

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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*NeighborWorks supplement*  
**Embracing Innovation**  
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# Embracing Innovation

NeighborWorks America, a 40-year-old congressionally chartered nonprofit, redefined its relationship with its grantees to build a learning lab for innovation.

BY MARIETTA RODRIGUEZ

**T**he evidence is clear: Grantmakers can increase the impact of their dollars and better address inequity by collaborating with and learning alongside the nonprofits they support. Thanks to this insight, greater numbers of funders are shifting from transactional grantmaking toward forming deeper partnerships, collaborating with grantees during the design process to cocreate programs and systems. Research demonstrates that the closer grantmakers are to their grantees, the more effective their support can be.<sup>1</sup> In times of change, those closest to the work are best positioned to inform how to shape or reimagine that work.

This trend arrives at a time of great upheaval and unprecedented opportunity to make positive social change. The US economy is growing at the fastest pace in two years,<sup>2</sup> and yet the middle class is shrinking.<sup>3</sup> Compared with previous generations, young adults today are less likely to earn more money than their parents.<sup>4</sup> Following a roller-coaster of all-time-high housing prices in 2006 and a real estate collapse in 2008, the housing market is rebounding.<sup>5</sup> Demographic changes in the United States suggest that the nation will have no single racial or ethnic majority by 2055,<sup>6</sup> encouraging employers across sectors to think about how best to attract and retain nonwhite employees. Racial tensions have increased, and a new presidential administration has introduced drastic changes in funding and policy. Amid these shifts, fewer than half of Americans now believe that anyone who works hard has a fair chance to succeed, casting doubt upon the American Dream.<sup>7</sup>

Homeownership is at the very core of that American Dream. Safe, affordable, quality housing creates a ripple effect for individuals, communities, and the country. For individuals, good housing boosts both health and financial stability. Homeownership provides financial benefits by enabling homeowners to build equity, qualify for tax deductions, and more.<sup>8</sup>

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In addition, access to housing can be one of the most cost-effective health-care treatments available.<sup>9</sup> Healthy homes and stable housing can improve the health and well-being of children.<sup>10</sup>

At the community level, quality housing can provide an anchor for families to develop support networks. It strengthens the middle class by creating new jobs and boosting financial stability, enabling lower-income people to move into the middle class and keeping middle-class people from slipping into poverty.

The benefits of homeownership extend to the country as a whole. A strong housing market is critical to a strong US economy,

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since the housing sector accounts for 15 to 18 percent of gross domestic product.<sup>11</sup> Quality, stable housing creates a beneficial feedback loop. Each generation builds upon the wealth of the previous generation, strengthening the national economy at the same time.

Our mission at NeighborWorks America, a nearly 40-year-old congressionally chartered nonprofit, is to create opportunities for people to live in affordable homes, improve their lives, and strengthen their communities. To achieve these results, we work through a national network made up of nearly 250 of the top community development nonprofits. We develop the skills, supplement the resources, and amplify the reach of these organizations so that they can build more houses, empower more individuals, and transform more communities than they would be able to on their own. We believe the best way to create widespread change is through the expertise of the organizations that make up

our network. Therefore, we dedicate ourselves to strengthening our network members.

Five years ago, we saw that traditional funding sources for community development were slumping. At the same time, the demand for our network members' products and services was growing, especially in the wake of the 2008 financial collapse and foreclosure crisis. Although our funding rules allow members the flexibility to tailor their investments to the specific needs of their communities, these grants would not be enough to offset the decline in support from other sources. This led us to test a strategy of collaboration and cocreation with some of our



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network members. The goals were to facilitate innovation in new business development and management thinking, and focus on building long-term sustainability and resilience. Given the significant social, political, and financial volatility in the United States, it was more important than ever for us to work with network members to address these challenges together.

## THE PROBLEMS WE SAW

At NeighborWorks America, we recognized the need for a different approach. Our network organizations were calling on us to help change the way they operated in the market.

At that time, three forces were converging. A movement was bubbling up within the NeighborWorks network to reengineer network members' business models for delivering and financing homeownership-related services. With fluctuations in government and philanthropic funding, our network members needed a more reliable way to generate income to support their missions of helping families to navigate the home-buying process.

At the same time, market demands were changing, but our members had a "one size fits all" model that did not account for the many ways in which customers want to be engaged—and the new pace of engagement. The network's model needed to change to provide options 24/7.

On top of that, the country was emerging from the biggest foreclosure crisis in US history. Our network members wanted to know how they could help their communities better prevent and withstand such crises. At NeighborWorks America, we understood that local nonprofits would need to improve and scale their affordable housing services—something they could not do without reengineering the way they were doing business.

## THE SHP SPARK

Social enterprise—earning income through commercial activity to advance a social mission—could drive those essential changes. Our first effort to shift the NeighborWorks network in this direction was to launch the Sustainable

Homeownership Project (SHP) in 2012, a social enterprise capacity-building and learning-lab pilot created in partnership with members of the network.

We set about designing SHP to respond to these needs by building social enterprise capacity across the network. This process would also bring an intentional shift in our relationship with the network. Network organizations worked side-by-side with staff at NeighborWorks America to design the SHP model's components. We also shifted the funding dynamic by making the process more self-directed for network organizations, such as tying grants to specific phases of the project. In this way, we created space for collaboration and for network members to test and shape the project's methodologies and tools.

Initially, it was difficult to convince participating organizations that they had the license to imagine new strategies, tools, and workflows. But as they began imagining new ways of working, the effort created buzz in the network, enabling peers to influence and learn from one another. Today, it is clear that one of the critical drivers for SHP's success

The NeighborWorks Pavilion in Pocatello, Idaho, is dedicated at a community event.



was leadership by the network. Empowering the national network is what NeighborWorks was created to do.

### THE POWER OF COLLABORATION

SHP was rolled out in three phases. (See “The Three Phases of SHP” below.) Its first phase, which launched in 2012, was a think tank of sorts. We invited several external experts and leaders of 13 NeighborWorks organizations to identify the most critical components of a redesigned model for the homeownership services offered by almost all network members.

Once those were identified, 23 additional NeighborWorks organizations joined SHP’s second phase to build a new business model. For two and a half years, these organizations envisioned, designed, tested, and implemented a range of new tools and strategies.

Then, for the third phase, a cohort of 44 NeighborWorks organizations—19 from the design group and 25 new participants—put the new strategies and tools into practice. SHP organizations must first meet prerequisites, such as forming an internal coalition aimed at building a social enterprise culture and preparing internal systems to implement a Salesforce tool for tracking customer needs. These and other requirements ensure that SHP participants successfully adopt social enterprise practices.

In this third phase, SHP was structured more formally as a pathway of 11 consecutive knowledge and skill areas—social enterprise “disciplines.” (See “The Social Enterprise Disciplines of SHP Phase 3” on page 5.) These began with individualized coaching to help network organizations adopt social enterprise culture and covered topics such as financial management, marketing, operational efficiency, and performance metrics. As participants moved through the curriculum, SHP offered a range of comprehensive supports, including access to experts with technical skills, a technology tool, and more.

As a result of this project, almost 20 percent of the network organizations are learning and adopting social enterprise principles.

### A NEW WAY OF WORKING

Just as network members are changing the way they work as a result of SHP, so is NeighborWorks America. Inspired by SHP’s focus on building the network’s resilience and financial self-reliance, we are making changes across the entire network by streamlining the grant-application process and offering unrestricted capital to allow network members to make customized operational decisions. We are planning to pilot new ways to use

the network’s collective expertise and capacity to deliver products and services at scale and to share the revenue across the network. Further, we are testing new strategies for engaging with national partners.

**Targeted Investment.** We made a significant financial investment in SHP relying on nongovernmental funds so that we could take risks. To see returns from that investment, we needed in-house expertise. The NeighborWorks America SHP team brought vast knowledge and savvy in fostering innovation and learning as well as driving momentum. This is a team with deep expertise in moving nonprofits toward new and better models. From this baseline level of expertise, the team’s sophistication developed as we learned alongside SHP participants from the network.

SHP also required investment from NeighborWorks organizations. Those selected to participate invested at least \$75,000 of their own money toward items needed for change within the organization. Those items included website redesign, advertising, and hardware. Participants also devoted considerable time to the initiative. They were required to meet the daily demands of their organizations while at the same time reengineering how their organizations run. Many hired new staff or reassigned employees to meet new needs and shift mindsets. To enable operational and technological upgrades, many overhauled existing systems and processes.

**Freedom to Innovate.** We found creative solutions to help facilitate innovation. For example, to ensure that NeighborWorks America staff working on the initiative had the freedom to experiment, develop tools, and test solutions, we separated the SHP team from the

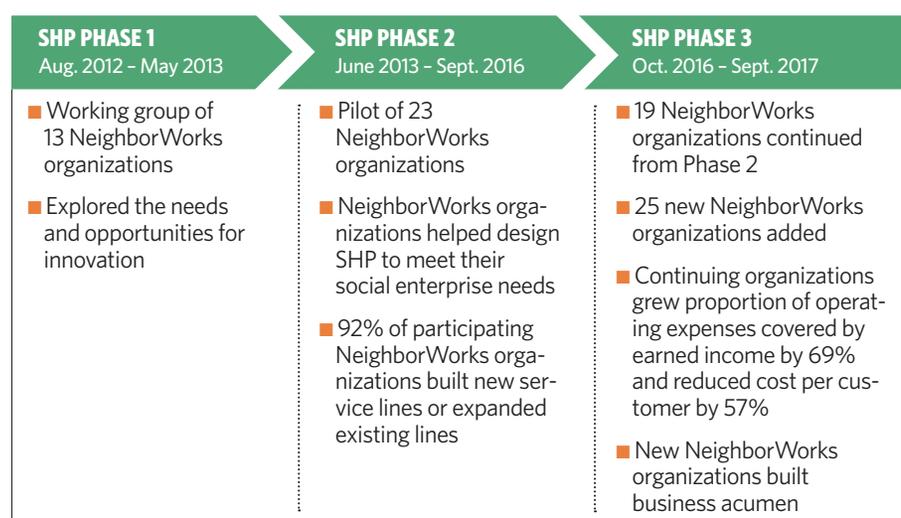
rest of the organization. The idea was to create an internal zone for experimentation, much as Lockheed Martin’s legendary Skunk Works was given autonomy in order to encourage creative thinking in the domain of aerospace engineering.

**Adaptive Culture.** Because SHP asks network organizations to align their cultures with the ideas of social enterprise, the team at NeighborWorks America also shifted its own culture. Our team members modified their perception of nonprofits from organizations that receive donations to mission-driven entities competing in a market to earn revenue. They examined network members through a business lens, considering competition, pricing, and marketing, and collecting and analyzing data on participants’ business performance. They developed greater comfort with risk. They became more flexible and adaptable. Most important, they endeavored to listen and learn. These changes wouldn’t have been possible without the project.

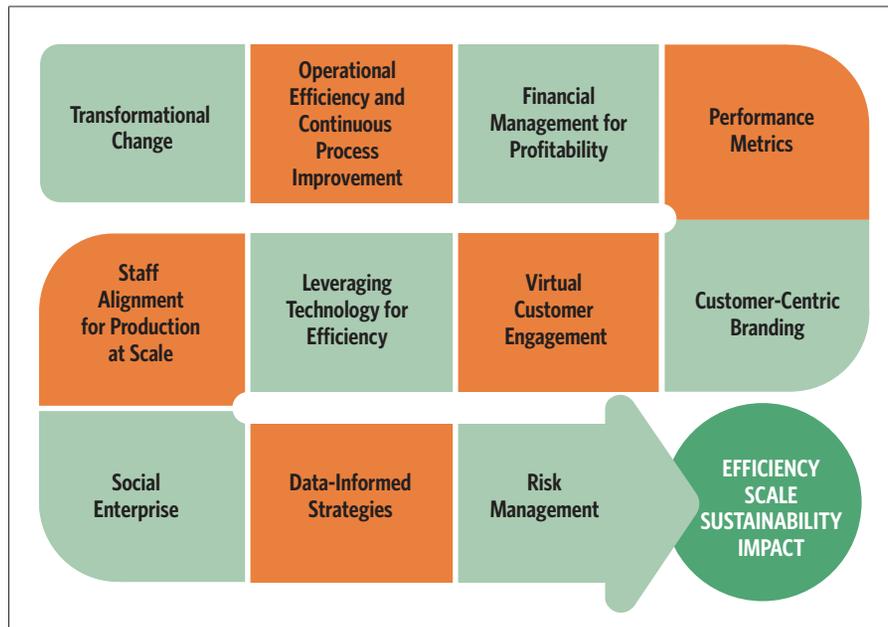
“NeighborWorks America is going about this as a learning organization,” says Jaclyn Libowitz, an executive coach and consultant providing coaching support to SHP participants. “Not every organization approaches their work in this manner.”

This culture of learning extends to SHP participants. The engagement between the NeighborWorks America SHP team and SHP participants is frequent and deep. Through sharing in this experience and taking this journey with network members, we are forming a powerful bond. That bond provides a momentum that helps drive this work forward. For example, there were monthly calls, quarterly in-person meetings, and a virtual Web-based workspace that kept all participants connected 24/7.

## The Three Phases of SHP



## The Social Enterprise Disciplines of SHP Phase 3



Evaluations indicate that this approach is working. Participating organizations credit SHP with positive changes in financial sustainability, operational efficiency, and capacity. A full 98 percent of participants view SHP as critical to their sustainability, and participants now spend less money to help customers become homeowners. SHP participants who have been involved for at least three years have increased the number of homeowners three times as quickly as non-SHP-participant network members.

SHP participants do more with their funds, increasing the impact of the grants we provide. For example, through NeighborWorks America's collective buying power, network members can use private sector technology tools to amplify their efforts for a fraction of the standard per-organization cost. SHP also provides access to vetted experts who would otherwise cost them thousands or perhaps hundreds of thousands of dollars.

### LESSONS LEARNED

At the beginning, some SHP team members expected that deciding how we use our resources would be the hardest part of the process. What proved most challenging, however, was changing the organizational culture and accepting the idea that this work is an iterative process. It will never truly be finished. Today's environment requires identifying efficiencies, challenging unexamined beliefs, and embracing new technologies. Certainly, given the current unpredictable funding environment, survivability is on everyone's mind. So think-

ing like social enterprises is going to catch on. It has to catch on.

We came to recognize that the best-performing organizations, by traditional measures, will not necessarily be the fastest to pivot to a social enterprise model. Soft skills—courage, organizational will, and resilience—are also critical predictors of success.

For our part, we learned that providing an incubator-like atmosphere for SHP during the initial learning process helped mitigate risk. While grantmakers and nonprofits increasingly praise the value of failure on the road to success as a source of important lessons, the reality has not quite caught up with this idea. Significant failures damage organizations' reputations and the ability to compete for funding. Knowing this, we did not publicly discuss the initiative in its early stages, providing the space to fail. Now that we have proof of concept, we are starting to share our results and lessons learned.

### WHAT COMES NEXT

We hope to disseminate SHP methodology and practices so that the balance of the NeighborWorks network can benefit. In an effort to encourage the model to be adopted across the network, we are providing all NeighborWorks network organizations access to the following resources:

- An online platform hosting an interactive SHP curriculum that covers disciplines, tools, and resources. It enables peer sharing so that organizations can exchange ideas and engage in dialogue.

- A self-assessment tool that organizations can use to gauge their likely success in reaching relevant milestones.
- An array of distance-learning activities and live webinars.

We are also working to move SHP out of the insulated Skunk Works mode in which it was incubated. This would help the broader NeighborWorks America team formulate other lines of business outside homeownership.

Replication of the social enterprise model will take years, but we recognize it as a game changer. It will change the way NeighborWorks network members operate, and its effects will radiate outward, leading to healthier families, stronger communities, and a growing housing sector and US economy. The NeighborWorks network spans all 50 states, Washington, D.C., and Puerto Rico, serving communities that are small, large, urban, rural, and everything in between. Shifting the network's operating model can move the country forward in ways few networks have the opportunity to do.

We have invested in this work because we deeply believe in its potential. We believe it is key to strengthening the country and ensuring that all families have an opportunity to thrive. This model is aligned with many funders' and impact investors' theories of change; quality housing creates ripple effects across individual lives, communities, and the country. As our society reimagines social change, this model is emerging as a powerful approach. Now, we are looking for bold partners to join us in this journey. ✕

### NOTES

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