're going to make.

The Schwab Foundation for Social Entrepreneurship offers a good example of the kind of "up-front evaluation" that we consistently found among the dozen funders we interviewed in this field. Over a six-month period, Social Entrepreneurs are evaluated on their leadership ability, the reach of their social impact, the innovativeness and scalability of their ideas, and the sustainability of their organizations. In addition to the Foundation staff, candidates are reviewed by an expert in the Social Entrepreneur's primary field (e.g., rural development, micro-finance, etc.), a second reviewer familiar with the region, and a third reviewer who is a leader in the field of Social Entrepreneurship.

Candidates who make it to the third round receive an in-person site visit from Foundation staff to see their work firsthand, something that was emphasized as critically important.

We go to see the projects that they're working on. We talk to their government officials to see how many jobs has this created or how many people have been affected. How has hospitalization gone down? How has income gone up? Because each one is different, we don't have benchmarks or minimums.

Without doing site visits, we screw up. If we don't actually go and look in the field at the candidate and take time, our chances for bringing in someone who doesn't meet our criteria or fit into our network goes up by 50%. Half, if not more, of our budget goes into actually doing that work. Some Social Entrepreneurs have a tremendous ability to spin a story, but when you get there it doesn't match up at all. If we hadn't gone, we would have been snowed by this individual.... we really try to make sure that we take only the very best.

The Schwab Foundation's internal documents are a useful checklist of the criteria that recurred across many of our interviews with other funders. With the Foundation's permission, copies of their nomination, application, and recertification forms are included in Appendix A.

Whether "up-front evaluation" in Social Entrepreneurship is the same as due diligence in the selection process of other funders is an open question that our limited research cannot answer. For those funders who focus on the solitary early-stage Social Entrepreneur with little more than an idea, it is hard to see how there can be any up-front assurance that the intervention will succeed. Certainly, a prospective analysis cannot replace an after-the-fact assessment of whether the foundation's support made a difference. It does reflect a difference in emphasis, though. Those who fund middle- and late-stage Social Entrepreneurs tend to focus more on the outcomes of existing projects before making a grant and on measuring increases in scale afterwards.

Fast Company-Monitor Group "Social Capitalist" Awards

In January 2004, *Fast Company* magazine in cooperation with The Monitor Group published its first annual survey of the top 25 "social capitalists," a term they coined for mission-driven organizations that embody many of the attributes we ascribe to Social Entrepreneurs. Although still being refined from year to year, their rigorous and thoughtful screening process parallels many of the selection criteria of the funders we interviewed.

Each nominee is scored on eighteen criteria in five basic categories. The actual scoring is largely based on qualitative assessments, however, the weighting and detailed criteria within each category lend a consistency, objectivity, and discipline to the process. Taken together, we found that these criteria define many of the parameters for success in the field of Social Entrepreneurship.

1. Social Impact. The measurable social value created, whether absolute or per capita, and the demonstrated potential to stimulate systemic improvement.

- *Systems for realizing social impact:* The sophistication of the organization's understanding of the issue, its theory of change, and the strength of the metrics used by the organization to measure its own impact
- *Direct impact:* Evidence of direct impact, including the size, breadth, depth, and difficulty of impact
- *Systemic impact:* Influence on the underlying system that is creating the targeted problem, such as government policy, social norms, or industry practices
- *Indirect impact through influencing the field:* Outreach to other organizations and dissemination of knowledge and data

2. Aspiration & Growth. The desire and ability to achieve greater impact (both direct and systemic) over an extended period of time.

- *Magnitude of aspiration for direct impact:* Thinking big with a strong aspiration for continual growth on a large scale
- *Magnitude of aspiration for systemic impact:* Setting high goals for achieving systemic impact in the field, in addition to direct impact on the target population
- *Commitment to growth:* Demonstrated record of growth together with the presence of organizational processes and a culture that support ongoing expansion of impact

3. Entrepreneurship: The relentless discipline of galvanizing internal and external resources for social impact and exploiting the discontinuities created by changing circumstances.

- *Ability to galvanize resources:* Ability to attract a high level of resources relative to other organizations, and to creatively motivate individuals and institutions to make things happen
- *Efficient use of resources:* Ability to do a lot with a little
- *Partnership strategies:* Selection of partners that expand organizational competencies and drive further growth
- *Anticipating and adapting to change:* Evidence of ongoing systems that scan for change and create a rapid organizational response to exploit new opportunities
- *Entrepreneurial culture:* A strong management team with a clear vision, passion, ambition, creativity, flexibility, and accountability

4. Innovation: The uniqueness and strength of an organization's "big idea" and of the business model through which it proposes to deliver its solution.

- *Strength of the "big idea:"* Unique insight into solving a social problem in a new and powerful way, with the potential for increasing impact over time
- *Innovation within the business model:* Pioneering innovative operating systems or organizational structures
- *Maximizing the benefit of innovation:* Ability to generate new ideas, decide which ideas to pursue in a disciplined manner, and see ideas through to completion

5. Sustainability: The ability to maintain the social impact achieved and the associated business model over an extended period of time, including the potential of the business model to achieve the organization's growth aspirations.

- *Resource strategy:* Diverse and renewable sources of revenue that are aligned with the overall business model and theory of change
- *Strength of management and operations:* Evidence of an effective board of directors and management team, ability to recruit talent, insight into operating environment, and a believable growth strategy
- *Preparedness for shifting conditions:* Ability to identify potential challenges early and respond flexibly

© 2005 Foundation Strategy Group

3.3. Measuring Progress Against Self-Determined Goals

Social Entrepreneurs usually know the best way to measure their own success.

The most common form of evaluation after funding is tracking progress against a set of pragmatic and project-specific goals that are developed collaboratively between the funder and the Social Entrepreneur. A project may be considered successful even if it does not meet its original goals, however, as both parties exhibit a ready willingness to change direction as events unfold. This necessitates a close working relationship between the funder and the entrepreneur so that the funder can make a subjective determination about whether a change of direction is evidence of a failed project or a successful adaptation to unforeseen circumstances. In keeping with the emphasis on scale, rather than type, of social impact, a project that materially benefits many people will likely be judged a success, even if the benefit is different from the one originally intended. Even when it is apparent that the project is in difficulty, funders exhibit a wide range of responses. Some continue to support the Social Entrepreneur, others propose changes in management or modifications of the idea, and still others withhold future funding.

A project that materially benefits many people will likely be judged a success, even if the benefit is different from the one originally intended.

A. Setting Customized Goals. During the up-front evaluation period, considerable attention is paid to the ways the Social Entrepreneur currently measures her progress, and to the development of mutually agreed upon performance metrics going forward. Many foundations set objectives collaboratively with their grantees, of course, but the ubiquity and detail of goal setting in this field was striking. Often, this initial stage goes well beyond setting shared objectives for the grant and involves the development of a full business plan that specifies performance targets on multiple dimensions including fundraising, organizational development, dissemination of the idea, personal development of the Social Entrepreneur, and social impact of the organization.

> *We work very closely with our grantees. Before we fund anything, we see how they do performance measurement. Then we roll up the data they're already collecting. Before we sign a grant letter, we may work with them and say, "Can you find a way to build in this measure that's really important to us?"... Still, we want to make sure that performance measurement is not too burdensome for them.*

Several interviewees noted that the willingness to measure performance and the sophistication with which it was done seemed to be considerably greater among Social Entrepreneurs than in the nonprofit sector more broadly. In fact, the attention to performance measurement was seen as one distinguishing criterion of Social Entrepreneurs.

> *What's different about Social Entrepreneurship… is that the impact assessment is critical to the organization and how the organization is being built, whereas the nonprofit may not have thought [as explicitly]about its strategy of leveraging other funders, etc.*

> *Social Entrepreneurs are focused entirely on outcomes. If, to achieve their outcomes more effectively, they need to report to someone, they will.*

> *[Among nonprofits, performance measurement] isn't used that much today. Really, what happens is a nonprofit organization will find something they can count relatively easily, usually something that makes them look good. They'll report that and typically, that's pretty much it.*

> *Social Entrepreneurs have a strategy, they have action items, they test them and they go back and change things that aren't working. They are very businesslike in the way they approach their funding and budgeting, the way they feed back results to funders and the board.*

The variety of fields and regions in which Social Entrepreneurs work, however, inevitably leads to a diverse range of metrics that are tailored to each project. A few of the funders we interviewed limit themselves to a particular field, such as education, but most do not. As a result, most were unable to evaluate their overall performance in terms of progress toward a specific set of social objectives. Neither could grantees within their portfolios be compared on their relative effectiveness in producing similar outcomes.

© 2005 Foundation Strategy Group

It's very difficult to measure one place against another — in different regions, the strategies for sustainable development are very different. And the environments are very different too.

It's very difficult to get a handle on performance metrics because efforts are so community specific [and] because of the populations most Social Entrepreneurs are working with. What happens if you're working with a very depressed community, where even some progress is monumental, but compared to traditional metrics, it looks like no progress at all?

Funders did, however, carefully track the Social Entrepreneur's progress against the plans and goals that they set for themselves in collaboration with the funder at the outset of their relationship. Measuring progress against the grantee's self-determined objectives was the one form of performance measurement we found used universally by all of the funders we interviewed.

Funders say: "Tell us what you are going to measure to manage the project and we'll hold you accountable for that."

We benchmark our success in terms of what our Fellows benchmark in their plans. Twice a year they give us a report of what they said they were going to be able to do, versus what they actually achieved.

[The Social Entrepreneurs] write their action goals and milestones. We work with them to improve them and get them to a place where we are all happy, but the measurements come from them — we play the role of accountability.

Measuring progress against the grantee's self-determined objectives was the one form of performance measurement we found used universally by all of the funders we interviewed.

If an organization puts in place a good internal reporting system, that's what we need… We try to help them define what are the outcomes — both hard and soft — that they're trying to achieve… We believe that's all we really need as a funder. We don't want to introduce yet another reporting [requirement] for them.

The process of developing performance measures for each project through collaboration over a period of months between the funder and the entrepreneur often leads to a creative and pragmatic set of measures that are cost-effective to monitor, timely, and customized to the specific outcomes in the communities where the Social Entrepreneur works. Sometimes this takes a significant investment of financial resources that the funder may provide, but more often the metrics are already being collected by the entrepreneur within existing financial constraints. The funders we interviewed have developed a profound respect for the ability of Social Entrepreneurs to devise informal yet meaningful measures of social impact:

They'll have their own measures to determine whether they are reaching their outcomes — asking beneficiaries. They often have an intuitive understanding of their success and know their field very well. As a result, they may have informal measures to determine if they're succeeding.

A really good organization, if given some resources, will create good metrics on their own that an outside organization won't think of. For example: Grameen Bank, when they wanted to figure out poverty elimination, they started measuring things like
"Do you have crockery?"
"Do you have a tin roof?"
"Do you have a vegetable garden?"
"Are your children in school?"
"Are there times during the year when you go hungry?"
They came up with ten questions through conversations with poor people asking them [why they] consider someone poor. It's really brilliant.

Room to Read is trying to improve literacy by building schools. They build a school and then they leave. They don't train teachers, see if kids do homework, or test parental involvement, and they're not the only factor that influences literacy. But they are doing evaluation with things like "Are books being taken out of the library, and are they dirty and used when we check on them?" or "Are there changes in country literacy rates after we work there?"

The key indicator has to be determined by what your mission is. In our case, it's to take people out of poverty.

 © 2005 Foundation Strategy Group

This means someone having money in their pocket. Our key indicator is how much money we put in people's pockets. That's a pretty black-and-white one. We can actually measure it pretty accurately.

One drawback of measuring each Social Entrepreneur against the unique goals of her project is the difficulty in benchmarking against more established approaches to see if the new idea is more effective. Another drawback is that funders cannot aggregate their overall progress toward any single social outcome. They can and do, however, roll up the percent of their portfolio grantees that have made substantial progress toward their separate goals.

Our success indicator is: out of our investments, x percent make their targets. Our goal was to have 90% of our organizations beating target. Today, if we went back to our investors and showed them that maybe two of the twelve are at their target level, that would be pretty significant. If we can show eight of the other ten made good progress, we'd do cartwheels.

B. Close Working Relationships. The intensely collaborative relationship that is reflected in the up-front evaluation and in setting customized goals continues throughout the funding relationship. Although a high engagement approach to grantmaking is not unique to Social Entrepreneurship, it is universally practiced in this field. Unlike many foundations that make several hundred grants a year with only a few program officers, those who fund Social Entrepreneurs tend to have a much higher ratio of staff to grantees – sometimes more than a one-to-one ratio – and can therefore maintain a much closer working relationship with their grantees after the selection process.

Unlike many foundations that make several hundred grants a year with only a few program officers, those who fund Social Entrepreneurs tend to have a much higher ratio of staff to grantees — sometimes more than a one-to-one ratio — and can therefore maintain a much closer working relationship with their grantees.

Fewer grants and more involvement is the key to figuring out if your organizations are doing a good job. You need to be in there and get a sense of whether they're doing better than they did before — better than other organizations, better for their beneficiaries.

This too has implications for evaluation. The sheer volume of one-year grants and quarterly dockets relative to the staff size at most foundations means that any serious scrutiny of past grants must be extremely limited without outside consulting support. In the field of Social Entrepreneurship, however, the combination of multi-year funding and a small portfolio of grantees permits the foundation staff time to monitor progress on a regular basis. In our interviews, funders report that they "just sort of know what is going on" in much the way that a venture capital investor knows what is happening in his portfolio companies. Formal reports and external evaluators are often viewed as unnecessary given this level of ongoing interaction.

We live with these investments, so the scorecard becomes important only if there are specific questions.

We meet with each grantee every quarter, but unofficially a lot more than that…

At least every three months we ask them for feedback. If they're delinquent we run after them. Usually, what's happening now is that the minute something happens they let us know because they're excited about it.

We don't use forms for reporting – they will not fill a form out.

Another benefit of this high degree of engagement is the advice and support that funders can provide to the Social Entrepreneurs in their portfolio.

Without a doubt, [the Social Entrepreneurs] need to be prepared for a highly engaged relationship. It's so hard to find things that work and Social Entrepreneurs that understand how to build companies. They're fighting so many odds that you've got to really jump in there with them. There might be some organizations you can be more hands-off from, but I haven't seen them.

C. Changing Direction. This close working relationship enables funders to follow and understand changes in direction that Social Entrepreneurs often take as events unfold. In the field of Social Entrepreneurship, funders

seem to acknowledge the inevitability of changes in direction – even see them as a virtue of adaptability – and the high degree of engagement enables them to distinguish between the adaptations necessary for success and the indications of failure.

> *I think some of the deepest questions in performance measurement will be judgment-based. I found Social Entrepreneurs have this remarkable ability to change course and self-correct along the way. People spend five years working with one strategy, and suddenly driving to work in the car one morning, they realize that they are inherently limited in that way. They call in a couple of their top people and say they're seriously considering a strategic change.*

> *You need to teach portfolio managers that sometimes you need to change the milestones. Just because someone's not hitting their milestones doesn't mean someone's a loser. It's more art than science…*

> *We have a couple investments on our "watch list:" the management team isn't showing the strength to hit their milestones or know why they aren't. We need to ask ourselves, "do they have the capacity?" Then we write it up and show them our analysis and make the commitment to work with them to get them to the next level… We have one investment where we've seen a huge shift in their view of what the problem is and how they should approach it.*

The expectation of changes in direction is so well-accepted that the Echoing Green Foundation, in its year-end report, routinely asks its Fellows:

> *Has the focus of your programs or mission of your organization changed? If yes, how has it changed and why has it changed?*
>
> *Revisit your program logic model:*
>
> - *What activities, priorities, or objectives have changed since you created the model?*
> - *Why did they change?*

D. Reactions to Failure. Even when the changes ultimately prove unsuccessful, we discovered a remarkable willingness to accept the risk of outright failure. The ambitions of Social Entrepreneurship are so great and the obstacles so daunting that funders often remain committed to the entrepreneurs and continue their stipends even when projects fail. And in some cases, when Social Entrepreneurs are selected as Fellows, they are considered members of the network for life. Having undertaken an "up-front" evaluation, these funders are content to place their bets knowing that some may not pay off.

The difference in perspective between those who make investments and those who make grants is indicative of a greater tolerance for nonperformance more broadly within the nonprofit sector – an attitude that, surprisingly, seems almost equally prevalent within Social Entrepreneurship.

> *Some organizations we fund are just not kicking off like they thought they would, and we talk about "when are you going to stop, when is it not going to be worth it anymore? But we'd never pull a grant just because it's not going well. We fund for three years and then that's it. I've encountered problems where I probably wouldn't have renewed funding, but we fixed the problem. It's like a marriage.*

> *We really work hard at creating the impression that we're a friend and someone you don't need to worry about after you've been selected. We never let you down. We never forget about you, even if you fail. Because we selected you, your failure is our failure.*

Other funders, particularly those who use debt and equity investments rather than grants, had a much less tolerant approach to setbacks. As investors, they are looking for financial as well as social returns, and therefore failure carries additional consequences. The difference in perspective between those who make investments and those who make grants is indicative of a greater tolerance for nonperformance more broadly within the nonprofit sector – an attitude that, surprisingly, seems almost

© 2005 Foundation Strategy Group

Keystone: Standardizing Measures of Performance

The idea of a universal measure of social benefit has long been the tantalizing dream of funders within the field of Social Entrepreneurship, but it remains a long way off. One first step in that direction, and a step that would be useful to grantees as well, would be a common framework for reporting. Such standardization would significantly increase the accountability and transparency of social enterprises. It would allow for meaningful comparisons of performance between organizations within the same field and region, something that is not currently possible, especially in developing countries.

Two years ago, with that goal in mind, David Bonbright started the Keystone initiative (originally named ACCESS), to develop a generally accepted reporting standard for civil society, nonprofit, and public benefit organizations around the world. In his words:

> *I think there's nothing more important in the world than getting a much better system of performance measurement for social organizations... if donors feel the sector is generally sloppy about accountability, there's a general drag of resistance to support.*
>
> *Every funder now makes its funding contingent on reporting requirements, and the result is a massively inefficient system of multiple reporting requirements. Civil society organizations report differently to each donor, creating a recipe for confusion, duplication, and even abuse. We want to migrate to a system where we're using a single set of reporting principles for all funders.*
>
> *Keystone is providing methods, tools, and systems to enable like organizations to build their own reporting standards. We're working with a collection of AIDS funders and projects in South Africa, for example, where they collectively will go through this process and come up with a reporting model that they believe AIDS organizations across South Africa will want to use.*
>
> *To take another example, let's say we're working on homelessness in Bombay. We get all of the nonprofits and government agencies to produce data on a standardized reporting system on a regular time frame. Then, we gather the macro-data from government, academic surveys, etc. We bring the data together on a regular basis and show trend lines: here's the cumulative impact of programs and here's the problem. Hopefully, you'll see the two lines converging until they cross. If you could do that, people will make different decisions about giving — they'll say, "Hey, we're actually solving this problem in the world." If we drill down, we can see which organizations are making the biggest difference and incentivize the others to adopt those strategies, too.*

Additional information is available at www.accountability.org.uk.

equally prevalent within Social Entrepreneurship. As some interviewees noted, this attitude can itself become an obstacle to greater effectiveness.

> *[The nonprofit field] has such a culture of saying everything's a success. Until we move to a place where we [can admit that an organization is] never going to scale based on the management, we're not going to see scaled organizations.*
>
> *What we do sounds brutal . . . every six months we do a forced ranking and look at all of our investments – we'll never have more than twenty. We look at them across all categories and rank them. No one can be tied. The first time we had people trying to protect their work. Now, we're a team and if a portfolio manager has all of their programs at the bottom, that's indicative. . .*
>
> *One of the mistakes we made is that we were so focused on making everything successful. We were putting a lot of our energy on the losers. We need to put our energy on the winners, except where we see a loser with great potential. Every month portfolio managers measure progress against milestones. . . . If we see the writing on the wall, then we cut our losses.*

3.4. Tracking Stages of Organizational Development and Growth

> *The downside of many current evaluation approaches is that they use programmatic evaluations, not organizational measures of health.*

Although social outcomes may vary widely, the stages of organizational development and simple measures of the scale of impact — such as the number of lives touched — can be applied across an entire portfolio. The way these are measured, however, varies with the life cycle stage of the Social Entrepreneur's organization and the funder's degree of emphasis on the individual entrepreneur, the sustainability of the organization, or the replication of the idea.

A. Life Cycle Stages. The funders we interviewed tend to specialize in different stages of the Social Entrepreneur's life cycle, and their evaluations emphasize different factors at each stage.

© 2005 Foundation Strategy Group

[There are] huge differences between organizations at different stages of life… [T]here's a naivety to the funder who thinks they're going to deal with start-ups, early-growth, mezzanine, all the way up. Venture capital firms tend to [specialize in] one phase — one stage in the life cycle.

Those who focus on the earliest stages do not necessarily expect the Social Entrepreneur to be cost-effective or to bring an idea that is fully developed. They are therefore reluctant to put too much weight on evaluating the efficiency of outcomes or the degree of impact at this early stage.

The type of evaluation for quality depends on the life stage and evolution of the organization.

We are going to be negatively prejudiced by any system that tries to standardize measures, because when you try to compare a Social Entrepreneur [who in the early stage is] busy working out the basic framework of a system change with someone who is just making widgets, the Social Entrepreneur will look very inefficient and expensive.

We evaluated the number of people served based on the age of the organization — we would expect less people to be served by a younger organization.

If [the organization is] ten years old, they should be reaching certain measures of efficiency.

As expectations for the organization change over time, so do attitudes toward the role of the entrepreneur. Here, our interviews revealed a dichotomy between those funders that see the Social Entrepreneur as the primary objective of their support versus those that begin to shift their emphasis to the growth of the organization or spread of the idea at later stages in the life cycle. Those that focus on the entrepreneur would stay with her, even if she left the organization, and they often include measures of personal development in their evaluation materials.

We've put a premium on the entrepreneur himself. The entrepreneur is the driver of change. The individual is the key to being able to build the organization. We're not looking at the organization, we fund the entrepreneur.

[At first we thought,] "If the Social Entrepreneur is no longer working in its organization, they should be kicked out." But we said that doesn't make sense because they're often serial Social Entrepreneurs and sometimes they're between organizations. We need to focus on the individual. We're not a community of organizations. We're a community of Social Entrepreneurs.

Echoing Green's Midyear Report states:

It is also important that you create a professional development plan to ensure that you continue to grow and evolve as an effective nonprofit leader. Please describe at least one goal that you have set for your personal development and at least one goal that you have set for your professional development.

In other cases, funders described a clear shift in focus from supporting the entrepreneur as a person, to building scale, efficiency, and sustainability in the organization as it matures in later stages of the life cycle. Like venture capital investors, they look for a strong team, not just a solitary entrepreneur. These funders spoke of the importance of finding a "good number two" as the chief operating officer.

Funders described a clear shift in focus from supporting the entrepreneur as a person, to building scale, efficiency, and sustainability in the organization as it matures in later stages of the life cycle.

Investing in people tends to lean toward the type of founder who has business acumen and social skills. I think that aspect is positive. But then I think that aspect melts away and you need to focus on the organization and the field.

The biggest question is: do you see an openness in the Social Entrepreneur to do what it's going to take to move from a family-oriented start-up to a real institution? All the others are nice little indicators [but less important].

We are not assessing Social Entrepreneurs, we are assessing Social Entrepreneurial organizations. To us, it's about developing systems that perpetuate [an organizational] culture.

© 2005 Foundation Strategy Group

[We need to] identify not only the great Social Entrepreneurs, but also the great "number twos" who can be put in organizations to help build them. I think there needs to be a book or field of study on what it takes to be a great Chief Operating Officer. They're the unsung heroes, but they're a critical piece to this whole puzzle.

Among funders who described this need for a shift in evaluating success from the individual to the organization over time, there was considerable concern about finding the best way to handle the personal and organizational consequences of the leadership transition from the Social Entrepreneur to her successors.

We don't have a gracious exit for the Social Entrepreneur who is not appropriate to manage the organization as it grows. We need to find a way to honor them and to move them on — like a golden parachute — but we don't have any mechanism to deal with this. And, if we don't tackle this head-on, we won't have organizations really scaling.

B. Measures of Organizational Development. Among those funders who are most focused on organizational development, we found a strong tendency to emphasize measures of organizational capacity and growth over the end-impact on beneficiaries. This parallels a recent movement in philanthropy more broadly toward an increased emphasis on capacity building.

I think [you have to figure out] your first order social returns, second order, etc. For instance, if you're trying to transfer a health technology to wipe out malaria through mosquito bed nets:

- *First order would be the imported machines, get everything working, and get the first 300 made.*
- *Second order would be marketing and distribution system to bring nets to poor, creating x number jobs, starting to change the way the bed-net industry works.*
- *Third order — and we haven't touched this — is: so what? Have you done anything to influence the vector of malaria infections? To us, if you can get the first and second order right, we'll have moved the field forward significantly. We will only track third order returns if someone else pays for it. We can't become a sustainable organization and pay for that kind of academic research.*

The primary measure of success is simply the rate of growth, either in terms of funds raised, number of employees, or number of "lives touched."

Often, the primary measure of success is simply the rate of growth, either in terms of funds raised, number of employees, or number of "lives touched," without delving into the nature of the impact on those lives. Ashoka, for example, periodically surveys its Fellows asking them to compare the change in organizational budget, size of staff, and number of offices from five or ten years earlier. The survey also asks:

Approximately how many individuals, villages, ecosystems, etc. was your work affecting directly or indirectly at the time of your election [as an Ashoka Fellow] and how many is your work affecting now?

Often these measures of growth are aggregated across the entire portfolio, even though the types of social impact are entirely dissimilar:

Our portfolio has a growth rate of 41%, in terms of revenue and impact. "Lives touched" is the only measure that we use currently to measure impact. We then assess the quality aspect for each organization separately.

Acumen Fund, in its report to investors, notes:

The work has already impacted more than half a million lives in terms of life-changing health technologies distributed, people who now own homes, women receiving micro-loans to start small businesses, small farmers increasing their income through the use of new irrigation technologies, and new jobs created across our portfolio investments.... Since our investments, 250,000 long-lasting anti-malaria bed nets, 9,000 fluoride filters, and 3,885 drip irrigation systems have been manufactured and all have reached low-income families.

Other funders we interviewed took a different measure of organizational development, moving beyond lives touched and dollars spent to focus on the different stages of maturity that organizations need to reach as they grow. These stages of maturity are viewed as similar regardless of the different types of social outcome pursued.

We are particularly interested in the organizational capacity being built, and seeing how that leads to impact — we want to know they're increasing impact by building organizational capacity. We see impact as a byproduct rather than an absolute measure.

In their issue areas and programs, performance measures differ, but in organizational capacity, they are pretty similar among all our grantees:
- *Board development*
- *Fundraising*
- *Staff development*
- *Public relations*

The capacity measures are similar in terms of metrics, but not similar in terms of goals: Worldwide global health organizations have very different staff needs than a leadership program for girls.

Echoing Green Foundation requires a concise yet thorough progress report from its Fellows every six months during the three-year funding period. The reports ask detailed questions about all aspects of the Social Entrepreneur's progress, including a set of questions around organizational development. For example, the midyear report asks:

- *How is your infrastructure evolving to support your organization's needs?*
- *Do you have the appropriate resources in place to support your future growth plans?*
- *If you do not currently have the capacity to support your planned growth, please describe your planned activities to identify and cultivate the people who will be integral to your organization's future success including your board, advisors (either as formal advisory panels, informal ad hoc resources, or mentors), staff and volunteers.*
- *Have you been able to secure the physical resources that you need to provide your services (e.g., office space, computers, meeting space, etc.)? Will these resources support you through the end of the year or will you be looking for the ability to expand?*

With Echoing Green's permission, both the mid-year and year-end reports are included in Appendix B.

Another tool for regularly evaluating organizational performance is the Balanced Scorecard. New Profit, Inc. (NPI) has refined this tool for use with social enterprises, and uses it to monitor the progress of its Social Entrepreneurs. The Balanced Scorecard has the distinct advantage of bringing together multiple kinds of performance measurement into a single framework that can be tracked quarterly. It is particularly helpful in keeping managers mindful of all the different dimensions necessary to ensure that the organization remains successfully aligned with its strategy. As a result, it combines a number of the different approaches to evaluation discussed throughout this report.

As used by NPI, the Balanced Scorecard includes five categories: social impact; client and key stakeholder satisfaction; internal business processes; learning and growth; and financial results. Although it consolidates the reporting of these categories, using the Balanced Scorecard does not in itself specify what data should be collected within the various categories, nor does it deepen the analysis. In social impact, for example, organizations would typically select the kinds of self-determined measures of progress discussed in Section 2 above, and use those to report on its impact. Funders, therefore, can report the percentage of their grantees that are meeting their Balanced Scorecard goals, but are no better able to aggregate social impact or returns. A short description of NPI's approach to the Balanced Scorecard is included in Appendix C.

Although it consolidates reporting, using the Balanced Scorecard does not in itself specify what data should be collected, nor does it deepen the analysis.

C. Replication of the Idea. Other funders are focused on growth in impact through the spread of the idea as well as the development of the organization. The solution to a social problem may itself be sustainable, or the idea may spread, even if the organization that first introduced the solution does not itself continue. Ashoka, for example, surveys its Fellows at several-year intervals after they are selected.

Every year we survey Fellows five years out and ten years out. It's voluntary, but around 70% participate. The whole thing is not to evaluate the Social Entrepreneur [but to ask], "Has there been independent repetition of your idea? Has it led to policy change?"

We use a mix of quantitative and qualitative measures – and we develop case studies of the Fellows five to ten years out, same as the survey. The number of case studies

 © 2005 Foundation Strategy Group

differs from year to year – not more than ten to fifteen each year.

In addition to a series of questions about the growth of the organization and the value of Ashoka's support, the survey contains a third section that focuses explicitly on the spread of the idea, asking:

Please provide information on the number of sites your idea/project has been replicated at by other independent organizations (not managed by you), businesses, and/or governments.

Other questions inquire about impact on policy and legislation, as well as the recognition received from media coverage or awards. Ashoka does not, however, generally seek to independently verify these self-reports of influence and recognition by its Fellows.

With their permission, a copy of Ashoka's ten-year survey of its Fellows is included in Appendix D.

3.5. Estimating Economic Benefits and Financial Leverage

We can't track community impact beyond the dollars

A more complex way of tracking social benefit across organizations with different social objectives is to look at various ways of measuring economic performance. Those who fund Social Entrepreneurs, because of their businesslike orientation, have a strong desire to maximize the social impact for every philanthropic dollar invested. As noted earlier, they choose projects more on the basis of the anticipated impact than on greater concern for one cause over another. This emphasis on economic leverage may evolve into the distinguishing characteristic of evaluation in the field of Social Entrepreneurship.

Our interviews disclosed three ways of evaluating Social Entrepreneurs' projects on the basis of economic performance: traditional financial performance metrics, estimates of the monetary value of the benefits created by the Social Entrepreneurs' activities, and leverage through fundraising from other sources.

A. Traditional financial performance metrics. Traditional measures of financial performance are viewed as good indicators of the sustainability of the organization and the strength of its management team. In the case of social ventures that sell their products or services, they also serve as an indicator of demand and may reflect the degree to which the beneficiaries value the social benefits being offered.

A basic solid financial accounting system is core to everything people are going to do in this sector. That's the first half of what needs to be measured. Sometimes there's a direct correlation between that and the social objective. If we build a product for the blind and price it so people can afford it and we break even, that sends a message that our customers are driving everything we're doing. We've met a need – because if we do something lousy, they don't have to come to us.

Traditional financial metrics also reveal the economic model on which the business operates, supporting forecasts of the capital needed to expand and deliver services or products

Traditional measures of financial performance are viewed as good indicators of the sustainability of the organization and the strength of its management team.

on a much larger scale. When market forces and financial metrics are aligned – that is, if the social benefit increases the income of beneficiaries and can also be delivered by the Social Entrepreneur's organization at a profit – funders see immediate opportunities for high leverage and rapid expansion. Conversely, if the project depends on large philanthropic subsidies and the benefits are intangible, some funders in this field will be disinclined to invest.

All funders we interviewed look at the strength of the economic model, but it is especially important to for-profit ventures and to those funders who use debt and equity investments in place of traditional grants or stipends. Obviously, if philanthropic dollars can create social benefits and still be "recycled" through real investment returns, that is a more powerful and sustainable economic model than the one-way street of constant contributions. Interviews with these funders, in particular, showed an understandable emphasis on tracking traditional measures of financial performance as a way of evaluating their portfolio companies.

© 2005 Foundation Strategy Group

REDF: Calculating Social Return on Investment

Jed Emerson has led extensive research at Roberts Enterprise Development Fund (REDF) and the William and Flora Hewlett Foundation to define the "social return on investment," or SROI. He suggests that there is a continuum between economic benefit and social benefit. Economic benefit is readily measurable, while purely social benefit is not. In between, however, is the realm of socioeconomic benefit — a form of "blended value" in which some components can be measured and others cannot.

For example, a welfare-to-work program can readily estimate the economic benefit it generates by adding up the welfare payments saved by the government and the income taxes paid for every client successfully placed in long-term employment. As long as the economic benefit is greater than the philanthropic resources contributed to the organization that trains and places them, the SROI is positive and, indeed, may be very substantial. Other social benefits may accrue, such as a greater sense of self-confidence or well-being, a more stable home for children, and the like, but these cannot be similarly valued.

Emerson therefore recommends that all investments should have a positive SROI, but, because the social benefits are excluded, suggests that projects cannot be compared or ranked on SROI alone. As Melinda Tuan, Jed's co-author, described it to us:

> *With REDF's SROI calculation, it was never the intention that you'd compare one SROI report with a different one. We just wanted to see if they all were positive. Looking across the portfolio, what were the chances that all would have a positive SROI? But each social purpose enterprise turned out to have a positive SROI, they were all worth investing in. Based on the SROI, we had our risk managed [and] were getting a positive return, so we kept on investing and encouraged others to invest.*

Ultimately, REDF's experience was that calculating the SROI precisely in a rigorously documented way was extremely complex and expensive. The systems they developed for their grantees had the important ancillary benefit of providing detailed management information that was helpful to improving daily operations, but the added costs of tracking past beneficiaries over time was substantial. Given the cost and complexity, we did not find the tool in use among other funders.

> *Our grantees did it because we were giving them money and we were partners, but when push came to shove it wasn't the best use of everyone's time — SROI in particular. It took a lot of time and turned out not to be particularly helpful in informing their program delivery or business operations. It was also hard to understand and explain to funders — and in the end did not help a lot of the organizations raise funds for their enterprises.*

Additional information about the SROI methodology is available at www.redf.org.

> *We are a debt investor, so we put an enormous amount of stock in seeing a sustainable business. To me, this is based in part on being able to generate a surplus through operations.*

> *If we can show that we're meeting outputs, and see changes in a systemic way, and 90% of the money we invest in our Social Entrepreneurs comes back to us to reinvest in new projects, we'd argue this is probably one of the better ways to spend your philanthropic dollars.*

B. Estimates of the monetary value of the benefits created.

Some Social Entrepreneurs go a substantial step further and attempt to estimate the monetary value of the social benefits they create. This estimate can then be compared to the philanthropic resources required, giving their funders a sense of the theoretical "social return" on their investment. Obviously, some kinds of social enterprises, such as those involved in poverty reduction, housing, fair trade certification, and other primarily economic benefits, can more easily monetize their social impact than organizations focused on issues such as preserving biodiversity or promoting civic participation. But where an organization is reasonably able to value the benefits it confers, this calculation is one way of evaluating the cost-effectiveness of the impact and comparing it against alternative investments. In general, the tremendous costs to society of crime, poverty, substance abuse, and healthcare mean that social enterprises will often show a positive economic value. (See Sidebar: *REDF: Calculating Social Return on Investment*.)

ApproTEC, for example, designs and sells manually operated irrigation pumps to subsistence level farmers in Kenya and Tanzania. By tracking their equipment carefully, and visiting farms in person, ApproTEC can document the substantial increase in income that results from the use of

© 2005 Foundation Strategy Group

these pumps. Doing the math, ApproTEC estimates that its activities generate $37 million dollars in new profits and wages each year, and that it has increased the annual GDP of Kenya by 0.5% and Tanzania by 0.25%. With an annual budget of $1.8 million, ApproTEC calculates that each dollar of contributions it receives generates $20 in economic benefits. Many other social benefits may come as a result of these farmers' increased income, including reductions in disease, better housing, increased access to education, improved civic engagement, and the growth of a middle class in Africa. Some of these are tracked, but only the economic benefits are calculated.

One virtue of this approach to evaluation is that funders can easily aggregate the returns on all of their investments, providing some measure of overall performance. However, this kind of social return is very different from the real financial returns that equity and debt investors might earn – no matter how much social value is created, there is no mechanism to recapture and recycle that social value into future cash contributions.

In addition, recognizing the serious limitations of this approach in valuing non-monetary benefits — often the entire point of a project — none of the funders we interviewed use these measures as the only criterion in selecting which projects to fund or in reporting on the overall performance of their grants and investments.

C. Leverage through fundraising from other sources. A third way of estimating the economic performance of a diverse portfolio of Social Entrepreneurs is to look at the additional funds that the entrepreneur has been able to raise from other sources. Leveraging funds through matching grants or informal collaborations is a common practice throughout philanthropy, and it is often cited as one measure of success. However, apart from matching grants, calculating the leverage actually achieved is not normally a component of formal program evaluations.

Leverage does not show the strength of the economic model nor the social impact achieved; however, it does suggest that the organization is successful in demonstrating its value to other funders and expanding its scale of activities. Most important, it suggests that the organization will be sustainable and able to continue its work after the end of the funder's financial support.

> *We've invested $20M since founding. We did an imprecise but methodologically correct study to see what other funding our Fellows have gone on to receive. We calculated a rough estimate of Fellows leveraging an additional $940M in resources. That gave us an SROI of 44 to 1.*[2]

> *What value do we bring? That shows in the money we've influenced. We can already track $25 million in new funds moving towards our investments. If one of our grantees got a big grant, we may have been the architect [behind it].*

In some cases, funders can actually track the grants that came as a result of their active involvement. In other cases, they can only estimate the fundraising benefits that come

Leverage does not show the strength of the economic model nor the social impact achieved; however, it does suggest that the organization is successful in demonstrating its value to other funders and expanding its scale of activities.

from being recognized as, for example, an Ashoka Fellow, or being invited to speak on a panel at the World Economic Forum in Davos. Most funders did not try to determine which funds came as a direct result of their support, nor claim that the leverage they achieved could be translated into any particular degree of social benefit. They did, however, take credit for identifying and supporting at an early stage organizations that have gone on to achieve significant fundraising success and scale of operations.

In short, none of these measures of economic performance paint a complete picture. In many ways, they are merely quantifiable indicators of the growth and development of

2 Note different use of the term "SROI" from Emerson's definition. The loose use of terminology throughout this field is one indication that the field itself is still in early stages of development.

© 2005 Foundation Strategy Group

the Social Entrepreneur's organization. They shed light on the strength and potential of the Social Entrepreneur's approach, confirm her ability to grow a sustainable organization, and validate the funder's ability to select "winners." They offer the funder a useful way of thinking about the choices she has made, but they do not prove that a particular approach is the most effective one or capture the universal value of a contribution. The hope that philanthropic performance could be boiled down to a single number and compared across different objectives remains enticing to the field of Social Entrepreneurship, but none of our interviewees believed that these measures of economic performance were capable of achieving that goal.

3.6. Shared Learning

> *If you bring Social Entrepreneurs together, they start stealing from each others' work in really productive ways…*

Funders in the field of Social Entrepreneurship have increasingly focused on the value that comes from support, learning, and collaboration among their grantees and themselves. We found a consistent emphasis on learning through the development of networks, through grantee feedback about the quality of non-monetary support provided by funders, and in the use of stories and anecdotes as a means of sharing lessons learned through experience. Rather than emphasizing written reports or academic studies as the vehicle for capturing knowledge, Social Entrepreneurs seem more comfortable with direct personal interactions.

A. Establishing networks. All of the funders we interviewed saw the creation and maintenance of networks among Social Entrepreneurs as a central part of their mission, and therefore as something that they needed to track and evaluate.

> *[We wanted to] form a community and bring together world's leading Social Entrepreneurs… Because Social Entrepreneurs are lonely, they identified with one another, [and created the] the beginnings of a solidarity group…*

Funders in the field of Social Entrepreneurship have increasingly focused on the value that comes from support, learning, and collaboration among their grantees.

> *Our core is finding Social Entrepreneurs and supporting them, but our second goal is building a community that is more than sum of its parts…*

> *They all learn a lot from each other. We bring them together formally once a year no matter where they are. In addition, we do impromptu meetings on topics. If I sense three or four of them are having trouble with individual fundraising and I know one of them is great at it, I'll bring them all together. They tend to build relationships with each other and feel very comfortable talking with each other. They're in different topic areas, so they are not competitors. One grantee will tell another, "I know this funder is looking for grantees in education, why don't you apply?"*

Although all interviewees acknowledged the benefits of networking, a few Social Entrepreneurs observed that these gatherings can be very time-consuming. When the

> The well-meaning efforts of each funder to foster its own community of grantees or build partnerships among them can inadvertently accumulate.

networking brings tangible benefits, such as the fundraising potential that comes from meeting CEOs of the world's largest corporations in Davos, the benefits were viewed as much substantial than when the gathering was intended only for Social Entrepreneurs to learn from and support

© 2005 Foundation Strategy Group

each other. Given the small size of the field today, there is considerable overlap between Social Entrepreneurs funded by different organizations: Many Ashoka Fellows are also Schwab Fellows, Echoing Green Fellows, AVINA Leaders, or Skoll Awardees, and, although they may be funded at different stages by each foundation, they are frequently expected to remain active members of each network. In this small world, the well-meaning efforts of each funder to foster its own community of grantees or build partnerships among them can inadvertently accumulate. As one Social Entrepreneur described it:

> *We have half a dozen major donors. Each one requires at least one week of conferences. All of a sudden, you have seven weeks of my time taken. Sure, networking is important, but really we need to spend our time doing two things: managing and fundraising. If networking turns into money, that's great. Talking to other Social Entrepreneurs is very valuable — I can name a half-dozen Social Entrepreneurs that have been very helpful to me — but how many times a year do I really need to do it?*
>
> *Another mistake many donors make is assuming partnerships are a useful thing, and they aren't necessarily at all, especially if they're donor pushed. How many companies have successful partnerships that are pushed from the outside? It does happen, but only when it's really strategic and mission critical.*

Since building community is seen as an important value-added activity of funders, most make some effort to track simple indicators of their success in fostering participation and collaboration. This is another factor that is not commonly included in evaluations conducted by foundations.

> *We measure this in terms of how many of [the Social Entrepreneurs we fund] are working together. We see this grow more tangibly. We have the feedback from them —some things that they say are just so marvelous that it's very moving—I'd say one of the biggest contributions we've made is to build this community. They're working together in ways that are tremendously advantageous to [all of them] and enormously advantageous to the people they serve.*

B. Grantee feedback on non-monetary support. Beyond the formation of networks, most of the funders we interviewed described a sincere desire to provide meaningful forms of non-monetary assistance to the Social Entrepreneurs they fund. Part of their evaluation activities, therefore, involved tracking measures of their own effectiveness.

> *You need to evaluate yourself on the value of the technical assistance that you're providing…*
>
> *We use a third party to survey our Social Entrepreneurs to see how we're doing, such as questions on the coaching meetings we have with the organizations.*
>
> *Ashoka did not so much measure the performance of individual Fellows, but that of Ashoka on those Fellows. For instance, to what extent did becoming a Fellow help that Fellow, and so on. All those things are important to determining the value of Ashoka.*
>
> *We measure how well we're doing first and foremost for ourselves, as a feedback mechanism to change or correct our course. That's the first reason why we do it. We do it for our own programs, and we do it collegially as a field for the same reasons.*
>
> *For each of our Social Entrepreneurs, we ask ourselves, "If we didn't exist, where would they be today? What has our presence done for them that has made a significant difference for them?" We solicit their feedback on this, and most of them are good at that. That for us is the measure of our success.*

C. Telling stories. Invariably, all of the interviewees either supplement their more precise measures or rely heavily on anecdotes and stories that describe their specific achievements. Compelling stories are the stock in trade of philanthropy, and they are generally unreliable as the basis for drawing any definitive conclusions about impact. They can, however, inspire new donors, teach practical solutions to shared problems, and capture intangible elements of success – all of which suit the culture of Social Entrepreneurship extremely well. In fact, some interviewees were convinced that the achievements of

Compelling stories can inspire new donors, teach practical solutions to shared problems, and capture intangible elements of success — all of which suit the culture of Social Entrepreneurship extremely well.

Social Entrepreneurs could not be fully documented any other way.

> *In the field of Social Entrepreneurship, it's more difficult to measure and more important to capture stories because it's so complex.*

Unlike a typical grant-funded program that lasts for a discrete period of time, and then can be evaluated retrospectively, Social Entrepreneurs are always in the middle, halfway between the tangible accomplishments of their past and the ambitious visions taking shape for their future. Their success always rests, in part, on subtleties like the momentum behind their idea, indications of change in popular attitudes, and the agonizingly slow acceptance of their ideas and programs by major institutions or governments. Interviewees found it hard to imagine that more formal evaluative techniques could capture these nuances that are so central to the spread of influence. Often, we found that the "stories" were not recounting touching moments, but open-ended reports of very tangible achievements, such as recognition by the UN or a local government, that could not be quantified or tracked any other way.

> *One of the people who would do very poorly in impact assessment is the woman in Hungary working with disability. If you figure out the dollar-for-dollar impact on people's lives, she's only impacting 600 people. That number of people is smaller than some single state institutions. So, she wouldn't be very high up. But she's looking into changing norms about what a disabled life can be like in her part of the world. Changing the expectations of people with disabilities would be a huge impact. Her organization has changed legislation in the Hungarian Parliament. How do you show that?*

> *[This group] brought together the alliance that brought about the [passage of] the American Disabilities Act of 1990. No one [had] ever heard of them, but they shifted the debate from one about disability to one that focused on human rights… I don't think you can put them on a grid and have them come out looking great. I think it's just the tenacity of a small group that can work a strategy.*

> *Perhaps the achievement I am most proud of is that as a result of our efforts the Bangladesh government is in the process of incorporating a new law that will require on-site childcare to be provided on any premises where ten or more women of childbearing age are employed.*

> *Improving lives is a qualitative thing. We need to qualitatively capture the story of how the Social Entrepreneur made something affordable and then got it out. How does ApproTEC do such a good job of watching its impact? They have the retail store owner fill out a one-year warranty for the farmer who can't write, so they know where each of their products is. [Learning these lessons is different from quantifying their economic benefit.] It's important to capture these methods and transfer the knowledge to other organizations.…*

© 2005 Foundation Strategy Group

4. Conclusion

Our biggest problem is to get people off the subject of measurement and onto the subject of management. It's not just a nuance...

The field of Social Entrepreneurship brings a new and distinctive vision to the role of foundations and private philanthropy, and this fundamentally different perspective influences both the purpose and practice of evaluation. Those who fund Social Entrepreneurs bring a businesslike mindset that is satisfied with the effectiveness of an intervention if it can be inferred from readily available data and personal experience. Their emphasis is on putting ideas into action as rapidly and universally as possible, while getting the greatest possible leverage on their funding. They consider information and measurement to be extraordinarily valuable, but only if it is timely and useful in identifying high leverage opportunities, increasing the scale of impact, or assisting their grantees. If the evaluation results aren't being used, then they shouldn't be collected.

> *If you do implement a measurement system and don't do anything about it, people will figure out that it's not worth it. But the more you do in that direction, the more likely that it will be worth it.*

As one interviewee described the ideal performance measurement system in Social Entrepreneurship:

1. *It deals with relevant information – is it really information that gives you insight into assessing and managing your organization?*

2. *Does the organization know how to use it? It's one thing to collect it, it's another to be able to deal with it effectively.*

3. *The systems have to keep re-tweaking themselves — we needed to make them completely adaptable. The more you get good information in front of you, the more you can squeeze out of it....*

4. *The system should allow you to drill down — to see trends and then blast down and figure out why. What's comprising the trend?*

5. *It must have timeliness to be able to have relevance — you need to have the right information there when you're making a decision.*

Certainly, there are lessons to be learned from Social Entrepreneurship. Foundations might significantly increase their social impact if they were to take more responsibility for spreading and implementing the ideas that they pilot successfully. After all, the long-established view that foundations demonstrate new approaches so that government can implement them on a large scale has been outdated for decades. Sometimes other funders step in to replicate or roll out a demonstration project, but all too often good ideas may be left in limbo, never touching the many lives that they could help.

The level of academic rigor behind many costly evaluations is admirable, but the delay carries its own penalties. Proving that an intervention worked at a single time and place does not always mean that it can be relied upon years later under different circumstances. Trusting firsthand knowledge of a program that is of immediate help may be enough to justify funding – and quicker funding decisions might improve

Foundations might significantly increase their social impact if they were to take more responsibility for spreading and implementing the ideas that they pilot successfully.

> The nearly universal reliance on self-reported data by grantees without external verification – while rapid and inexpensive – greatly reduces the reliability of the conclusions that can be drawn.

more lives sooner. Knowing that half a million people have better lives – in whatever way and to whatever degree – may ultimately be more important to effective philanthropy than validating a hypothetical theory of change that is never widely replicated.

There appears to be merit as well in the degree of scrutiny, collaboration, and high engagement that goes into the selection and support of Social Entrepreneurs, and the higher ratio of staff to grantees than is typical of most foundations. Using debt or equity investments in for-profit ventures as vehicles for social change opens the possibility of utilizing foundation endowments in addition to the annual income that provides grants to nonprofits. Finally, there is the important recognition that the economics and management of an organization are essential constraints on its long-term programmatic impact. Already, a number of foundations throughout the field have moved toward greater engagement with their grantees, increased attention to capacity building, and more unrestricted operating support.

Funders within the field of Social Entrepreneurship, however, could learn a great deal from other approaches to evaluation as well. The nearly universal reliance on self-reported data by grantees without external verification – while rapid and inexpensive – greatly reduces the reliability of the conclusions that can be drawn. The tendency to work across unrelated fields and diverse geographies severely limits the depth of expertise that can be brought to bear in the selection and support of grantees. Without clear and focused program objectives, most funders of Social Entrepreneurs cannot assemble a coherent plan to address the multiple facets of a complex social problem, or track their overall progress toward any larger goal. The grants within their portfolios, however impactful each one may be, are often unrelated to each other and therefore cannot create synergies that might add up to a sum greater than its parts.

In short, without more rigorous research, one cannot know that the new idea just discovered is actually a more effective approach to a given problem than other methods that may have been tried. Collecting the practical information needed for immediate management decision-making is essential, but so is the codification of that knowledge so that more general principles can be discovered and learnings can be shared more widely. If results are not tracked consistently and systematically, it will be very hard to improve over time.

In many ways, the nonprofit field is at the stage the corporate world was at fifty years ago, before the general principles of management, efficiency, and strategy that enabled widespread increases in productivity were developed by academics, consulting firms, and practitioners. Even within this limited study of evaluation, it is clear that the field of Social Entrepreneurship is filled with individuals who have each developed their own approaches independently, but whose experiences have not yet coalesced into a consistent body of knowledge from which new entrants can benefit. It is our hope that this report represents a start in that direction.

© 2005 Foundation Strategy Group

Appendix A

Schwab Foundation for Social Entrepreneurship Selection Process

Criteria Checklist

1. Leadership					
a) What best describes the efforts made by the nominee to drive the initiative forward?					**Comments**
☐ Enthusiastic, energetic, though yet to be fully tested	☐ Crossed the first hurdles, drive and commitment revealed, vision inspires support	☐ Overcame severe political and/or economic obstacles, remains strongly committed, vision still inspiring support	☐ Persistently demonstrated political and economic savvy, unshakeable commitment and ambition, mobilizing strong support	☐ Don't know	
b) How experienced was the nominee for work in this field?					
☐ No previous involvement in social initiatives	☐ Some prior experience in this or other such fields	☐ Significant experience in this and/or other complementary fields (5-10 years)	☐ Wide experience in this and/or other complementary fields (more than 10 years)	☐ Don't know	
c) How long has the nominee been engaged in this present initiative?					
☐ Modest Time (less than 5 years)	☐ Long time (5-10 years)	☐ Seasoned (10-15 years)	☐ Career/Life (over 15 years)	☐ Don't know	

2. Social impact/Reach of the Initiative					
a) How tangible are the results of the initiative to date? (Please cite studies, other sources of evidence)					**Comments**
☐ Not proven yet whether or to what extent peoples' lives have been improved	☐ Results sufficient to surmise that people's lives were improved, but documented evidence still limited or lacking in proof	☐ Rudimentary evidence shows tangible impact on people's lives with supportive quantitative and qualitative documentation	☐ Evidence is convincing of significant tangible improvements in people's lives, with substantial documentation	☐ Don't know	
b) How widespread is the initiative?					
☐ Spans several communities in one country.	☐ Spans most of a country	☐ Spans more than one country	☐ Spans several countries	☐ Don't know	
c) How many direct beneficiaries are there?					
☐ As yet not many (less than 5,000)	☐ Between 5,000 and 15,000	☐ Between 15,000 and 50,000	☐ Over 50,000	☐ Don't know	

3. Innovativeness of Solution					
a) To what extent has the initiative introduced new approaches or offered new solutions to societal problems?					**Comments**
☐ Approach or solution is not new	☐ Approach or solution is new to the area or this region of the world, but similar ones are in place or practiced elsewhere	☐ Approach or solution was unknown prior to the initiative, but the innovation represents only a minor departure from prior practice	☐ The initiative truly has discovered a unique way of using/ combining resources, has discovered new resources or services/ service delivery methods	☐ Don't know	
b) To what extent has the initiative transcended established practices and systems?					
☐ Its impact is not yet evident on established practices and systems	☐ Marginal impact on established practices and systems	☐ Impact on established practices and systems is becoming evident	☐ Has entirely transformed established practices and/or systems	☐ Don't know	

© 2005 Foundation Strategy Group

4. Expandability/Replicability

a) How much could the initiative be expanded from its original group of beneficiaries?					**Comments**
☐ Application may be restricted largely to initial beneficiaries	☐ Applicability clear in adjacent communities or country as a whole	☐ Tested well in neighboring countries; why not elsewhere?	☐ Extends into other continents already	☐ Don't know	
b) How large is the potential for adaptation to other settings					
☐ Initiative may be dependent on peculiarities of the local environment; potential for adaptation elsewhere is unclear	☐ Some or many elements of the initiative can be transferred and adapted elsewhere within the same cultural/ political environment	☐ Many aspects of the initiative can be transferred and adapted to other settings around the world	☐ Most aspects of the initiative can be transferred and adapted to other settings around the world	☐ Don't know	

5. Sustainability

a) Political					**Comments**
☐ Changes in the political environment or legislation could readily undercut the initiative	☐ ...might undercut the initiative	☐ ...unlikely to undercut the initiative	☐ Initiative insulated or independent of political events and legislation	☐ Don't know	
b) Financial					
☐ The initiative is largely dependent on unstable, ad hoc funding, either self-generated or from outside	☐ The initiative generates funds of its own but remains largely dependent on outside funding	☐ Initiative self-generates most of its funds, or outside funding is fairly reliable	☐ Initiative is fully self-sufficient or assured as to funding	☐ Don't know	
c) To what extent is the initiative leveraging mutually beneficial partnerships with companies or the public sector?					
☐ The individual/ organization is a "lone ranger"	☐ Initiative has entered a few selected partnerships and receives some in-kind/ financial support	☐ The initiative has entered several partnerships with businesses or has a few important ones	☐ Business/Public sector partnerships are a crucial support for the activities of the initiative	☐ Don't know	
d) To what extent has an institution or organized social arrangement been created to sustain the initiative?					
☐ No institution building or organizational arrangements in place or being planned as yet	☐ An institution or organizational arrangement has been or is being created largely dependent on the founder's work and vision	☐ The institution or organizational mechanism is growing. Founder still significant, but organization is becoming independent and well recognized	☐ Organization firmly in place. Initiative can stand without the support of the founder	☐ Don't know	

6. Overall

a) How strongly would you recommend the initiative to be included in the Schwab network?					**Comments**
☐ The nominee should qualify for the network after its impact is assessed	☐ The initiative should qualify based on its reported impact if this can be substantiated	☐ The initiative should qualify based on its well-demonstrated impact	☐ The initiative certainly qualifies now based on its advanced levels of organization & demonstrated impact	☐ The initiative would have been an outstanding candidate for the network well before this year	

© 2005 Foundation Strategy Group

The Schwab Foundation Network for Outstanding Social Entrepreneurs Additional Information Form

1. Contact details for the Candidate and the Organization

In order to assess your nomination as a Schwab Social Entrepreneur, we ask you to provide us with the following additional information, as well as 1) a copy of your CV or resume, 2) a recent evaluation report on your organization conducted by a recognized third party agency, and 3) an income statement and balance sheet for the last 2 years.

2. About yourself

2.1 Tell us about yourself or the founder of the nominated organization. What inspired the initiative?

2.2 Time commitment: How much of your time do you invest in this organization? Is it "a full-time" job? What other projects are you involved in?

3. The Initiative/Organization

3.1 Tell us about your organization. What problems does it seek to address?

3.2 How many employees does the organization currently have (full-time, part-time and volunteers)?

3.3 Tell us about the management team of your organization.

4. Innovation/Transformation

4.1 Social Entrepreneurs and their organizations transform traditional ways of thinking and practice in their societies. They combine their in-depth knowledge in a field such as health, environment, or education with a completely new way of approaching the problems in their field. They manage to transform traditional practices. To what extent is your initiative driving a systemic change or profoundly changing traditional practice? What new idea or approach is your initiative implementing that is different to the way things have been done in the past?

5. Expansion

5.1 In which city/community did the initiative begin? To which communities, cities or countries has it spread today? Describe the organization's activities in these respective regions.

5.2 Describe the major challenges faced as an organization as it has grown (funds, political, managerial issues, staff capacity, technical and organizational know-how, social barriers, etc.).

5.3 Are people visiting and studying your organization? Have similar organizations been set-up elsewhere, based on your model and experience? If so, give specific examples of these activities.

6. Social Impact

6.1 How many people currently benefit directly from your organization? Do you know how many people have in total benefited from each of its programs?

6.2 Could you describe, quantitatively and qualitatively, the impact on an individual served by your organization?

© 2005 Foundation Strategy Group

6.3 Describe how the organization monitors and evaluates its work. How does it gather information to substantiate that its actions have improved people's lives?

NOTE: Do not forget to include the most recent evaluation of your organization conducted by a recognized third party entity

7. Partnerships

7.1 Please describe the most important partnerships you have with companies, civil society organizations, international organizations, public or academic institutions.

8. Sustainability

8.1 Describe how the organization sustains itself financially. What are its main sources of income? How does it raise fees for its products and/or services? Does it receive in-kind support? *Please explain.*

8.2 Who are the organization's main supporters? What percentage of its budget does the organization generate through the sale of product or services?

Please attach an income statement and a balance sheet for the last 3 years.

8.3 How does the organization allocate its budget? What are its biggest cost drivers?

8.4 What ensures that your organization will survive a change in leadership?

9. Added Value

What do you perceive to be the added value for you and your organization from being part of the Schwab Foundation's network of outstanding Social Entrepreneurs?

Re-Certification Form

Contact details

Please provide us with the following information:

A. Your organization's most recent annual report

B. Any press articles that you have not yet shared with us on you and your organization's activities

Please fill in the information below:

1. The Initiative/Organization and You

1.1 Do you continue to be involved full time in the organization for which you were originally selected as a Schwab Social Entrepreneur? If not, what percentage of your time are you dedicating to it? What other activities are you now undertaking?

1.2 How many employees does the organization/initiative currently have (full-time, part-time and volunteers)?

1.3 How was the management team of your organization changed from when you were selected initially as a Schwab Social Entrepreneur? If so, tell us how it has been modified and why.

© 2005 Foundation Strategy Group

1.4 Does your organization/initiative have a Board of Oversight Body that meets regularly to advise the management team and review its performance? If not, what guarantees the good governance of the organization?

1.5 Does your organization prepare audited financial statements? If so, please attach. If not, please explain how it ensures the transparency of its financial behavior?

2. Scaling Out

2.1 Since you were selected as a Schwab Social Entrepreneur, has the organization increased in scale so that it is working in additional communities or cities today? Has it deepened its work so that it offers a broader range of products and services? If so, describe the organization's activities in these respective regions and additional areas.

2.2 Describe the major challenges faced as by your organization currently (funds, political, managerial issues, staff capacity, technical and organizational know-how, social barriers, etc.).

3. Social Impact

3.1 How many people currently benefit directly from your organization? Has this increased in the last 3 years? By how much?

3.2 Describe how the organization monitors and evaluates its work. How does it gather information to substantiate that its actions are improving people's lives?

4. Partnerships

4.1 Please describe the most recent and important partnerships you have with companies, government, international organizations, academic institutions or civil society.

5. Sustainability

5.1 In the past year, what percentage of your organization's activity budget was self-generated from the sale of a product or service? What percentage of your budget comes from outside sources? Does it receive in-kind support? *Please explain*.

5.2 Who are the organization's main investors/supporters?

5.3 How does the organization allocate its budget? What are its biggest cost drivers?

5.4 What ensures that your organization will survive a change in leadership?

6. Responsiveness and Transformation

6.1 Since being designated as a Schwab Social Entrepreneur, how do you feel your organization or initiative has progressed? What benefits has it brought to you personally, if any? *Please explain*.

6.2 Social Entrepreneurs transform political, economic and/or social systems that impede sustainable development. In what way do you think that through the organization/initiative you founded, you have achieved transformational social change?

© 2005 Foundation Strategy Group

Appendix B

Echoing Green Mid-Year and Year End Reports

2002 Fellows Mid Year Report

Your next Echoing Green stipend check is due to be paid in March. Before we can release your next check, we need to receive your mid-year status report. Please use this format to answer the questions below.

Program Development:

How have you expanded your programs/services over the past six months?

Do you have plans for future program expansion? How do you intend to grow your programs between now and the end of the current fellowship year (August 31, 2004)?

How broad is the base of constituents that you currently serve? How has it changed over the past 12 months (e.g., in number, type, geography)?

Tracking program effectiveness: as you continue to evolve your programs, how are you ensuring that your programs are effective and are focused on addressing the root causes of social challenges rather than the symptoms? Please provide examples of program achievements from the past six months.

Organizational Development: How is your infrastructure evolving to support your organization's needs?

People Resources: Do you have the appropriate resources in place to support your future growth plans? If you do not currently have the capacity to support your planned growth, please describe your planned activities to identify and cultivate the people who will be integral to your organization's future success including your board, advisors (either as formal advisory panels, informal ad hoc resources, or mentors), staff and volunteers. What are your year-end goals and short-term milestones for cultivating and managing these resources?

Physical Resources: Have you been able to secure the physical resources that you need to provide your services (e.g., office space, computers, meeting space, etc.)? Will these resources support you through the end of the year or will you be looking for the ability to expand?

Community Outreach

To your constituency: describe your current and planned activities for reaching out to your target community.

To your field: describe your current and planned activities for reaching out to others who are working in your field, whether it be organizations within your local community or other thought leaders within your field.

Raising awareness: What tools are you using to increase awareness of your programs (web site, media, campaigns, etc.)?

© 2005 Foundation Strategy Group

Program Sustainability

What resources will you need (including financial resources, in kind donations, volunteer hours, advisors and other forms of support) to support your programs for at least the next two years? Briefly describe your plan for securing any additional resources that you need. Identify recently secured funds and potential funding sources. Include the status of funding requests.

Succession Planning: have you created a plan for ensuring the long term viability of your organization? What systems and documentation have you put in place to ensure the survival of the organization should a key contributor (whether yourself, another staff member, a critical board member or funder) exit their position?

Personal and Professional Development

Taking care of yourself is extremely important to the success of your organization. Even though it never seems like there is enough time to get everything done, it is essential that you make the time for reflection and renewal. It is also important that you create a professional development plan to ensure that you continue to grow and evolve as an effective nonprofit leader. Please describe at least one goal that you have set for your personal development and at least one goal that you have set for your professional development. These should be goals that you expect to achieve within the next six months.

Obstacles and Challenges

Echoing Green Year End Reports 2003 Fellows — Individuals

Fellow Name:

Program/Organization Name:

Current Mission Statement for the organization:

Has the focus of your programs or mission of your organization changed? If yes, how has it changed and why has it changed?

Please list key accomplishments of your organization over the past 12 months (list as many as you wish):

Please list key personal accomplishments over the past 12 months (list as many as you wish):

Revisit your program logic model:

- –What activities, priorities or objectives have changed since you created the model?
- –Why did they change?
- –What did you learn from this experience and how will you apply this knowledge as you continue to develop your short and long term organizational goals?

List your top three organizational priorities for the next 12 months

#1

#2

#3

List your top three personal priorities for the next 12 months

#1

#2

#3

© 2005 Foundation Strategy Group

Identify any challenges that your organization is currently facing and your proposed resolution (list as many as appropriate):
Challenge:

Proposed Resolution:

Identify any leadership challenges that you are facing and your proposed resolution (list as many as appropriate):
Challenge:

Proposed Resolution:

Tracking Performance and the Impact in the Community that You Serve

Define the desired outcomes of your work in your community:

What statistics do you gather and track (please provide both a description of the metric and actual performance measures for 2002/2003)? If you produce a report for your leadership team or other funders, you may simply attach the report rather than entering the information below.
Internal Measures (e.g., activity measurements, survey results, etc)

External Measures (e.g., quantification of the need in your community using publicly available data)

In what way has your data tracking and evaluation helped you to understand what impact you are having in your community?

How else has your data tracking and evaluation helped you to improve the efficiency or effectiveness of your organization (e.g., identify process gaps or opportunities for improvement)?

If you are not currently tracking performance statistics, what statistics do you plan to gather, how will you gather them and when do you anticipate starting your data gathering process?

Building a Sustainable Organization:

Please attach the following to your year end report:
- –Balance Sheet and Income Statement for actual revenues and expenses for your last fiscal year
- –Budget for your next fiscal year (you may submit your entire budget with line item detail or a budget summary that summarizes revenue and expenses)

How have your financial priorities changed over the last 12 months?

Identify your top three revenues sources – current or planned – for the next 12 to 18 months
Revenue Source: _____
Amount: _____
Current Status (e.g., committed, in hand, proposal submitted): _____

Briefly describe your plans for long term sustainability which may include:
- –Plans for diversifying your revenue stream or for maintaining a diverse revenue stream
- –Organizational structure including succession planning should key individuals (staff or board) leave your organization
- –Partnerships and alliances within your community or among other service providers

Tell us about your year. How was it overall? What did you learn that surprised you? How did you grow as a leader? What new learnings or insights really stand out?

© 2005 Foundation Strategy Group

Appendix C

New Profit Inc. Balanced Scorecard

The Balanced Scorecard is a performance measurement and management tool that is used to document the specifics of the strategy including:

- Objectives — what the strategy is trying to achieve
- Measures — how success is measured
- Goals — the level of performance necessary to be successful (note: a sub-set of an organization's goals should be tied to funding)

NPI works with its portfolio organizations to develop the current year's objectives, measures and goals at the beginning of the organization's fiscal year. Quarterly goals are identified, however, it is not likely that every objective will have a corresponding goal in each quarter, since non-profit program cycles often follow seasons such as the school year. Although an organization will not necessarily have meaningful goals for every quarter, NPI tracks the organization's progress against each goal on a quarterly basis. Quarterly monitoring enables NPI and the organization to be flexible in terms of re-setting goals that may prove to be inadequate or incorrect based on new information or learnings. This is particularly important for earlier stage organizations that are evolving and building their organizations at a fast growth rate.

It is important to note that while the BSc captures and reports information from an organization's program evaluation systems, the BSc itself is not a programmatic evaluation system. For example, Citizen Schools, a non-profit organization that utilizes an innovative apprenticeship approach to deliver effective after-school programs, has developed a set of rubrics that measure each child's skill improvement in the areas of writing, data analysis and oral presentation skills. The Scorecard then aggregates the children's scores and tracks / reports the overall social impact of Citizen Schools' programs.

7. What do the different perspectives measure?

- ***Social Impact***— Social Impact measures look at both the quality of the organization's impact on individuals, as well as social outcomes, or the way that society is impacted by the organization's work. Social Impact is the ultimate goal of the organization, and this is the place where evaluation data is incorporated in the overall performance of the organization. For example, Citizen Schools not only strives to positively impact the students that attend its after-school program, but it also hopes to influence the development of a bigger and better after-school sector by training and sharing best practices with other after-school providers around the country.

- ***"Customer"/Key Stakeholders/Clients***— The "Customer" perspective helps an organization understand if it is achieving the desired customer value proposition measuring its performance towards meeting the needs that matter most to its key constituents. (May include funders, beneficiaries, intermediaries, partners such as schools or colleges – depends on the organizations strategy and theory of changes. This is not the perspective that captures outcome data, rather the perspective that captures how well a service is being delivered and what can be done to continue to maintain or grow the "customer" base along dimensions of: quality, service, cost and time. The "customer" value proposition helps an organization connect its internal processes to improved outcomes for its "customers". BSc metrics might include new customer acquisition, customer satisfaction, "customer" retention, market share or referrals. Some of this information may be available internally, while other measures, such as "customer" evaluations, might require the organization to use a third party to perform "customer" surveys in order to ensure that customers are giving objective and accurate evaluations.

- ***Internal Business Processes***— The internal business perspective captures those activities that the organization must excel at in order to effectively meet customer needs and deliver on the organization's social impact objectives. These core competencies, which include innovation, customer management and operations, enable organizations to achieve operational excellence and create value for its customers. Management information systems usually play an important role in enabling manager's to track key operational measures, which might include an increase in employee retention, increase in volunteer

© 2005 Foundation Strategy Group

retention, decrease in cycle times for training and service delivery.

- ***Learning and Growth***— Learning, growth and innovation metrics reflect the actions that a nonprofit must take to prepare its employees and organization for future growth. These priorities for investment in people and systems create a climate that supports organizational change, innovation, and long-term growth and improvement. These objectives enable an organization to align its human resources and information technologies with its strategy and mission. Learning and growth measures typically involve skills training, IT/systems development and organizational governance. These measures might include staff retention, satisfaction, alignment of incentives, rates of improvement in critical customer and internal processes, increase in information technology tools and data, quality of training, increase in learning opportunities and Board satisfaction/retention/attendance.

- ***Financial***— While the financial perspective is usually the most important aspect in a for-profit company, for non-profit organizations, financial measures such as fundraising goals and budgeted expenses are the means to the end, rather than the end. Instead, sufficient revenues and effectively managed expenses enable the organization to achieve its social impact goals. Generally, financial indicators for non-profits include the measurement of revenue growth and diversification, cost control (keeping within budgeted expenses) and productivity. Goals might include an increase in revenue diversification, increased fee for service activity, improvements in cost effectiveness or improved cash flow stability.

8. What components make up a good BSc process?

- BSc process driven by the CEO and Senior Management
- Alignment from key stakeholders regarding organization's strategy
- Key stakeholders involved in process, including senior management, staff, key funders, Board and other strategic partners. *Note: The degree to which these group are involved varies according to an organization's configuration and culture. Most important is that these groups have an authentic way of participating in the process.*
- Implementation plan and means of integrating BSc in internal operations and external reporting activities.

9. Is the Balanced Scorecard for your organization?

The following checklist will help determine if the BSc (or any performance measurement system) is right for your organization. The following statements should be true of your organization:

- Organization has a strategic direction (not just in maintenance mode).
- Organization is dedicated to strategy.
- CEO and Senior Management is committed and actively leading the process.
- Measurement is already an important element within organization.
- Leadership Team is in place.
- Organization has systems in place to measure across different perspectives.
- Clear accountability can be assigned for capturing measurements.
- Organization is demonstrably committed to performance measurement.

10. How do you know your organization's Balanced Scorecard is working?

- Management team will be talking more about strategy and less about tactics.
- Staff of organization know and understand the strategy and how their job fits into it.
- Board, key partners and key funders are aligned around your strategy.
- Performance should be improving.
- Grantees drive more of the reporting process to funders and other stakeholders.

11. Where can you find more information on the Balanced Scorecard?

- Info@NewProfit.com - General information on use of the Balanced Scorecard in performance-based philanthropy, nonprofit management and co-investing.
- Balanced Scorecard Collaborative - http://www.bscol.com - Education, training, advisory, research, and development organization that facilitates the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard

© 2005 Foundation Strategy Group

Appendix D

Ashoka Fellows
Ten Year Anniversary Questionnaire

Measuring Effectiveness Questionnaire 2003

This questionnaire is designed to help measure Ashoka's overall impact so that we can communicate this to our supporters and at the same time continue to improve Ashoka's performance. We are very grateful to you for taking the time to answer the following questions, which relate to your work and supporting institution (if you have one), the spread of your idea, and your relationship with Ashoka. This year we are surveying Fellows elected in 1993.

Name:

_____

Country:

_____

Your Idea And Supporting Institution

1. Are you still working on the original idea/social problem for which you were elected an Ashoka Fellow?
   __ Yes __ No

2. In what sector is your work primarily focused on?
   __ NGO/Non-profit sector
   __ For-profit sector
   __ Government sector
   __ Academia

3. At the time of election 10 years ago had you already created an institution to support your idea?
   __ Yes __ No

   If no, did Ashoka's support help you to create an institution to support your idea/project?

4. How has the institution evolved since 1993? (Please check one only)
   __ Institution has ceased to exist
   __ Institution still exists but faces major challenges
   __ Institution has grown and stabilized
   __ Institution is recognized as a leader in its field

5. If applicable, please compare your project or institution in 1993 to the way it is now, in terms of:

   1993
   Approximate Annual Budget _____
   % of budget from institutional donors _____
   % from revenue-generating projects* _____
   % of budget from other sources _____
   Number of paid staff (full-time) _____
   Number of volunteers ** _____
   Number of branch offices _____

   2003
   Approximate Annual Budget _____
   % of budget from institutional donors _____
   % from revenue-generating projects* _____
   % of budget from other sources _____
   Number of paid staff (full-time) _____
   Number of volunteers ** _____
   Number of branch offices _____

   ** Revenue-generating projects = services or products your organization provides that generate an income.*

   *** Volunteers include pro-bono consultants in strategic management, capacity-building, marketing and public relations, etc.*

Spread Of Your Idea

6. Has your work brought about legislative or policy changes directly / indirectly? (please select *all that apply*)
   __ Yes (National policy changes)
   __ Yes (State policy changes)
   __ Yes (Local policy changes)
   __ No policy change

7. Approximately how many individuals, villages, ecosystems, etc. was your work affecting directly or indirectly at the time of your election and how many is your work affecting now? (please give information on as many categories as possible or write"NA" if the category is not applicable)

© 2005 Foundation Strategy Group

Category	1993	2003
	(approximate number affected)	
Individuals	_____	_____
Families	_____	_____
Villages/cities	_____	_____
States or provinces	_____	_____
Countries	_____	_____
Ecosystems (forests, rivers, etc.)	_____	_____
Other (please describe)	_____	_____

8. (a) Have other independent groups (not directly managed by you) replicated your idea/project?
   __ Yes
   __ No

8. (b) Please provide information on the number of sites your idea/project has been replicated at by other independent organizations (not managed by you), businesses, and/or governments:

	1993	2003
	(approximate number)	
Sites/Locations	_____	_____

9. Other than your election as an Ashoka Fellow, in which of the following ways has your work been recognized during the past ten years. Please select all that apply:
   __ National press coverage
   __ International press coverage
   __ National awards
   __ International awards
   __ Other: Please describe briefly:

Impact Of Ashoka's Support On You

10. In what settings do you identify yourself as an Ashoka Fellow?
    __ Professional settings
    __ Social gatherings
    __ With the press
    __ Other (please explain)
    __ I do not identify myself as a social entrepreneur

11. Have you contributed to the emergence of other social entrepreneurs?
    __ Yes
    __ No

12. Ashoka would like to learn more about your relationship with our organization and how we can improve our services to you in the future. What impact/difference have the following services made in your growth as a social entrepreneur?

Ashoka Service	Critical Difference	Significant Difference	Some Difference	No Difference	Not Applicable
Selection Process (application, interviews)					
Financial stipend					
Collaborations with Fellows within your country					
Collaborations with Fellows outside of your country					
Public recognition as an Ashoka Fellow					
Communication from Ashoka offices (newsletters, phone calls, email)					
Personal affirmation and moral support from Ashoka staff					
Introductions/door-opening from Ashoka staff					
Other (please explain)					
OVERALL impact of Ashoka support on your work					

13. What could Ashoka have done to serve you better during the past 10 years? (please select the top three choices that apply)
    __ Introductions/door-opening from Ashoka staff to donors, thought leaders, and other citizen sector organizations
    __ Strategic Planning and Management
    __ Capacity-Building / Fundraising trainings
    __ Marketing and Public Relations
    __ Mentoring from other Ashoka Fellows in your field of work
    __ Opportunities to collaborate with Ashoka Fellows in your country or internationally
    __ Other:

Ashoka is constantly evolving to anticipate the needs for the citizen sector and we welcome your input and involvement at a number of levels. You may keep in touch with our growth and activities through our website www.ashoka.org, where the results of this survey are posted.
Thank you very much for your time!

© 2005 Foundation Strategy Group

Bibliography

Acumen Fund. *Performance Measures.*

Acumen Fund. *Performance Scorecard.*

Ashoka. *Knowing History, Changing It: Ashoka's Theory of Change.*

Ashoka. *Measuring Effectiveness Questionnaire,* 2003.

Alvord, Sarah H., L. David Brown, and Christine Letts. *Social Entrepreneurship: Leadership that Facilitates Societal Transformation—An Exploratory Study,* Hauser Center for Nonprofit Organizations Working Papers, November 2002.

AVINA Foundation. *Annual Report,* 2003.

AVINA Foundation. *Annual Survey Results,* 2001.

Bank of England. *The Financing of Social Enterprises: A Special Report by the Bank of England,* May 2003.

Calvert Social Investment Foundation. *Sample PRO Due-Diligence Template.*

Calvert Social Investment Foundation. *SRO Project Brief.*

Cameron, Kim S. *Effectiveness as Paradox: Consensus and Conflict in Conceptions of Organizational Effectiveness,* Graduate School of Business Administration, University of Michigan, Institute of Management Sciences, May 1986.

Community Wealth Ventures, Inc. *Powering Social Change: Lessons on Community Wealth Generation for Nonprofit Sustainability,* 2003.

Community Wealth Ventures, Inc., *Venture Philanthropy 2002: Advancing Nonprofit Performance Through High-Engagement Grantmaking,* 2002.

Dees, J. Gregory. *Scaling for Social Impact: Designing Effective Strategies for Spreading Social Innovations,* Center for the Advancement of Social Entrepreneurship, Duke University, The Fuqua School of Business, November 2003.

Echoing Green. *2002 Fellows Mid-Year Report.*

Echoing Green. *2003 Fellows Year-End Report.*

ECOTEC Research & Consulting Ltd. *Guidance on Mapping Social Enterprise: Final Report to the DTI Social Enterprise Unit,* July 2003.

Elias, Jaan. *New Profit Inc.* (Case Study), Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, 1999.

Forbes, Daniel P. "Measuring the Unmeasurable: Empirical Studies of Nonprofit Organization Effectiveness from 1977-1997." New York University, Nonprofit and Voluntary Sector, June 1998.

The Foundation Incubator. *The Big, New Foundations: Their Leaders and Their Strategies,* Summary Report, May 19, 2004.

Fruchterman, Jim. *The Power of Technology Social Enterprises.*

Fruchterman, Jim. "Technology Benefiting Humanity," *Ubiquity,* March 2004.

Gair, Cynthia. *A Report from the Goodship SROI,* 2002.

Global Environment Facility. *The First Decade of the GEF: Second Overall Performance Study,* 2002.

Global Environment Facility. *GEF: Monitoring and Performance Evaluation,* website.

Gentile, Mary C. *Social Impact Management and Social Enterprise: Two Sides of the Same Coin or A Totally Different Currency?* Initiative for Social Innovation Through Business, The Aspen Institute, fall 2002.

Global Partnerships. *Due Diligence Process, Information Requests, Business Plan Guide and Loan Agreement.*

© 2005 Foundation Strategy Group

Grameen Foundation. *Grameen Connections,* (Newsletter).

Guidice, Phil and Kevin Bloduc. *Assessing Performance at the Robert Wood Johnson Foundation: A Case Study,* The Center for Effective Philanthropy, 2004.

Herman, Robert D. and David O. Renz. "Theses on Nonprofit Organizational Effectiveness," *Nonprofit and Voluntary Sector Quarterly,* University of Missouri–Kansas City, June 1999.

Johnson, Sherill. *Literature Review on Social Entrepreneurship,* Canadian Centre for Social Entrepreneurship, November 2000.

LaFrance, Steven and Rick Green. *Grantmakers for Effective Organizations: Theory of Change,* July 2003.

Leadbeater, Charles. *The Rise of the Social Entrepreneur,* 1997.

McGrath, Rita Gunther and Ian C. MacMillan. "Discovery-Driven Planning," *Harvard Business Review,* June 1995.

NESsT. *Venture Planning Grants, Performance Measurement,* website.

Paton, Rob. *Managing and Measuring Social Enterprises,* Sage Publications, 2003.

Pfeffer, Jeffrey and Robert I. Sutton. *The Knowing–Doing Gap: How Smart Companies Turn Knowledge into Action,* 2000.

Pew Charitable Trusts. *Planning and Evaluation at the Pew Charitable Trusts,* January 2001.

Reis, Tom. *Unleashing New Resources and Entrepreneurship for the Common Good: A Scan, Synthesis and Scenario for Action,* January 1999.

Roberts Enterprise Development Fund. *An Oasis of Information,* 2002.

Schmidt, Christoph M. *Knowing What Works: The Case for Rigorous Program Evaluation,* December 1999.

Schoning, Mirjam. *Global Trends in Financing the Social Sector: How Successful Social Entrepreneurs Mobilize Resources and Leverage Their Ideas,* Schwab Foundation for Social Entrepreneurship.

Schwab Foundation for Social Entrepreneurship. *Due Diligence Report,* 2003.

Schwab Foundation for Social Entrepreneurship. *Nomination Form,* 2004.

Schwab Foundation for Social Entrepreneurship, *Recertification Form.*

Schwab Foundation for Social Entrepreneurship. *Screener's Evaluation Form,* 2004/2005.

Schweitzer, Maurice, Ordonez, and Bambi Douma. "Goal Setting as a Motivator of Unethical Behavior," *Academy of Management Journal,* University of Pennsylvania, University of Arizona, and University of Montana, 2004.

Seelos, Christian and Johanna Mair. *Social Entrepreneurship: The Contribution of Individual Entrepreneurs to Sustainable Development,* IESE Business School, Universidad de Navarra, 2004.

Wisely, D. Susan. "Parting Thoughts on Foundation Evaluation," *American Journal of Evaluation,* 2002.

W. K. Kellogg Foundation. *Evaluation Handbook,* 1998.

World Economic Forum. "Philanthropy Measures Up," *Global Leaders of Tomorrow,* January 2003.

© 2005 Foundation Strategy Group

Mark R. Kramer is a Founder and Managing Director of the Foundation Strategy Group an international consulting firm with offices in Boston, San Francisco and Geneva. He is also a Founder of the Center for Effective Philanthropy, a nonprofit research organization in Cambridge, Mass., and a Senior Fellow in the Corporate Social Responsibility Initiative at Harvard's John F. Kennedy School of Government.

Mr. Kramer is co-author, with Harvard Business School Professor Michael E. Porter, of two influential Harvard Business Review articles entitled *Philanthropy's New Agenda: Creating Value* (1999) and *The Competitive Advantage of Corporate Philanthropy* (2002). Mr. Kramer also writes frequently on topics related to philanthropy in a variety of publications, including the *Stanford Social Innovation Review, Chronicle of Philanthropy, The New York Times, Benefactor Magazine* and *Foundation News & Commentary*.

Previously, Mr. Kramer spent 12 years as a venture capital investor. He received a BA *summa cum laude* from Brandeis University, an MBA from The Wharton School, and a JD *magna cum laude* from the University of Pennsylvania Law School.

Foundation Strategy Group, LLC

20 Park Plaza
Suite 320
Boston, MA 02116
U.S.A.

Tel: 617.357.4000

50 California Street
Suite 1500
San Francisco, CA 94111
U.S.A.

Tel: 415.397.8500

Blvd. Georges-Favon 6
P.O. Box 5702
1211 Geneva 11
Switzerland

Tel: 41.22.807.24.82

Skoll Foundation

250 University Avenue
Suite 200
Palo Alto, CA 94301
U.S.A.

Tel: 650.331.1031