StanfordSOCIAL INNOVATIONReview

NeighborWorks supplement
The Strength of the Social Enterprise
By Rachel Mosher-Williams

Stanford Social Innovation Review
Winter 2018

The Strength of Social Enterprise

As government and philanthropic funding becomes unpredictable and markets evolve, some nonprofits can succeed with social enterprise. An innovative NeighborWorks America program shows them how to do it.

BY RACHEL MOSHER-WILLIAMS

In 2012, Neighborhood Housing Services of the Inland Empire (NHSIE), a San Bernardino, Calif.-based homeownership and community development organization, was in dire straits. The state of California, deep in fiscal crisis, dissolved the more than 400 redevelopment agencies, which had financed affordable housing and other redevelopment efforts in the state since the end of World War II.[1] NHSIE, like many other California nonprofits, was reliant on redevelopment agency funds. The organization lost 65 percent of its funding in one year and was heading toward collapse.

During the turbulence of recent years, many other housing organizations faced equally difficult challenges. When organizations operate in a volatile domain such as real estate, financial crosswinds can develop into a perfect storm that devastates unprepared nonprofits in its path. As during past periods of financial or political turmoil, such as the 2008 recession, local and national nonprofits are currently scrambling to address growing community needs and their own financial insecurity at the same time. Grantmakers are being asked to fill in the gaps—but these gaps are generally too big for the philanthropic resources available.

To equip organizations to thrive despite turbulence, an experiment is under way at NeighborWorks America, a national organization dedicated to creating opportunities for people to live in affordable homes, improve their lives, and strengthen their communities.

Since 2012, the organization has worked with NHSIE and many others in its nearly 250-member network of community development nonprofits to introduce and develop the culture, disciplines, and practices of social

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enterprise, and through them to bring in revenue via commercial activity to advance their social mission. The goal is to equip NeighborWorks network organizations to earn a significant portion of their income through the market.

THE PROMISE OF SUSTAINABILITY

For members of the NeighborWorks network, social enterprise is revolutionary. In recent years, network members—community development nonprofits focused primarily on affordable housing—struggled to compete in an evolving marketplace. Many had limited reach, relying on word of mouth to bring in customers rather than launching strategic multiplatform marketing efforts. Many wrongly assumed that their rural and low-income customers had limited access to smartphones and the Internet. As a result, resources and methods for reaching these audiences online were not cultivated, leaving them with fewer options. For some, a brand reputation of exclusively serving low-income customers through limited use of technology and marketing impaired their ability to attract new clients such as higher-income customers or millennials.

In 2012, NeighborWorks America's Sustainable Homeownership Project (SHP) set out to address these problems by introducing the ideas and practices of social enterprise. The idea that social enterprise might be a way to energize social change is not new. But SHP's approach to building the NeighborWorks organizations' appetite for and capacity to conduct social enterprise is unique in its structure and supports.

The SHP model offers an ecosystem of support, tools, and incentives, with the goal of helping nonprofits transform their cultural and operational norms. Serving as a sort of travel guide to social enterprise, SHP provides a structured set of steps as well as context, knowledge, and resources on the journey to

transformation. At the same time, SHP encourages nonprofits to be autonomous, with self-directed and organization-specific planning.

Following a feasibility study, NeighborWorks America tested the SHP model in a pilot that first included 23 NeighborWorks network members and was subsequently expanded to include 44.

Here's how the process works: Participants begin with a self-assessment that can determine whether they are ready to adopt a social enterprise model. If so, NeighborWorks America provides an initial implementation grant and additional grants as milestones are achieved to support the organization's progression through 11 knowledge and skill areas—social enterprise "disciplines." (See "The Social Enterprise Disciplines of SHP Phase 3" on page 5.) Participants contribute $75,000 of their own funds and dedicate staff members to the project to demonstrate their commitment.

In the first stage, SHP participants are coached on navigating change within their organization and cultivating robust financial management skills, and they receive support from relevant experts in business areas like operational efficiency, product development, pricing, and branding and marketing. Before advancing to the next stage, participants must complete prerequisites such as conducting an efficiency audit and adopting one of the SHP-produced brand strategies.

Next, they implement an online tool to improve efficiency and customer experience. They also receive grants to address organizational business needs and priorities in the areas of data-informed strategies, risk management, and re-envisioning organizational structure and roles. Throughout, program participants can access the NeighborWorks America SHP team's support and expertise.

After these organizations begin adopting social enterprise mind-sets and new

The Gerges family enjoys their first home, thanks to the Sustainable Homeownership Project.

practices, many not only become competitive but are leaders in their markets. Social enterprise also fuels their ability to make a greater social impact, which was the impetus in the first place.

The potential to expand this model is tremendous. The national network includes nearly 250 organizations, representing all 50 states, Washington, D.C., and Puerto Rico.

WHY SOCIAL ENTERPRISE?

Nonprofits are faced with both impressive opportunities and real challenges. While this sector has not been able to improve the fairly stagnant US poverty rate,[2] it has made tremendous strides in other areas, including sharp reductions in the teen birth rate,[3] cigarette smoking,[4] and deaths resulting from malaria.[5] Increasingly, the social sector recognizes the interconnectedness of seemingly disparate issues, such as the impact of quality housing on mental and physical health.[6] This recognition helps those in the nonprofit-housing sector create more effective and long-

lasting solutions, but it also reveals the broad systemic challenges that must be overcome.

To make lasting, significant change on a system-wide scale, nonprofits need sufficient resources. Funding needs to be uninterrupted and unrestricted, so that organizations can make long-term investments in systems, human capital, and operations. Philanthropic or government funds, by contrast, often fluctuate or overemphasize short-term gains. This pattern encourages organizations to treat symptoms rather than address root causes. Grants also tend to be driven by the goals of the funder rather than the needs of the community.

Operating a social enterprise model enables nonprofits to address community needs and adapt as those needs change. Because it can generate more reliable funding, social enterprise may be a strategy to reduce nonprofits' dependency on unpredictable or politically managed resources. But this business model requires nonprofits to re-envision how they operate and shift their own organizational culture.

The SHP model, for instance, requires participants to evolve from a charity-based mind-set to a more business-based approach that is designed to generate revenue to feed an organization's social mission. It is a fundamental shift.

To succeed with social enterprise, nonprofits need marketable assets, market opportunity, and organizational capacity. Marketable assets are what the organization already has, does, or knows. This might be a product or service such as home-buyer education classes or counseling that it currently delivers for free. Market opportunity means there are customers willing and able to pay, at least in part, for the product or service. This is often the case for nonprofits already operating within a market, such as housing, health care, or education. Nonprofits also must have or be willing to develop the capacity: the time, staff, skills, and, perhaps most important, the supportive culture. NeighborWorks America helps SHP participants identify their marketable assets and market opportunities, as well as build social enterprise capacity.

While adopting social enterprise can generate significant additional revenue, the real

benefits for nonprofits are mission related. For example, marketing efforts critical to successful social enterprise can boost a nonprofit's visibility and allow it to reach more people who could benefit from its services. As an organization's operations become more efficient, increased discipline and accountability help it become more effective and create greater impact.

SHORTCUTS ON THE ROAD TO SUCCESS

Decades of trial and error in social enterprises across the United States led to the insights that inform the SHP model. Research[7] and practice in the field have identified common themes in successful social enterprises. By guiding participants through the process of becoming social enterprises, SHP helps them sidestep avoidable downfalls and sets them up for success.

Key steps include:

- Maintaining relationships with current or potential partners in the market. While forging a competitive advantage is important, so are relationships with individuals and organizations working toward the same social goals.
- Establishing clear lines of authority and responsibility. It is critical to appoint someone who can own the process and make quick business decisions when necessary.
- Finding a well-positioned champion within the organization. To persist despite the challenges, the organization will need a senior officer who cares deeply about the initiatives.
- Ensuring support from staff and the board. Energy and support must come from everyone, not just those directly involved in the social enterprise work.
- Establishing initial cash flow. Startup funds matter, particularly since social enterprises typically take three to five years to break even.
- Hiring skilled staff. While initially it may make sense to assign responsibility for the social enterprise venture to existing staff, it is likely that nonprofits

will need to hire new staff to ensure that the specialized expertise is available.

THE PATH OF TRANSFORMATION

Recognizing the urgent need among network members for more sustainable funding, NeighborWorks America established a pilot program to create a strong, replicable, effective social enterprise model along with the tools and strategies to support it. The model has five core components: change management, efficient and responsive business operations, smart branding and technology, data-driven decision making, and peer support.

COACHING FOR CULTURE CHANGE

The first step is in some ways the biggest: changing the culture and mind-set of an organization. SHP uses John Kotter's eight-step process for leading change, a well-known method in organizational management across sectors.[8] Each participating organization is assigned a coach to assist in this journey.

While it can be exciting, it can also be disconcerting. The transformation process can feel like building a bike while riding it. It demands that organizations take short-term risks for long-term gains. On top of the challenges posed by any change, transitioning to social enterprise brings additional hurdles, requiring staff and leaders to navigate the line between working toward a social cause and operating like a business.

For many organizations, staff members misunderstand or distrust the business principles

driving social enterprise. The idea of generating revenue, for example, may seem to contradict a mission of service. The shift from serving clients to helping customers can also feel unfamiliar.

At the Housing Development Fund (HDF) in Stamford, Conn., for example, some staff members were initially resistant to the change. Others were reluctant to adapt to the new strategy or did not have the appropriate skills.

Working through the Kotter framework can ease the transition. At HDF, it helped shift staff members' understanding of the organization and how they saw the scope of their own roles. The process prepared them for a move to social enterprise so that when the idea arose of expanding to a new location, they saw it as an opportunity rather than a source of "stressful chaos," says Elyse Pitts, HDF's director of innovation.

When hiring new staff, HDF now looks for those who understand that social enterprise will help the organization grow and serve more people more effectively. "We had to shift our hiring practices to identify flexible, entrepreneurial people," Pitts says. "'That's not my job' is no longer heard around the office, because it's no longer accepted." New staff members come on board expecting to deliver services that will keep customers coming back.

CHANGING HOW WE DO BUSINESS

Nonprofits that go through SHP also take a hard look at their business operations with an eye toward tweaking them, adding to them, or completely reimagining them. These changes

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Scaling Social Enterprise by Leveraging Virtual Tools

Readiness Assessment and Foundational Content	**Group Coaching on Change Management**	**Curriculum to Build Business Skills**	**"Blueprints in a Box" to Launch New Service Lines**	**Expert Support on Business Issues**	**Financial Resources for Transformation**
In addition to taking a self-assessment, participants take introductory courses to learn core social enterprise concepts before getting access to a coach.	Coaches guide participants through transformational change, but this support is now delivered in a group setting for greater efficiency.	Participants learn core business skills online through the KnowledgeBase system, giving them access to expert-designed courses, a library of resources, a progress tracker, and peer forums, while saving on costs.	Participants access online, step-by-step guides to starting new, sustainable service lines in areas such as solar, lending, realty, student loan resolution, energy efficiency, and more.	Participants master core content, then experts provide tailored support on strategic challenges.	Participants receive seed capital to expand business lines.
				Technology to Improve Results	**Partnerships for Growth**
				Participants adopt Salesforce to improve efficiency and customer experience.	Participants enter national partnerships to generate more revenue.

NeighborWorks team: Serves as a hub of expertise, continuously improves model, and provides support for participants.

can help both the nonprofit and its customers become more financially sustainable.

Through this process, NeighborWorks network member Affordable Homes of South Texas, Inc. (AHSTI), seized an opportunity to simultaneously generate revenue and help homeowners keep their homes. After insurers raised rates following a hailstorm in south Texas, AHSTI noticed that home buyers were not shopping around to get better rates. At the same time, their own data suggested that high insurance rates were the primary reason why homeowners were falling behind on payments. With lower insurance payments, some homeowners could avoid delinquency. In January 2016, AHSTI launched an insurance agency to serve as an independent broker, providing home buyers with quotes from various insurance companies and supporting them in making informed decisions.

The positive impact of this new service on home buyers was quickly apparent: Mortgage delinquencies caused by high insurance rates decreased by an average of 2 percent in the first year, and the organization expects greater decreases in future years. The brokerage brought in $74,500 in commissions for AHSTI during its first year. And the organization can better tie its services together: Because AHSTI also services loans, the organization sends renewal notices that remind customers to shop around for the best insurance rates on those loans. AHSTI has been able to build trust with customers who see the organization as a partner through the process of building and financing a home, receiving financial management counseling, repairing a home, and paying a loan.

NeighborWorks Anchorage was another organization that successfully reimagined its business operations. Prior to working through SHP, the organization stayed within the limits of Anchorage, the most populous city in the state. But the city had limited affordable housing, driving customers into the nearby Matanuska-Susitna (Mat-Su) Valley, one of the state's fastest-growing areas. To serve those customers and broaden its impact, the organization needed to follow them there.

Expanding to the valley quickly led to more growth. Through the SHP process, the organization re-envisioned and rebranded itself as NeighborWorks Alaska and began serving customers in remote locations across the state. An Alaska Native Corporation community development financial institution engaged NeighborWorks Alaska to provide financial education to people in towns reachable only by small planes. NeighborWorks Alaska staff quickly realized that their usual curriculum—

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which included examples such as "going out to dinner" when discussing budgeting—would not be relevant. They adopted a more tailored approach. Before the trainings, they studied these communities to understand relevant details such as population size and local water, sewer, and road systems. With this information, they adapted the curriculum to fit the local economy and terminology.

NeighborWorks Alaska also came to recognize the importance of selling critical stakeholders, like community leaders, on the value of financial education. Initially, few community members attended the trainings. But holding the trainings at schools—trusted institutions that served as community centers—helped increase attendance. So did ensuring that a trusted community member would escort them on their visits and vouch for their presence.

In the past year, NeighborWorks Alaska served 60 percent more customers than it did the prior year. Its fee-for-service revenue has increased eightfold. Through these trainings, the organization is helping bolster economic development for these communities and their residents.

"It's been an adventure," says Barbara Worley, director of lending and homeownership for NeighborWorks Alaska. "These changes mean we are more sustainable and better able to meet our mission of making healthy, affordable housing available to all Alaskans."

THE POWER OF MARKETING AND BRANDING

Before SHP, many NeighborWorks organizations waited for clients to come to them rather than seeking out customers for their homeowner-

ship services. Some had never created explicit marketing strategies or worked to build market demand. By employing the SHP social enterprise model, these organizations have adopted a mind-set focused on developing new markets, relying on online and mobile technology as well as relevant branding.

The "Tech Suite," built on the customer-relationship management platform Salesforce by NeighborWorks America for network members, is a crucial element of SHP. It enables organizations to engage virtually and in real time, allowing customers to schedule appointments, sign up for classes, submit payments, track progress toward homeownership, review next steps from their housing counselor, and more. It incorporates Google Analytics, enabling organizations to understand how customers engage with their website. The tool also helps organizations track active customers and identify leads on potential new customers.

For those NeighborWorks organizations that have launched the tool, customer engagement is more efficient, better tailored, and improved overall. A full 100 percent of SHP participants report that the Tech Suite offers a competitive advantage, and 77 percent are planning to use it not just in homeownership business lines but across their organization.

The NeighborWorks network excels at creating default-resistant home buyers: Home buyers who receive NeighborWorks prepurchase counseling and education are one-third less likely to become 90 or more days delinquent in the two years after initiating their loan.[9] The Tech Suite is building on that success and enabling organizations to better understand their customers and support them in buying homes and keeping up with payments.

The Tech Suite helped AHSTI make dramatic changes in its business operations. Better information about customers, along with the ability to engage more efficiently, meant the nonprofit could serve people faster and serve more people by clearing its waiting list.

In turn, AHSTI began to find ways to attract more customers, increasing potential customers by 88 percent and actual customers by 93 percent. AHSTI staff assumed that lower-income residents did not have easy access to the Internet or technology like smartphones. But their website analytics data provided by the

Tech Suite showed that 64 percent of people accessing the site did so on mobile phones. "The findings challenged our stereotypes," admits Myra Martinez, director of operations and communications at AHSTI.

The AHSTI team also created an online marketing strategy. Through text reminders, e-mail counseling, and other digital offerings, AHSTI increased the number of customers returning for follow-up appointments. In its 2016 fiscal year, the organization more than doubled the number of people receiving counseling services. Adds Martinez: "The impact we've been able to make is tremendous, because we realized we can and should meet the customers where they are."

WHY DATA WORKS

Access to comprehensive data from the SHP Tech Suite enabled Massachusetts-based Urban Edge to identify a gap in services: Because its online registration forms were in English, Spanish-speaking potential customers were not able to finish the registration process and, as a result, could not enroll in Spanish-language home-buyer education classes. Now, through updated language and the Tech Suite's automated systems, they are referred to a Spanish-speaking "leads manager" who helps them register.

"We're in a totally new place now, using tech tools the way they should be used," says Bob Credle, director of community programs.

Comprehensive data from the Tech Suite can lead to small shifts in practice that have a big impact, agrees HDF's Pitts. "A lot of these changes weren't big or sweeping," she says. "I was thinking social enterprise was going to facilitate making big decisions. It does, but only after it helps with the small ones."

To measure the business outcomes and social impact of SHP, participants use the Tech Suite to track a set of key performance indicators—the "Transformative 10." They can be grouped into four areas: efficiency, scale, sustainability, and social impact. These measures, which quantify the effectiveness of a social enterprise, include average cost per customer (efficiency); the number of new leads and customers served (scale); the ratio of earned versus donated revenue (sustainability); and the number of additional home buyers locally produced (social impact). To ensure that these data are both collected and applied effectively, SHP offers technical assistance, webinars, and expert coaching to help participants learn how to apply findings to organizational decision making.

LEARNING FROM PEERS

Learning from peers is another integral component of SHP, a major part of all its systems and tools. Sharing knowledge in this way fosters a culture of innovation, and is one of the richest and most effective ways to internalize new concepts.

SHP participants build stronger relationships by joining monthly calls with others in their cohort, seeing them at quarterly convening events, and initiating ad-hoc com-

A Portrait of Innovation

NeighborWorks of Western Vermont created a social enterprise, transforming the way it helps its community.

For some nonprofits, gaining—and then losing—funding can be a catalyst for launching social enterprise efforts.

In 2010, NeighborWorks of Western Vermont (NWWVT), a homeownership and community development organization, received $4.5 million from the US Department of Energy (DOE) to launch an energy-efficiency project. The grant subsidized the program's infrastructure and gave NWWVT a chance to test and refine ideas. Since its launch, this "HEAT Squad" effort has conducted about 4,500 audits, in which inspectors assess how much energy a home consumes and how it could be made more efficient. The Heat Squad has served about 1,200 households across the state, helping each household to lower heating costs by an annual average of $1,000, for a combined savings of about $1.2 million a year.

The program was clearly valuable: In Vermont, residents heat their homes six months or more each year, and low-income households may spend 10 percent or more of their incomes on energy-related expenses such as heating.[1] Improving energy efficiency also boosts residents' health by reducing mold and improving indoor air quality.[2]

But the main source of the HEAT Squad's funding—the DOE grant—had an end date in 2014. This looming loss of funding threatened not just the program but the whole organization: When the grant ended, NWWVT would lose nearly a quarter of its operating budget.

Fortunately, NWWVT was ready for this change. In 2013, it joined the Sustainable Homeownership Program (SHP), a social enterprise-building movement within the national NeighborWorks network of community development nonprofits (see "The Strength of Social Enterprise" on page 6). SHP prepared the organization for this shift by helping NWWVT build capacity through technical skills training, boost its creativity by connecting to peer organizations, and adopt business principles, including concepts and methods from social enterprise as well as other types of support.

As a result, NWWVT applied the SHP program's business management principles to the HEAT Squad and transformed it into a viable competitor in the energy-efficiency marketplace. The organization was able to accurately price its services, identify market demands, and provide customer-focused service.

"In the past, we have forgotten to look at what the customer wants, and we instead provide what we think they need or what we have available," says Ludy Biddle, NWWVT's executive director. "One of the cultural changes we went through was flipping our perspective to understand what the customer wants and values."

In the early days of the HEAT Squad, NWWVT established loyalty among local energy contractors who otherwise might have considered the organization a competitor. First, they adopted a philosophy of partnership. NWWVT created a contractor's guild, underscoring the fact that all of them were working together and would benefit together. Next, the organization began developing personal relationships with the contractors to inspire them with the organization's mission of community service. NWWVT began hosting a monthly breakfast where staff members could connect face-to-face with guild members.

The fee structure and cost-sharing arrangement for services was a critical—and radical—part of NWWVT's strategy. The organization paid guild contractors $450 each to audit a household but charged customers only $50 initially, only later raising the price to $150. The

munications with one another. In fact, 82 percent of NeighborWorks organizations taking part in SHP have shared knowledge with other participants. Through the SHP KnowledgeBase, an online tool with various resources including trainings and a forum, new knowledge generated locally can be shared with other participants.

Peer sharing motivated Ludy Biddle, executive director of NeighborWorks of Western Vermont, to launch a service she had never considered before. At SHP training, she heard a representative from a NeighborWorks housing organization in California talk about his realty program, which generates a revenue stream up to 6 percent of home sales. A lightbulb flicked on. Although Vermont's housing market is very different, there was something in his experience that she could learn from. In her own market, too

many residents participated in home-buyer education and enrolled in a lending program but subsequently bought the wrong home. Her organization could help them avoid that mistake with a realty service, which could also help NeighborWorks of Western Vermont bring in new revenue.

Before and After SHP

BEFORE SHP		AS A RESULT OF SHP
Performance data to inform decision making was inconsistent or unavailable	→	**SHP participants track business performance and use data to inform decisions**
SHP participants were dependent on government and philanthropic funds	→	**SHP participants have increased earned revenue becoming more resilient to shifts in grant funding**
The priorities and programs of SHP participants were funder-driven	→	**SHP participants have a customer-centric approach**

Learning from another SHP participant was the key, Biddle says: "There's no other way I would have been inspired to do that, because I wouldn't have known that a NeighborWorks organization *could* do it."

THE IMPACT

SHP is transforming organizations, making it possible for them to, in turn, transform the lives of those they serve. Participants who have been in the program for at least three years have reduced their per-customer costs by 57 percent. Overall, they serve 83 percent more people and have increased the number of home buyers by 64 percent[10]—three times greater than the home-buyer growth rate for NeighborWorks organizations not taking part in SHP.

SHP has also had an impact on sustainability and growth. Participants have boosted the

idea was to attract as many customers as possible during the startup phase. The HEAT Squad service became the lowest-cost option in the market, accessible to the low-income households that the organization most wanted to reach. Contractors who were hired to make energy improvements on a house following an energy audit then returned 10 percent of that project's revenue to NWWVT. Instead of becoming competitors, those contractors became evangelists for the project.

NEW PROBLEMS—AND NEW SOLUTIONS

But other for-profit players in the local housing market weren't so supportive when NWWVT branched out into other revenue-generating projects. Some of the organization's programs, such as home-buyer education and counseling, couldn't be self-sustaining. So the organization launched a realty company to bring in revenue and help offset expenses for those less lucrative training services.

The realty company and associated mortgage-lending unit were formed in compliance with state law and clearly related to the homeownership mission of the organization. But the president of a local Realtor association claimed that NWWVT's actions were illegal. Others questioned whether the organization was still focused on its mission. The decision to build a mortgage-lending operation that generated income, in competition with local banks, led two bankers on NWWVT's board of directors to resign. Those board members were replaced with new directors who shared the larger board's confidence in the social enterprise strategy.

"As a halo-wearing nonprofit, we'd never come up against competition that wanted us to stop," Biddle says. "We persisted, and it has all worked out well."

Other challenges came from within. In 2014, NWWVT began charging for its home-buyer education classes. The move was designed to generate revenue—if the organization was going to continue offering classes, it had to stop doing so for free. NWWVT leadership also

felt that paying customers would perceive the classes to be more valuable and take them more seriously. This logic stems from the psychology of the sunk-cost effect, in which people are compelled to use products or services they've paid for to avoid feeling that they've wasted their money.[3]

Yet some staff at the organization felt that it was wrong to charge low-income households. "Up until then, we all shared that point of view [against charging for services], but we had to change if we were going to survive," Biddle says. As with any major shift inside an organization, NWWVT managed its evolution by educating its staff on the importance of the social enterprise model and its impact on the sustainability of the organization. It was a person-by-person process.

The new market-based approach worked. The number of participants in home-buyer education classes tripled in 2017. NWWVT is now a far more sustainable organization, reducing its dependence on government and philanthropic support from 80 percent to 40 percent.

Throughout the process, SHP provided foundational social enterprise concepts to help the organization make strategic decisions, guidance in managing the change in culture, and a supportive peer group of NeighborWorks network members, coaches, technical experts, and others. As a result, the housing nonprofit has developed an innovative community-serving program to increase its reach and impact.

"Our impact has gone wider and deeper: wider, in that we've had to add classes at the last minute, for example, and deeper in that we're reaching people who truly never thought themselves to be home-buyer potential," Biddle says. "We're sold on social enterprise." ⊗

NOTES

1 Diana Hernández and Stephen Bird, "Energy Burden and the Need for Integrated Low-Income Housing and Energy Policy," *Poverty Public Policy*, November 2010.

2 Jonathan Wilson et al., "Watts-to-Wellbeing: Does residential energy conservation improve health?" *Energy Efficiency*, February 2014.

3 John T. Gourville and Dilip Soman, "Pricing and the Psychology of Consumption," *Harvard Business Review*, September 2002.

proportion of earned income in their portfolios by 69 percent.[11] They also have become more cost-effective, achieving more at a lower cost than if they did this work alone. For example, standard development and implementation of the SHP Tech Suite can be cost-prohibitive for many organizations, but NeighborWorks America's support of a special application for its members and help with coverage of their subscription to the platform saved thousands of dollars for SHP participants. Participants also realized savings through NeighborWorks America's vetting of and provision of access to experts for SHP organizations. Through these savings, network members are able to work more efficiently, resulting in greater impact.

At HDF, SHP has made it possible to take on higher volumes of customers (up by 33 percent already), building its reputation in the community. The organization recently launched a new program with the state of Connecticut that will bring in $3 million for the organization to deploy over the next two years. In just four months, HDF has already funded approximately 25 percent of the program, well ahead of schedule. "We now feel more confident in our own ability to have partnerships like that," says Pitts.

SHP changes the way participants operate, transforming them from paper-centric, word-of-mouth-driven entities to market-competitive organizations that can track and share data, earn revenue independently, court new customers, and deliver quality services to broad swaths of the market. Participants say that SHP has greatly expanded their overall capacity, and 98 percent agree that the program has created a strong foundation that will facilitate their organizations' future growth and sustainability.

PITFALLS OF SOCIAL ENTERPRISE

As nonprofits transform into social enterprises, there are risks. One potential unintended consequence is "mission creep," the tendency for an organization to stray too far from its core mission and prioritize profit instead.[12] Nonprofits that launch endeavors without clear, mission-related goals are more likely to see this happen, as are those that do not utilize their existing assets. In addition, tax-exempt organizations could be hit with surprising legal or financial consequences, such as having to pay Unrelated Business Income Tax.

AHSTI experienced this tension between generating revenue and staying true to its mission. A business perspective would suggest that the organization cut some of its costlier services—ones critical to the community.

Through SHP, the organization learned how to calculate which unprofitable services needed to be eliminated and which ones could be subsidized with revenue from other services. The organization has not yet cut any services but is now more focused on its bottom line and aware of the need to balance a program's bottom line with its impact.

"We now recognize that sometimes we will just have to make the call that a program is going to be a drain on financials, but we still need to operate it," Martinez explains. In other cases, another local organization might provide the service more effectively.

To avoid these pitfalls, nonprofits can engage a lawyer to understand legal or financial consequences and charge its board of directors and staff with keeping the organization mission focused.

READY FOR THE FUTURE

As government funding becomes less predictable, philanthropic priorities shift, and markets change, nonprofits must simultaneously become more sustainable and address greater needs. Social enterprise gives nonprofits freedom to address community needs in the way and at the scale that they require, helping nonprofits position themselves as anchors in the community. When done well, social enterprise forces nonprofits to focus on providing quality services to market-driven customers.

For San Bernardino-based NHSIE, which has participated in SHP since 2012, the social enterprise transformation has translated into growth and excitement about the future. Since then, the organization has increased its ratio of earned versus donated revenue from 27 percent to a whopping 109 percent.[13] It now helps nearly twice as many customers to become homeowners as it previously did.[14]

Transforming a nonprofit into a successful social enterprise isn't merely a matter of applying a new business model. It requires an entire system of tools and strategies. NeighborWorks America and its collaborating network organizations built an ecosystem of goals, disciplines, milestones, action steps, and structures to provide support and accountability. They designed a multidimensional approach to social enterprise, with standardized systems and processes that can be customized as necessary for local markets.

NeighborWorks America is now ready to expand SHP beyond the pilot stage to create a new norm, expanding the program across all NeighborWorks organizations. The promise is to dramatically increase the impact for network members and the individuals and communities they serve.

NeighborWorks is perfectly positioned to create large-scale change across the country. Its 250-member network is widespread and diverse, spanning urban and rural locations across all 50 states, Washington, D.C., and Puerto Rico. As the social sector recognizes the importance of housing in relation to other issues like poverty, health, and education, there is a new understanding that improved access to affordable housing sets individuals up to escape poverty, have improved health, and access high-quality education. By boosting its own impact, NeighborWorks can create a ripple effect across other social change efforts in the United States, along with partners at national, regional, state, and local levels.

Social enterprise is the fuel that can propel the sector forward. With SHP's tested and proven capacity-building model and additional investment by other donors, community-based organizations can ensure that every community thrives. ⊗

NOTES

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