



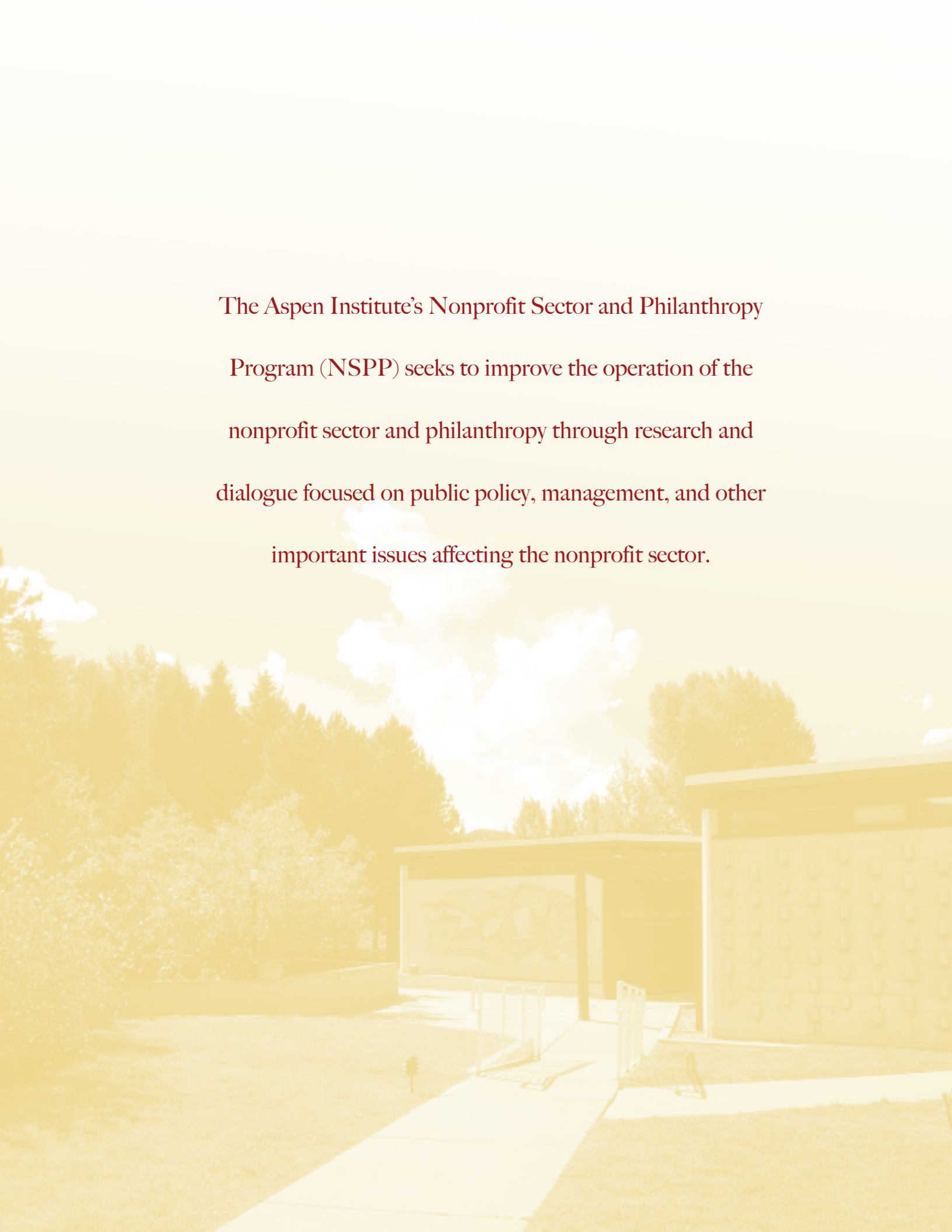
ENTERPRISING ORGANIZATIONS:

NEW ASSET-BASED AND OTHER INNOVATIVE APPROACHES
TO SOLVING SOCIAL AND ECONOMIC PROBLEMS

Highlights from a Forum on Social Enterprise



THE ASPEN INSTITUTE
NONPROFIT SECTOR AND PHILANTHROPY PROGRAM



The Aspen Institute's Nonprofit Sector and Philanthropy Program (NSPP) seeks to improve the operation of the nonprofit sector and philanthropy through research and dialogue focused on public policy, management, and other important issues affecting the nonprofit sector.

October 2005

Dear Colleagues,

In May, the Aspen Institute was pleased to host a diverse group of 40 business and nonprofit leaders at a forum, "Enterprising Organizations: New Asset-Based and Other Innovative Approaches to Solving Social and Economic Problems," that explored the growing social enterprise sector.

Over the past several decades, the nonprofit and for-profit sectors have become more alike. Many nonprofits are more market-oriented - generating fee-based revenue to support their missions, employing business techniques to manage their assets, and participating in financial markets - while numerous for-profit businesses are working harder to benefit communities as well as stockholders. Government is also acting entrepreneurially to create jobs and spur locally-based capital formation. While some in the academic and policy communities are familiar with these innovative, wealth-building strategies, few understand that this growing phenomenon is a potentially powerful economic force for developing meaningful, concrete solutions to problems facing all of our communities.

Developed by the Aspen Institute's Nonprofit Sector and Philanthropy Program in collaboration with the Democracy Collaborative at the University of Maryland, "Enterprising Organizations" brought together representatives of entrepreneurial nonprofits, investors, foundation donors, elected officials, scholars, reporters, and others who play critical roles in this evolving landscape to:

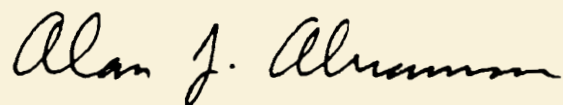
- explore the current "profit-for-social-benefit" models;
- establish new networks among participants;
- share technical information and experience;
- formulate outreach and public relations strategies; and
- identify ways to develop and advance this emerging sector of hybrid organizations.

In addition to new, valuable connections among attendees, what emerged from this gathering was a list of ideas for advancing this growing field of hybrid institutions. These recommendations, along with information on the various new institutional forms and comments from reporters and policymakers, are included in this meeting summary. The Nonprofit Sector and Philanthropy Program of the Aspen Institute hopes to implement several of these action items over the next few years.

We hope this report conveys both the collegial spirit and specific content of the forum. We are grateful for the attendance and interest of a high-level, accomplished group. I want to acknowledge the excellent staff work of Rachel Mosher-Williams, Stephanie Lee, and Sue Smock on this project. Our particular thanks go to Gar Alperovitz, Steve Dubb, Ted Howard, Jon Pratt, and Heerad Sabeti for their significant contribution to the planning and execution of this meeting. We are also especially grateful to the Skoll Foundation for its financial support of the meeting, and to Barbara Kibbe and Christy Chin of the Skoll Foundation for their professional support and help with planning. Thanks also to our other funders - the Carnegie Corporation of New York, Ford Foundation, Bill and Melinda Gates Foundation, William Randolph Hearst Foundation, W.K. Kellogg Foundation, Charles Stewart Mott Foundation, The David and Lucile Packard Foundation, and Surdna Foundation.

We hope that this summary is useful, and we welcome your feedback on it.

Sincerely,



Alan J. Abramson
Director
Nonprofit Sector and Philanthropy Program
The Aspen Institute

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ENTERPRISING ORGANIZATIONS: NEW ASSET-BASED AND OTHER INNOVATIVE APPROACHES TO SOLVING SOCIAL AND ECONOMIC PROBLEMS

Highlights from a Forum on Social Enterprise

Corey Rosen and Cicero Wilson have both worked in the social enterprise field for 20-plus years, but until the “Enterprising Organizations” conference in May 2005, they had never met.

Now that they have, you can bet they’ll be staying in touch. That’s because Rosen has a potential solution to one of Wilson’s looming problems.

“We have family businesses in the Bronx that have been going strong for 30 years,” explained Wilson, director of a community development corporation called the Mid-Bronx Desperadoes. “But the owners are getting to retirement age, and there’s no one to buy these businesses and keep them going. We just don’t have enough capital in our community.”

Enter Rosen. He runs the National Center for Employee Ownership, the nation’s leading source of information on employee stock ownership plans, or ESOPs. “This has been an incredibly successful model for transferring wealth to individuals who don’t have access to investment capital,” said Rosen. “The problem is, most business owners don’t realize they can do this for their employees.”

Nor, for that matter, did Cicero Wilson. And the knowledge came as a revelation.

“That,” said Wilson, “is exactly the type of thing I came to this conference for.”

And it was just one of many examples of the potential for cross-fertilization that came to light during the conference, titled “Enterprising Organizations: New Asset-Based and Other Innovative Approaches to Solving Social and Economic Problems.”

Over the last two decades, the nonprofit and for-profit sectors have converged. Nonprofits have become increasingly entrepreneurial - earning their own income, managing assets, participating in financial markets, and partnering with for-profit entities - while for-profit enterprises have placed greater emphasis on achieving social benefits.

Organizations within all sectors have developed a wealth of knowledge and expertise in such fields as affordable housing, loan administration and brokerage, land transactions, and public policy. But because these institutions take such disparate forms and have such a

broad array of missions, information often doesn't spread efficiently. Organizations spend valuable time re-learning lessons that have already been learned by others, rather than building upon an accumulated knowledge base. Too often, they fail to recognize and exploit opportunities to educate, partner with, and support one another, either within or across sectors.

In an effort to pull all the threads together, the Aspen Institute's Nonprofit Sector Research Fund sponsored "Enterprising Organizations," a three-day conference held May 22-24, 2005 at the Institute's Aspen Meadows campus in Colorado. With support from the Skoll Foundation, "Enterprising Organizations" brought together representatives of entrepreneurial nonprofits with lawyers, accountants, investors, foundation donors, elected officials, reporters, and others who play critical support and partnership roles in this evolving sector.

The objectives of "Enterprising Organizations" included:

- Defining various social enterprise activities and models;
- creating networks and lines of communication;
- sharing technical information and experience;
- formulating outreach and public relations strategies;
- identifying public policy issues; and
- developing benchmarks, assessment tools, and best practices.

The Ultimate Goal:

To shape a broad, diverse range of enterprises into a coherent sector. For this to occur, all social benefit organizations - whether governmental, nonprofit, or for-profit - require a supportive environment. "Enterprising Organizations" represented a first step toward creating that environment.



"Enterprising Organizations" attendees

BUILDING WEALTH: SETTING THE STAGE

Opening Remarks

Gar Alperovitz, Lionel R. Bauman Professor of Political Economy, University of Maryland



Since the late 1960s, the number of community development corporations has grown from a mere handful to more than 4,000. Employee ownership has witnessed a similar expansion - more than

8 million U.S. workers now own a part of the company they work for. Over 100 million people in this country are members of co-operatives. Nonprofit organizations are forming income-generating enterprises to support their missions, and a host of municipal programs and enterprises that anchor jobs and contribute to the tax base have gained the support of mayors, Republicans and Democrats alike.

These community wealth-building strategies have been around for a long time, but they have achieved a new level of currency in the early 21st century. Though seemingly diverse, they have a great deal in common. For one thing, they all change the nature of wealth ownership in a way that benefits the community. Moreover, they offer new ways to provide and anchor local jobs while helping finance community services. In so doing, they help communities generate the resources they need to solve social and economic problems.

Two primary factors account for the expanding use of these strategies: increasing political resistance to taxes and the rise of the global economy, which has made it more important than ever to keep capital

anchored at home. Neither of these factors is likely to change, so community wealth-building strategies will probably become both more common and more important over time. “And that,” said Gar Alperovitz, “makes the work we do here, to identify ways to link and build on these strategies, all the more important.”

Another Type of “Ownership Society”

Steve Dubb, Senior Research Associate, University of Maryland



President Bush uses the term “ownership society” to refer to a vision of individual wealth ownership. The “Enterprising Organizations” conference presented a vision of another “ownership

society” - the ownership of assets by institutions that benefit communities. The gathering coincided with the Aspen Institute’s publication of *Building Wealth: The New Asset-Based Approach to Solving Social and Economic Problems*. The culmination of 10 years of research, *Building Wealth* provides the first comprehensive survey of asset-based approaches to increasing community wealth in low-income and other communities throughout the United States.

Among the highlights of the study, *Building Wealth*:

- Describes successful nonprofit, for-profit, and government-based community wealth-building models;

- provides a baseline of data - numbers of organizations, assets controlled, revenues generated, etc.;
- assesses the sector’s growth potential; and
- uses interviews from more than 100 practitioners, as well as financial and statistical data, to evaluate sector performance.

“This is no drop in the bucket,” said Steve Dubb, *Building Wealth’s* primary author, at the conference. “We are talking about a \$1.5 trillion slice of the economy.” The table below illustrates the breadth of the sector’s reach and how large its capital base has become.

Community Wealth-Building Institutions: Key Features and Statistics

Institution/Form	Number (2005)	Assets (2005)	How It Builds Community Wealth
Community Development Corporations (CDCs)	4,000	More than \$1 billion	Develops local business, retail, and community facilities
Community Development Finance Institutions (CDFIs)	718 (federally certified)*	\$14 billion**	Provides financing for homeownership and small businesses in under-served communities
Cooperatives and Credit Unions	Approximately 48,000 businesses with more than 120 million members	Top 100 non-financial co-ops have \$263 billion ; credit unions have \$629 billion	Pools resources to finance businesses on “one member, one vote” ownership model.
Community Land Trusts (CLTs)	112 nonprofits with a combined 6,000 housing units*	Approximately \$500 million	Uses nonprofit ownership of land to ensure permanently affordable housing and other services
Employee Stock Ownership Plans (ESOPs) and Employee Ownership	11,000, with more than 8 million members	\$555 billion	Anchors wealth locally by rooting business ownership in the community
Municipal Enterprise	25,000 (many are water and sewer companies, but include other industries such as city-owned hotels)	2,000 public utility companies alone have \$39.6 billion***	Uses local public ownership to provide services and generate non-tax local revenue
Nonprofit Social Enterprise	500*	More than \$500 million	Raises revenue for community-benefit work through mission-related businesses
State and Local Pension Funds (economically targeted investments)	Used in some form by about half of all state pension funds	\$43.6 billion (2 percent of state and local public pension dollars)	Invests public pension dollars to earn both social and economic returns
Approximate Total	90,000	More than \$1.5 trillion in assets — up from less than \$100 billion in the 1960s	Combined strategies anchor capital and build wealth in local communities.

* 2004 data ** 2003 data *** Estimates for other sectors are not available

New Organizational Tools

Ted Howard, Executive Director, The Democracy Collaborative at the University of Maryland (www.democracycollaborative.org)



Another attempt to survey and delineate the boundaries of this sector debuted at the “Enterprising Organizations” conference: Community-Wealth.org (www.community-wealth.org). “The objective

is to broaden and deepen the information base for and about asset-building community organizations,” said Democracy Collaborative Executive Director Ted Howard.

Community-Wealth.org has 1,200 links to individual organizations, research sources, articles and publications, and other online resources. The database is fully searchable by location, type of enterprise, or keyword.

“It’s the first time all the elements have been brought together in one place,” Howard said. “The range of practical activity - and its implications for the future - has rarely been appreciated even by practitioners and experts in the field.

Community-wealth.org provides information that can help people understand these institutions - and, we hope, support their expansion.”

The project’s goals, as listed on the website, include:

- To facilitate conversation, connection, and collaboration among those now working within this field;
- to encourage the support and participation of new constituencies who have not been formally involved;
- to broaden and deepen information available about the field;
- to bring attention to the vast range of experiments in asset-based community wealth creation; and
- to help lay the groundwork for policy changes that support community wealth-building programs.



(left to right) Andrew Kassoy, Peter Reiling, Larry Borowsky, Jim Baller, John Weiler

NEWS FROM THE TRENCHES

Community Development Corporations (CDCs)

Cicero Wilson, Chief Executive Officer, Mid-Bronx Desperadoes (www.mbdhousing.org)

SECTOR PROFILE: CDCs

Assets Managed:

Commercial and residential real estate, loan funds

Income Sources:

Management income, developers' fees, lease and income, interest payments, grants, and donations

Challenges:

Gentrification, drain of human/financial capital, changes to Section 8 law

Opportunities:

High assets, high cross-sectoral potential



“The CDC sector is very strong,” said Cicero Wilson, director of the Mid-Bronx Desperadoes (MBD). “But there’s a sense in which we are becoming victims of our own success.”

From their origins in the late 1960s, when only a few of them existed nationwide, CDCs have grown into a major sector with more than \$1 billion in assets. Wilson’s organization was founded in 1974 in response to a wave of arson in the Crotona Park East section of Bronx Community District 3 that decimated the

neighborhood’s housing stock. Over the last 30 years, MBD has invested more than \$200 million to develop and manage 2,300 residential units for low-income families, the elderly, and the disabled.

More recently, MBD has branched out into job training and placement, crime prevention and public safety, K-12 education, healthcare, child care, and economic development. It now operates an industrial park and family health center, offers comprehensive case management, has open-space and youth-recreation programs, and provides micro-loans to small businesses.

But the cyclical nature of urban redevelopment is a major problem, said Wilson. “A neighborhood gets to point A, where the businesses are off the ground, the kids have diplomas, the drug dealers are off the street. But now we’ve changed the market: Speculators move in, real estate goes sky high, and everybody has to go live somewhere else. Or the success stories leave because there aren’t enough opportunities for them within the neighborhood - the high-paying jobs, the opportunities to expand their business, lie elsewhere.”

Both dynamics pull the rug out from under CDC efforts, Wilson said - and breaking the cycle won’t be easy. “We need to plan in advance - before the horse leaves the barn - for the possibility of long-term success and gentrification.

“We don’t have an asset-building culture. We have a consumption oriented culture.” - Cicero Wilson

And we need to build on what our communities already have. We don't have an asset-building culture; we have a consumption-oriented culture. We need a general public-awareness campaign to change that, like the campaigns against smoking, teen pregnancy, or drugs."

"The only serious way to do this," Wilson added, "is through community institutions."

REACHING ACROSS SECTORS: CDCs and Municipal Enterprise

Urban neighborhoods underserved by high-tech providers may profit from municipal development/ownership of WiFi, cellular, and/or broadband networks. "If we're going to improve education for our kids, we need broadband Internet service," said Wilson. "And the private providers are no help at all."

Nonprofit Social Enterprise

Beth Bubis, President and Chief Executive Officer, Social Enterprise Alliance
(www.se-alliance.org)

SECTOR PROFILE: Social Enterprise

Assets Managed:

Businesses (often employees are from the nonprofit's "client" population)

Income Sources:

Business income, grants, and donations

Challenges:

Tax law complexity; need to balance social and economic goals

Opportunities:

Expansion of job-training programs within nonprofit-owned enterprises



Beth Bubis runs the Social Enterprise Alliance (SEA), a membership organization and peer-to-peer support network of social enterprise organizations. Its 1,000-plus membership includes a

cross-section of the emerging sector, with representatives not only from nonprofits but also from private-sector for-profit enterprises, funding organizations, policymaking agencies, and the legal and accounting professions.

Although it traces its origins only to the 1980s, this rapidly growing sector already boasts nearly 500 organizations and half a billion dollars in assets.

"What do our members do?" Bubis asked. "Take, for example, Housing Works in New York. Housing Works provides housing and jobs for homeless people and sufferers of HIV. It operates many businesses, including a high-end thrift store and a used bookstore and café. Their employees are drawn from the population they serve, and the dollars earned by the businesses support their social mission."

Housing Works is a mission-driven nonprofit that generates funds through its for-profit businesses, but many SEA members come at it from the opposite side – for profit businesses that operate mission-driven enterprises.

"We recognized there was a different model that had evolved organically," said Bubis. "But it was diffuse and disorganized. Our organization facilitates peer-to-peer assistance; we also have begun pursuing research on which models and instruments are most effective, where opportunities for growth lie, and so on."

"...the dollars earned by the businesses support their social mission." – Beth Bubis

“We on the Left have been against wealth production for a long time – as if it’s dirty or something.” – Gus Newport

Community Land Trusts (CLTs)

Gus Newport, Executive Director, Institute for Community Economics (www.iceclt.org)

SECTOR PROFILE: CLTs

Assets managed:

Land and housing stock

Income sources:

Management fees, loan fees/interest, development fees, grants, and donations

Challenges:

Narrow base of training, expertise; most organizations too small to attract funding for high-impact projects

Opportunities:

Urban gentrification and historic preservation have led to heightened awareness



The Institute for Community Economics (ICE) goes back to the very beginning of the community land trust model. ICE’s founders helped develop the model back in the 1960s.

“The initial effort was designed to help black Southern sharecroppers own and manage their own land,” Newport said at the conference. “And the model was good, but they didn’t have the technical assistance and financial support and all the other elements they would need. So those sharecroppers ultimately failed.”

That same fatal flaw - lack of practical, nuts-and-bolts know-how - has undermined many good ideas in the last four decades, Newport said. But ICE learned from its early mistakes and shares its wisdom with CLTs across the country. Its technical assistance and loan programs support more than 100 CLTs in 31 states. ICE also has begun building a national CLT Network to develop training, public relations, and other programs.

Although the sector controls an aggregate of roughly \$500 million in assets nationwide, Newport isn’t satisfied with the pace and degree of progress. “We’re continuously building affordable housing, but not developing the mechanisms necessary to keep it affordable,” he said. “We have to develop a set of best practices, technical assistance programs, and education programs.”

A former mayor of Berkeley, Calif., Newport added: “We on the Left have been against wealth production for a long time - as if it’s dirty or something. Well, we have to get on board. That is the way we have to go.”

REACHING ACROSS SECTORS: CLTs and CDCs

The CLT model can help CDCs gain control of urban real estate to develop affordable housing, business districts, parks/open space, or other assets.

Community Development Finance Institutions (CDFIs)

Ignacio Esteban, Executive Director, Florida Community Loan Fund (www.fclf.org)

SECTOR PROFILE: CDFIs

Assets Managed:

Loan portfolios

Income Sources:

Interest payments, fees, grants, and donations

Challenges:

Low public profile, lack of awareness

Opportunities:

Can access Wall Street capital by bundling debt into marketable securities



Community Development Finance Institutions (CDFIs) are federally certified entities. Congress created them in the early 1990s to serve communities that lack the assets to attract financing on the

open market. Clients may be for-profit or non-profit; the only requirement is that they provide basic services (housing, education, child care, healthcare, etc.) to low-income communities.

In the decade since its creation, the CDFI sector has mushroomed in size - a sevenfold increase. Nationwide, CDFI holdings now total \$14 billion.

The Florida Community Loan Fund has worked with more than 60 nonprofits statewide, providing funding and/or financing to support affordable housing, economic development and essential social services. Ignacio Esteban, the Fund's executive director, listed several ideas that might increase CDFIs' impact, including:

- A credit rating system for CDFIs;
- partnerships with other lenders; and
- packaging CDFI loans for sale to traditional lenders.

“One way we can have an impact,” Esteban said, “is to start encouraging housing-oriented nonprofits to build green - not because it's good environmental policy but because it makes financial sense.”

“CDFIs have only begun to scratch the surface,” he added. “We have to find more ways to make capital flow efficiently to low-income communities.”

REACHING ACROSS SECTORS: CDFIs and CDCs

CDC programs in housing, economic development, child care, and other areas require increasingly large amounts of capital. CDFIs can help CDCs find those resources more efficiently and cost-effectively.

“One way we can have an impact is to start encouraging housing-oriented nonprofits to build green – not because it's good environmental policy but because it makes financial sense.” – Ignacio Esteban

“Altruism is a nice motive,
but it doesn’t always get us very far.”

- Corey Rosen

Employee Ownership

Corey Rosen, Chief Executive Officer, National Center for Employee Ownership
(www.nceo.org)

SECTOR PROFILE:

ESOPs and Employee Ownership

Assets Managed:

Employee-owned businesses across the economy, with a high concentration in manufacturing

Income Sources:

Primarily generated by businesses, some federal tax-credit support

Challenges:

High technical/legal threshold

Opportunities:

Converting family-owned businesses to ESOPs as founding owners retire



Employee Stock Ownership Plans (ESOPs) were created in 1974 to give workers an instrument for acquiring stakes in the businesses for which they work without having to raise the up-

front capital necessary for an outright purchase. There are today more than 10,000 ESOPs in America, representing more than 8 million employees and approximately \$550 billion in equity and assets.

The number of ESOPs has increased nearly ten-fold since 1990, and Rosen believes there are two simple reasons for the increase. First and

foremost, ESOP companies tend to grow more quickly - about 2 to 3 percent faster than comparable non-ESOP companies. Second, ESOPs promote an “ownership culture” that gives employees a greater stake in their work, which in turn leads to better performance.

“Altruism is a nice motive,” Rosen said, “but it doesn’t always get us very far. ESOPs link the profit motive of the company to the altruistic motive to do something good for employees.”

Launching an ESOP requires a great deal of legal, financial, and accounting expertise - and the National Center for Employee Ownership (NCEO) is the nation’s leading source of that knowledge. NCEO conducts seminars; writes and publishes “how-to” guides, as well as a journal and newsletter; conducts and publishes independent research about employee-ownership plans; provides a consultant referral service; and warehouses hundreds of articles and publications on its website.

“ESOPs create an ownership culture within a corporation, which gives employees a decision-making voice,” Rosen said. “And that leads to a higher performance in the marketplace. It’s an extraordinarily successful model.”

REACHING ACROSS SECTORS:

Any enterprise funded by a nonprofit institution can use an ESOP to create wealth for the enterprise’s employees.

Cooperatives

Margaret Lund, Executive Director,
Northcountry Cooperative Development Fund
(www.ncdf.coop)

SECTOR PROFILE: Cooperatives

Assets Managed:

Member-owned businesses exist in most sectors of the economy

Income Sources:

Primarily internally generated by businesses

Challenges:

Legal/regulatory barriers to non-member equity capital

Opportunities:

Growing sectors include retail food co-ops, small-business purchasing co-ops, and worker-owned co-ops



“Co-ops broaden the definition of ‘marketplace’ to encompass the type of society people want to live in,” said Margaret Lund.

Lund serves as executive director of the

Northcountry Cooperative Development Fund (NCDF), which provides loans, technical aid, and other forms of assistance to cooperatives. “A cooperative is a democratically controlled organization that is owned and controlled by the people who benefit from them,” Lund explained. “It’s a vehicle the community uses to pool its resources and reinvest them in the community.”

Credit unions are the most widespread type of co-op, with \$629 billion in assets (a 100-fold increase since the mid-1960s). But other types of co-ops are now experiencing rapid growth; their portfolio has increased to an aggregate \$263 billion.

Cooperatives commonly offer their members access to credit, child care, consumer goods, agricultural commodities, and electrical power - but that’s just the beginning, Lund said. “Coops don’t just provide their members with lower-priced products; they also promote values - quality of life, health, education, self-governance.”

Above all, they provide a model for democratic self-governance - something, Lund observed, that all social-enterprise organizations provide to one degree or another.

“ESOPs, CDCs, land trusts - they’re all about participation in decision-making,” she said. “That’s one of the most important things the co-op movement can offer - not just material benefits but a set of values, as well as a skill set to help people make better decisions.

“Ultimately it’s about building a competent, informed, engaged citizenry.”

REACHING ACROSS SECTORS:

Because they specialize in governance and decision-making, co-ops can help all social enterprise organizations establish good policies and procedures for making decisions.

“Co-ops broaden the definition of ‘marketplace’ to encompass the type of society people want to live in.” – Margaret Lund

“Fiduciary responsibility and community development are not mutually exclusive.”

– Adam Freed

State and Local Pension Funds

Adam Freed, Director, Bureau of Economic Development and Policy Analysis, New York Office of the State Deputy Comptroller (www.osc.state.ny.us/pension/index.htm)

SECTOR PROFILE:

State and Local Pension Funds

Assets Managed:

Hundreds of millions in public-employee retirement funds

Income Sources:

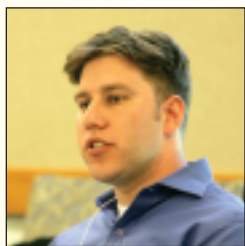
Pension contributions from state employees and government employers, returns on investment

Challenges:

Fiduciary obligations, high financial risk

Opportunities:

Underserved financial niches in rural and inner-city areas



The New York State Common Retirement Fund (CRF) controls \$120 billion in retirement funds for almost 1 million current and former state employees. While most of those funds are invested in traditional financial markets, a small portion is diverted into four programs that make economically targeted investments - that is, investments that advance community-development activities.

The first program, known as the In-State Investment Fund, was created in 1999 to invest

in New York businesses that are being underserved by traditional venture-capital markets. Many of these businesses are located in upstate New York; others are owned by women or minorities.

The CRF's Real Estate investment unit purchases mortgages, rehabilitates properties, and underwrites new development. The Affordable Housing and Affirmative Loan program focuses on affordable housing for seniors and low-income residents. A fourth program pursues corporate reform, using the CRF's leverage as a large shareholder to effect new policies.

“Fiduciary responsibility and community development are not mutually exclusive,” Freed said at the conference. “We can put money in community-oriented programs without accepting undue risks, and we can earn a return that is commensurate with that risk.”

Numerous other states and cities are considering programs patterned after the CRF model, Freed added.

REACHING ACROSS SECTORS: Pension funds and CDFIs

State funds like the CRF invest in mortgage portfolios, which CDFIs often maintain.

Municipal Enterprise

Jim Baller, Senior Principal, Baller Herbst Law Group (www.baller.com)

SECTOR PROFILE: Municipal Enterprise

Assets Managed:

Local government-owned utilities and related businesses

Income Sources:

Primarily internally generated; capital needs met through the bond market

Challenges:

High political hurdles, obstruction from private sector, technological obstacles

Opportunities:

Broadband infrastructure buildout, as foundation for more general economic development



“A hundred years ago,” Jim Baller said, “when electricity was the new must-have technology, the private sector electrified the big cities but left rural America in the dark. So more than 3,000 communities across the U.S. wired themselves by building their own electrical utilities.”

History is repeating itself today, Baller said, in the realm of broadband telecommunications. Rural communities are stepping forward to build infrastructure for cable television, high-speed internet, cellular phone, and other services.

“The large companies cherry-pick the most profitable communities and leave everyone else hanging,” said Baller. “So municipalities, rather than see their communities fall behind, are stepping forward and building their own broadband and WiFi systems.”

The municipally owned systems are highly competitive and carry great economic development potential. They’re so successful that the private-sector telecom industry is attempting to erect barriers to municipal ownership. Fourteen states have tried to pass legislation that limits or prohibits municipal ownership, but Baller’s law firm has helped defeat or water down all of these proposals.

“The United States stands just 16th in the world in broadband penetration,” Baller notes. “And that is just unacceptable. More and more people are coming to realize that this isn’t a public-versus-private issue. It’s a question of finding common ground.”



Christy Chin, George Stranahan

“The large companies cherry-pick the most profitable communities and leave everyone else hanging.” – Jim Baller

A Policymaker's Perspective

Stephen Goldsmith, Director, Innovations in American Government Program, Kennedy School of Government, Harvard University

“The public-sector/private-sector distinction is obsolete,” said Stephen Goldsmith during a luncheon speech. “Any service-delivery system is multi-sector or it doesn’t work.”

Goldsmith learned as much during two terms as mayor of Indianapolis (1991-1999). In that time, he launched or presided over numerous innovative collaborations among the public, private, and nonprofit sectors. These included the Building Better Neighborhoods Program and the Front Porch Alliance, which helped match church and neighborhood groups with government resources.

“Cities are bigger, but the wealth gap is much worse,” Goldsmith said. “Public deficits are structural and getting worse, making it impossible to deliver the services people want. We just can’t make it work anymore.”

That leaves enterprising organizations with a lot of slack to pick up. And while acknowledging that government can and must support community-based efforts, he cautioned the attendees at “Enterprising Organizations” against relying too heavily on public agencies or officials.



“The government can have a role in underwriting risk,” he said. “It can inject a shot of capital to get a project completed; it can marry financial capital with social capital. But when you start talking about municipalization - hold your horses. It’s not always a great idea. There have been some good examples, but also some awful ones.”

“The way to get government involved,” said Goldsmith, “is to ask this: How best can it activate other sectors? If used properly, it can be a very effective instrument for producing public value and helping communities build capital.”

GETTING THE PRIVATE SECTOR INVOLVED

The B Corp: “For-Benefit” Corporations

Jay Coen Gilbert, Founding CEO, AND1



“Paul Newman’s company has donated \$150 million to charity,” said Jay Coen Gilbert. “That’s one company. Imagine what would be possible if you had hundreds of companies doing this.”

That, in a nutshell, is Jay Gilbert’s vision for a new type of corporate entity: the B Corp, or “For-Benefit” corporation. Gilbert even has a logo in mind: a B with a circle around it, much like the circled “C” that signifies “copyright.” Hence his nickname for the B corporation: “Circle B.”

“The Circle B lies at the intersection of philanthropy, social investment, and venture capital,” Gilbert said. “There are structural barriers that prevent nonprofits from making a profit and that discourage for-profits from having a social mission. The Circle B eliminates those barriers.”

Under Gilbert’s vision, Congress would designate Circle Bs as a separate category with a separate regulatory framework. Their main obligation: to donate 100 percent of their profits (less dividends) to 501(c)3 organizations. Their main privilege: tax-exempt status.

In most other respects, Circle Bs would operate like any corporation - raising capital through traditional private-sector channels, rewarding

investors with dividends, and competing with other companies (whether Circle Bs or not) for market share and profits.

Some notable companies already have succeeded while upholding Circle B principles, said Gilbert, citing Whole Foods, Pura Vida Coffee, and several other examples. “The timing is right,” he said. “Values-led businesses are the emerging paradigm, and 68 million Americans identify themselves as values consumers - not just liberal yuppies but soccer moms, inner-city families, the faith-based community.”

The old economic model, Gilbert said, assumes that people are motivated primarily by material things - money, convenience. “I dispute that premise. I think people are motivated primarily by a desire to be connected with something larger than themselves.”

The Emerging “Fourth Sector”

Heerad Sabeti, President, transForms FB



Heerad Sabeti’s company, transForms FB, is a for-benefit corporation - it invests all profits in social-purpose organizations and initiatives.

Like a lot of young entrepreneurs, Sabeti began his career with two goals: to make money and to make a positive contribution to society. “What I found,” he said,

“is that it was a lot easier to be entrepreneurial than to have an influence on social change.”

Sabeti’s entrepreneurial success, Muralis Creative, is a multidisciplinary marketing and creative-services agency that he founded in 1991. But now, having succeeded as a traditional entrepreneur, Sabeti is working full-time on his other life goal. Toward that end, he launched transForms FB, a for-benefit enterprise that markets commercial art and decor products.

In addition, Sabeti co-founded the Fourth Sector Network, a cross-sectoral, cross-disciplinary network of individuals and organizations with a shared interest in shaping and supporting a new realm of enterprise - the Fourth Sector.

What is the Fourth Sector? According to Sabeti, it is the place where for-profit, nonprofit, and public enterprise converge. Recent developments such as globalization and the explosion in information technology are blurring traditional sector lines and drawing organizations from the three traditional sectors closer together. And they are gathering in a new marketplace that he calls the Fourth Sector.

During his conference presentation, Sabeti remarked, “The Fourth Sector is still fragmented, and its members don’t necessarily recognize each other.” So as a first step, the various actors - which include nonprofits, values-driven for-profit companies, civic and municipal programs, and all the various types of social enterprise organizations - need to identify themselves as Fourth Sector members. The conference represented an opportunity for such self-identification, he said, as the participants represented a microcosm of the new sector.

In addition, Sabeti said, there needs to evolve a viable “ecosystem” of services and institutions that support the Fourth Sector. The elements of such an ecosystem would include:

- capital markets
- leadership development channels
- legal/regulatory structures
- support services
- intellectual capital
- public relations
- standards of quality/performance/ethics

Sabeti said he believes the Fourth Sector has great potential to effect positive change. In a working draft of “The Emerging Fourth Sector,” a paper distributed at the conference, Sabeti wrote: “A new class of organizations with the potential for generating immense economic, social, and environmental benefits is emerging at the intersection of the public, private, and social sectors - and it can be consciously developed and expanded through broad recognition and engagement.”



Alan Abramson

A Financier's Perspective

Jed Emerson, Senior Fellow, Generation Foundation, Generation Investment Management

“We’re missing a phenomenal opportunity,” said Jed Emerson, “to do something incredible.”

A senior fellow with the Generation Foundation, Emerson has spent years managing “venture philanthropy” funds and socially responsible investment funds. He believes there is greater awareness than ever of the social costs and benefits of investment. But three major issues have to be addressed before that awareness translates into increased financial opportunities for social enterprise initiatives.

“First,” said Emerson, “we are grappling with a shift in the definition of fiduciary responsibility. Clearly that responsibility is more than maximizing short-term return on assets; there are broader issues involved. But it’s not clear where the boundaries are.”

Second, Emerson explained, existing laws, institutions, and ways of doing business all pose obstacles to change. “We lack an ‘ecosystem’ that really supports what we want to do,” he observed. “Tax and regulatory structures do not support nonprofit efforts.”

“There’s an enormous chunk of capital available that could be used more creatively than it’s being used now,” he added. “How do you free up that capital so it’s available at a retail level to individuals who want to invest in philanthropy?”

Some of this underutilized capital simply lies idle, as cash reserves for philanthropic organizations. Another portion is invested in traditional finan-



cial vehicles rather than being earmarked for social-enterprise activities that provide both a financial return and a community benefit.

Finally, said Emerson, there’s “the vision thing.” Social enterprise is so diffuse that it can be very difficult and painful to unify the disparate elements and articulate meaningful goals. And that, Emerson said, is the challenge to enterprising organizations: “How do you enunciate a vision about value creation that is broad enough to include the whole sector, but challenging enough to get people motivated and working together?”

“We’re all fighting the same battle,” Emerson concluded. “But we have to fight together.”

GETTING THE PRESS INVOLVED

Mike Abramowitz, Deputy National Editor,
The Washington Post

Ken Cooper, National Editor, *The Boston Globe*

Stacey Palmer, Editor, *Chronicle of Philanthropy*

Paul Solman, Business Correspondent,
PBS/The NewsHour

In 20 years as the business correspondent for *The NewsHour with Jim Lehrer*, Paul Solman has reported frequently on nonprofits, enterprising organizations, and related subjects. But, he said, getting coverage for these stories isn't easy. "TV news is always looking for something new and unpredictable - man-bites-dog stories," he said. "And you don't have man-bites-dog stories; you have man-pets-dog stories."

If social entrepreneurs want to increase coverage, Solman advised, they have to think like journalists, packaging information in a way that appeals to the needs of the media. The less work a journalist has to do to turn your story into a "story," he added, the more likely it is to get air time.

Solman described a few stories on the nonprofit sector that he has done for *The NewsHour*:

- One focused on entrepreneurs who donate some or all of their profits to charity - the type of "for-benefit" companies that Jay Gilbert described.
- In a second segment, which focused on socially responsible investing, Solman characterized the concept of "below-market return" as a misnomer. "The market spins off negative externalities, hidden costs that society has to pay," he said. "'Below-market' is really above-market, because it eliminates these hidden costs."

- A third segment examined the nonprofit sector's difficult transition to increasingly market-based strategies.

Solman added a few general guidelines for maximizing the odds of getting coverage:

- Package information so that it seems topical or ties in with a topical issue. Include a patina of "hard analysis" and/or a human-interest angle.
- Think globally but act locally: Approach local affiliates as well as national outlets.
- Exploit the "feel-good" nature of social enterprise activities.
- Mobilize constituents to call or write the station after a story airs - praise for good stories, complaints for bad stories.

Washington Post deputy national editor Mike Abramowitz and *Boston Globe* national editor Ken Cooper offered some perspective from the print media. Both men noted that nonprofits are at a disadvantage because they are not a tra-



(left) Paul Solman
(right) R. Todd Johnson

ditional newspaper “beat.” Most large newspapers have an education reporter, an environmental reporter, a religion reporter, a health reporter, and so forth - but only one noteworthy paper (*The New York Times*) has a reporter assigned full-time to the nonprofit/philanthropy beat. One way to counteract that, Cooper suggested, is for enterprising organizations to designate one staff member as a part- or full-time PR person. “You need to cultivate relationships with journalists,” he said.

“Don’t assume that reporters are as well-versed in issues as you are,” added Stacey Palmer, editor of

the Chronicle of Philanthropy. “Make sure they understand what your organization does and why it is newsworthy.”

Cooper added that jargon can be a problem within the nonprofit sector. “You need terminology that is accessible and sellable,” he said. “You need to choose words that are designed to appeal to an audience, and that convey values and ideas that people embrace.” And Abramowitz noted that “newspaper journalists like numerical measurements - hard facts, hard information.”

MOVING FORWARD

In the final session of “Enterprising Organizations,” participants looked to the future, weighing priorities and proposing actions that can advance the social enterprise sector:

Embrace bipartisanship. “I have gotten enormous support from Republicans for employee stock-ownership. We could use a better understanding of their point of view.”

Educate the public. “We need a huge public education blitz. There is an economic crisis in this country, and people feel that there are no solutions. We need them to know there are a range of solutions. We should be highlighting that story a lot more than we are.”

Create a strategy group. “I would like to see this coalition ultimately produce a new entity that conducts independent research, provides assistance, and facilitates collaboration.”

Develop a brand. “People don’t understand what we do for a living. There’s a lack of ‘brand-awareness.’”

Establish benchmarks. “There needs to be a common numerical language – useful data sets and standards that the average person can quickly assimilate and understand.”

Build up grassroots activism. “I used to think politics and social policy were the best way to expand opportunity and access to the American Dream. But I have become disaffected from that. We need to go beyond politics per se and delve into democracy - people exercising power. We need to build up that side and take action for ourselves. The media and the politicians will eventually come along.”

Network. “Despite the great wealth of experience among the participants in this conference, people in this sector don’t really know or recognize

each other. We need to carry this discussion forward, cement the contacts made here.”

Triangulate. “We have a revolutionary vision, but reform will get us there. We need to structurally align ourselves with the conservatives - work within the system. And we need to develop a tool kit for making the reforms we need to make.”

Establish Work Groups. “We need a set of focused, targeted action points and a group of people working on each one. We need a workgroup on legal issues, one for financial issues, one for issues related to capital markets, and so forth.”

Create a Map. “We need a map of this sector, scalable and detailed. People don’t understand who we are or what we do; they don’t understand the problems, so they don’t feel the sense of urgency, and they don’t embrace the solutions.”

Get the Foundations to Invest. “We need to appeal to the enlightened self-interest of the top one per-

cent - the endowers. Philanthropy has evolved in a certain direction in the last 50 years, and we accept that that’s how it is. But we need to rise above that and get a meta-economic place. The endowers need to enlarge the pie.”

Take a Practical Approach. “I’m a tool person. Let’s see a map; let’s see workgroups; let’s create shortcuts. And let’s leave the partisan stuff out of it; we need to state our needs and take the support from whoever is offering it. And we have to understand each other. We have to do that before we’re ready to go out to the public and ask them to understand us.”

Emphasize Nonviolence. “The thing we’re trying to address is the violent impact of the economy on our communities - the failure of markets to fulfill human needs. Society is losing its way because of the predominance of the economic paradigm. I don’t think it is a stretch to characterize ourselves as a peace movement.”

CONCLUSION

The “Enterprising Organizations” conference yielded a wealth of ideas for advancing the growing field of “profit-for-social-benefit” institutions. The list of action items included:

- better communication within the sector;
- increased cross-sector partnership;
- increased sharing of technical, legal, and financial expertise, as well as information and research;
- sharper public relations;
- a higher media profile; and
- new partnerships with for-profit and public-sector entities.

That's a very full agenda. But to many of the participants at “Enterprising Organizations,” it only represents the beginning. Ultimately, the charge of this rapidly evolving sector is nothing less than transforming the way our entire economy does business. As Cicero Wilson put it: “We have to talk about the costs of the consumption society. Our organizations have to be held up as good examples - as an alternative to our consumption-based society. We have to talk about investing, putting resources toward increasing quality of life in our communities.”

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Nonprofit Sector and Philanthropy Program

The Aspen Institute's Nonprofit Sector and Philanthropy Program (NSPP) seeks to improve the operation of the nonprofit sector and philanthropy through research and dialogue focused on public policy, management, and other important issues affecting the nonprofit sector. It includes the:

Nonprofit Sector Research Fund (NSRF). NSRF was established in 1991 to increase understanding of the nonprofit sector and philanthropy. Since its founding, the Fund has awarded over \$10 million to support more than 400 research projects on a broad range of nonprofit topics.

Beginning in 2002, NSRF is focusing its work in three areas: 1) Nonprofits and Public Policy; 2) Nonprofit Relations with Business and Government; and 3) Foundation Policy and Practice. In each area, NSRF is identifying priority research topics; support research and dialogue on these topics; communicating research findings to appropriate audiences; and working with other organizations to facilitate the use of new knowledge to improve relevant practices and policies. The Fund is also a partner in managing the Michigan Nonprofit Research Program, which seeks to improve understanding of the Michigan nonprofit sector.

Aspen Philanthropy Letter. NSPP publishes an electronic newsletter that reports on new ideas and other developments that will affect the field of philanthropy in the years to come. Free subscriptions are available by sending a message to philanthropy@aspeninstitute.org.

William Randolph Hearst Scholarship for Minority Students. NSPP annually awards the William Randolph Hearst Scholarship for Minority Students to outstanding minority undergraduate or graduate students demonstrating financial need. The Hearst Scholar serves as a summer intern with the Fund and undertakes general research and support for NSPP.

Kellogg-Kauffman Seminar Series for Mid-America Foundation CEOs. The Kellogg-Kauffman Seminar brings together a small group of mid-continent foundation executives to discuss issues of mutual interest.

The State of America's Nonprofit Sector Project. The State of America's Nonprofit Sector Project, a collaborative initiative with Lester Salamon of Johns Hopkins University, will report every several years on the major developments affecting the overall nonprofit sector and each of its major fields of activity (i.e., health, education, social services, arts, etc.).

Fast-Growth, High-Impact Nonprofits. In partnership with Duke University's Center for the Advancement of Social Entrepreneurship (CASE), the Fast-Growth, High-Impact Nonprofits Research Project will examine the strategy, organization, and leadership that fuel the success of today's leading nonprofits.

Community Giving Resource. Developed by the Neighborhood Funders Group in partnership with NSPP, the Community Giving Resource provides objective, accessible information to small family foundations and individual donors committed to strengthening low-income communities.

Nonprofit Sector Strategy Group. The Strategy Group was a leadership forum that met from 1997-2001. The initiative convened top nonprofit, government, and business leaders to address the most pressing issues facing the nonprofit sector in America.

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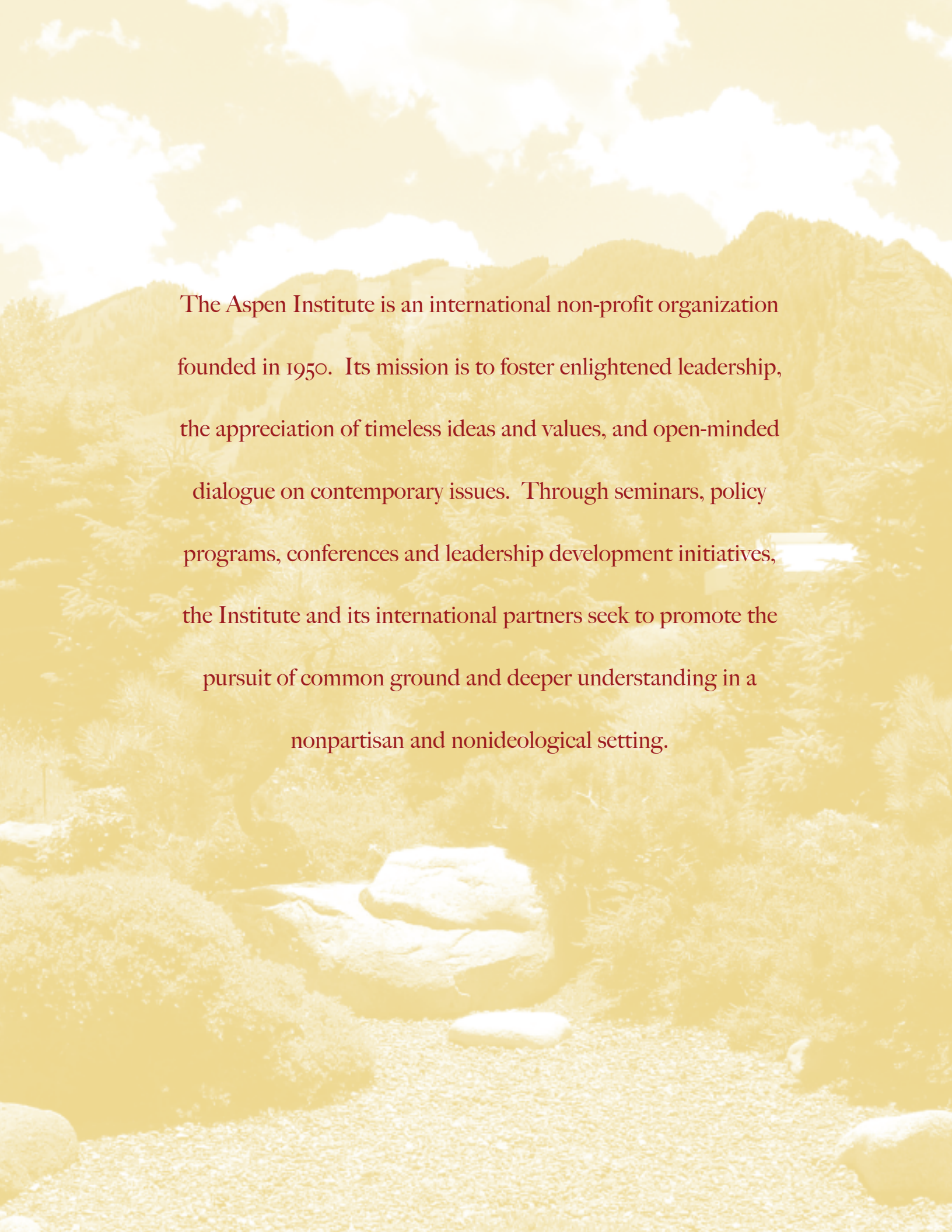
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For more information about the Nonprofit Sector and Philanthropy Program's activities, visit www.aspeninstitute.org or www.nonprofitresearch.org. For more information about the "Enterprising Organizations" conference, please contact Rachel Mosher-Williams at rwilliams@aspeninstitute.org or 202.736.2501.

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