

# Olszak's Nonprofit Connections

## Welcome from Lisa Olszak

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## Finance Matters

***Socially Responsible Investing (SRI): What is it and should our board consider it?***

*By Deborah A. Moses*

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## Olszak News Rack

### ***White House Establishes Office of Social Innovation and Civic Participation***

In President Obama’s 2010 budget, he will ask Congress to provide \$50 million in seed capital for the Social Innovation Fund which aims to identify the most promising, results-oriented nonprofit programs and expand their reach throughout the country. [Click here to read more](#)

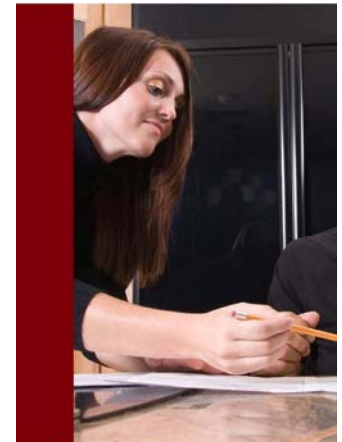


## Spotlight On... Allegheny Land Trust

The mission of Allegheny Land Trust (ALT) is to serve as the lead land trust conserving and stewarding lands that support the scenic, recreational and environmental well-being of communities in Allegheny County and its environs.

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## WELCOME FROM LISA OLSZAK

I hope you are having a wonderful summer and enjoy our third edition of Nonprofit Connections! In this edition, we are focusing on the topic of social enterprise. As noted by the Social Enterprise Alliance (<http://www.se-alliance.org>):

“Global economic trends, an increasingly competitive environment, and mounting social challenges and opportunities are spawning interest in social enterprise as a strategy for addressing some of our most pressing problems.

Social enterprise describes any non-profit, for-profit or hybrid corporate form that utilizes market-based strategies to advance a social mission.”

With that in mind, we are proud to present our client of focus – Allegheny Land Trust (ALT). As with many land trusts across the nation, ALT is investigating fee-for-service opportunities (or social enterprise) as a way to diversify revenues. With the recent completion of a feasibility study, the ALT enterprise leadership team is taking a step-by-step approach to exploring promising opportunities with the aim of selecting an opportunity that offers the best fit for ALT.

As always, we welcome your feedback at [lolszak@olszak.com](mailto:lolszak@olszak.com) or 412 224-4310.



## OLSZAK NEWS RACK

### White House Establishes Office of Social Innovation and Civic Participation

In President Obama's 2010 budget, he will ask Congress to provide \$50 million in seed capital for the Social Innovation Fund which aims to identify the most promising, results-oriented nonprofit programs and expand their reach throughout the country. The Social Innovation Fund will identify what is working in communities, provide growth capital for these programs, and improve the use of data and evaluation to raise the bar on what programs the government funds.



A major focus will be measuring results and require matching funds from private sources or local governments. The Fund will focus on priority policy areas, including education, health care, and economic opportunity and partner with foundations, philanthropists, and corporations. Goals for the fund include:

- Catalyzing partnerships between the government and nonprofits, businesses and philanthropists in order to make progress on the President's policy agenda
- Identifying and supporting the rigorous evaluation and scaling of innovative, promising ideas that are transforming communities like, for example, Harlem Children's Zone, YouthVillages, Nurse-Family Partnership, and Citizen Schools
- Supporting greater civic participation through new media tools
- Promoting national service

The Chronicle of Philanthropy (<http://philanthropy.com>) recently interviewed Melody Barnes, director of the White House Domestic Policy Council, to discuss the new fund and its focus. To read the interview, please visit <http://philanthropy.com/news/updates/index.php?id=8381>.

In addition to getting the social-innovation fund to work, the White House office is coordinating with other agencies on ways to promote entrepreneurial social projects. One example includes their work with the Education Department, which won \$650-million in federal economic-stimulus money for its Invest in What Works and Innovation Fund.

### Social Enterprise and Social Innovation Websites

- <http://www.se-alliance.org> - Social Enterprise Alliance
- <http://db.olszak.com> - Olszak Management Consulting, Inc.'s digital library of social enterprise research papers, literature, speeches and websites
- <http://www.irs.gov/charities/article/0,,id=96104,00.html> - Unrelated Business Income Tax - General Rules, a brief overview on the IRS Web site
- <http://www.virtueventures.com/setypology/index.php> - *Social Enterprise Typology* classifies different models of social enterprise
- <http://www.rootcause.org/hands-articles> is sponsored by the nonprofit rootCAUSE that advances enduring solutions to social and economic problems by supporting social innovation and educating social impact investors
- <http://socialentrepreneurship.change.org> - Change.org aims to helping organizations and individuals translate their interest into action by serving as the central platform informing and empowering movements for social change around the most important issues of our time.

### American Recovery and Reinvestment Funds for Nonprofit Organizations

The Federal Government recognizes the important work carried out by nonprofit organizations to address the needs of disadvantaged and hard-to-reach populations suffering economic hardships and intends to empower

these organizations to be part of economic recovery through the new Strengthening Communities Fund. The Strengthening Communities Fund is now available and applications are due July 7, 2009. For more information, please visit: <http://www.acf.hhs.gov/grants/open/HHS-2009-ACF-OCS-SI-0091.html>.



## WE WANT TO KNOW...

**Do you believe that social enterprise is a viable tool for assisting nonprofit organizations with revenue diversification?**

- Yes
- No

**Please share your opinion!**

[CLICK HERE TO ANSWER!](#)

(Survey results will be posted in the next edition of Olszak's *Nonprofit Connections*.)

### **Last Month's Results:**

*How are you tracking stimulus funding initiatives? (Check all that apply)*

- **Local legislators (municipal)- 100%**
- **State legislators– 100%**
- **Federal legislators– 100%**
- Associations
- Peer agencies
- Other
- I'm not tracking stimulus funding initiatives

The Quakers “put their money where their sermons were” and prohibited slave trade. Other religious groups touted the avoidance of sinful products like guns, liquor and tobacco. SRI got resurgence in the 1970's and 1980's with two high profile issues –the Vietnam War and corporate divestment in South Africa due to apartheid.

### **What is SRI**

*SRI recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers **both** the investor's financial needs and an investment's impact on society.*

*SRI is commonly thought of as a process whereby an investor screens or excludes companies that do not fit desired social criteria or values. This is termed “passive” SRI whereas “active” SRI involves shareholder advocacy. The active SRI investor will own shares of the companies of concern and engage in shareholder resolutions and proxy voting. Instead of excluding a company from investment, the investor becomes a shareholder and works to affect the change they seek. Another form of active SRI is community investing where active support for development in impoverished areas occurs through community development banks, credit unions, and loan funds.*

### **How to achieve SRI**

Today's socially responsible investor has access to virtually all of the investment vehicles the non-SRI investor has. Mutual funds, Exchange Traded Funds and customized portfolios are the most popular forms for SRI investing. The separately managed or customized portfolio approach accounts for \$1.9 trillion of the total \$2.7 trillion invested in SRI assets.<sup>2</sup>

### **How is it Done –an Example**

A nonprofit devoted to promoting women's issues votes to revise their Investment Policy Statement and integrate SRI into its investment practices. They interview three investment managers with good SRI performance records and choose one. Their endowment is \$2.0 million, a size that enables them to invest in a customized portfolio of screened stocks. The investment manager informs them that they have the capability to



## **FINANCE MATTERS**

***Socially Responsible Investing (SRI) – What is it and should our board consider it?***

*By Deborah Moses*

In 2006, the State of Pennsylvania announced it was going “green” with its investing. It was becoming a socially responsible investor. The State's investment goals went beyond achieving profitable returns -- they now had clear intentions of encouraging job growth and attracting the clean technology industries of the future. The State would promote a greener environment by making a number of changes to its investment strategies. They would reallocate up to \$50 million to money managers that successfully invested in clean technology stocks and portfolio companies would be regularly screened for exposure to environmental risks.

### **Background**

Socially Responsible Investing (SRI) is a broad-based approach to investing that now accounts for an estimated \$2.71 trillion out of \$25.1 trillion in the U.S. investment marketplace.<sup>1</sup> SRI has been around since the mid-18<sup>th</sup> century with religious groups taking the charge.

customized portfolio of screened stocks. The investment manager informs them that they have the capability to screen narrowly (ex. women-friendly companies) or more broadly (ex. organizational concerns, green, healthcare, religion). The Investment Committee votes to have a mission-consistent portfolio with an “active” approach involving investment in companies with strong policies and practices for women. The investment manager applies relevant screening criteria such as: number of women on boards of directors, women CEOs, notable progress in promotion of women in line positions, percentage of women vendors used by a company, and programs addressing work/life concerns. They are informed that it is cost prohibitive to screen foreign stocks, so that portion of their portfolio will not be invested in the SRI style. Finally, the investment manager and the nonprofit agree on the SRI indices they will use to benchmark performance.

### **But is it competitive?**

*The evidence to date does not conclusively indicate if SRI investing provides different returns from non-SRI investing. SRI money managers, like their non-SRI counterparts, both outperform and underperform the market. Because of the many variables affecting investment returns it is hard to control for the effects of social investing. One indication of the competitive performance of SRI investing is the performance of SRI indices. The longest-running SRI index, the Domini 400, was started in 1990. Since that time, it has continued to perform competitively when measured through April 2009—the S&P 500 returned 7.50% annualized, versus an 8.28% annualized return for the Domini 400.<sup>3</sup>*

### **What does it cost?**

The Social Investment Forum, the national membership association dedicated to advancing socially responsible investing, reports that there appears to be no distinct trend in SRI pricing being higher or lower than non-SRI investing. According to Morningstar Inc. the average expense ratio for all the non-socially responsible investing mutual funds in its database is 1.26%, compared to a 1.18% average expense ratio for SRI funds. However, socially responsible funds are not represented in many of the more costly categories, such as some of the specialty categories. And there are fund categories in which social investing is more expensive, such as international. Investment managers may or may not charge increased fees for SRI investing.

*Deborah Moses is a Senior Client Consultant for Fifth Third Institutional Services working with local non-profits to provide charitable management services. She has spent over 20 years in the investment management field in the Pittsburgh region and ran the nonprofit PowerLink for six years.*

1. Social Investment Forum. (2009). *Socially Responsible Investing Facts*. Retrieved June 29, 2009. <http://www.socialinvest.org/resources/sriguide/srifacts.cfm>.

2. Social Investment Forum. (2007). *Report on Socially Responsible Investing Trends in the United States, iii*. Retrieved June 29, 2009. [http://www.socialinvest.org/pdf/SRI\\_Trends\\_ExecSummary\\_2007.pdf](http://www.socialinvest.org/pdf/SRI_Trends_ExecSummary_2007.pdf)

3. Ellsworth, Peter. (May 7, 2009). *KLD Reports April 2009 Index Returns*. Retrieved June 29, 2009. [http://www.kld.com/newsletter/archive/press/pdf/1241798812\\_200904\\_Index\\_Performance.pdf](http://www.kld.com/newsletter/archive/press/pdf/1241798812_200904_Index_Performance.pdf)



## **SPOTLIGHT ON...**



## **Allegheny Land Trust**

*Helping local people save local land*

The mission of Allegheny Land Trust (ALT) is to serve as the lead land trust conserving and stewarding lands that support the scenic, recreational and environmental well-being of communities in Allegheny County and its environs. Like many land trusts across the nation, Allegheny’s primary focus has been on land acquisition, trail development and other conservation programs. With an annual operating budget of approximately \$500,000, ALT has considered ways to diversify its revenue through entrepreneurial fee for service or product development opportunities. Before proceeding in any given direction, ALT conducted a scan of best practices in earned income strategies among land trusts and assessed gaps in their Allegheny County service area which revealed a host of earned income initiatives being provided by land trusts, primarily fee for service and contractual engagements.



Of the fifteen land trusts in the scan, four of the larger well-established land trusts have a long track record of implementing, evaluating and refining earned income initiatives that provide a double-bottom line impact (mission and money). Tracking return on investment and gaining an understanding of what works and what does not has allowed these organizations and their services (which many organizations spoke of as “business lines”) to evolve through the years. The core competencies of each organization played a major role in defining which services are undertaken and sustained through the years. In turn, these

Considering ways to leverage the land that they own is one of the ways ALT is exploring venture opportunities.

Photo courtesy of Roy Kraynak, ALT Executive Director

larger organizations either seek executive and administrative staff with the needed competencies or have long-term leaders with strong experience. Each of these larger land trusts has a culture, reflected by board and staff that support a fee-for-service model to provide revenue diversification with 15-50% being earned revenue.

By the same token, other land trusts studied in the scan, many of which are smaller but some of which are larger, recognize earned income as one way to deal with their changing funding needs. In many of these cases, as with ALT, land trusts are experimenting with service and product offerings to determine what works best for them. In some cases, these land trusts are treading lightly because of their uncertainty of the impact that an earned income model will have on their nonprofit organization's culture and focus.

As a part of this effort, ALT has established an eight-member venture development team composed of board and staff. The team is taking what they've learned from other land trusts while considering their own competencies and assets that can be leveraged to create earned income opportunities. Starting with a list of 22 potential opportunities, the ALT team will slim it to a manageable two to three that they believe best balance risk and reward. Further exploration including market research will help them select their venture/s.



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