

A Market Solution to Job Creation and Opportunity: Social Enterprise

By **Carla I. Javitz, President of REDF**

Abstract

Public attention has focused increasingly on innovative strategies to expand employment, in the context of intransigent and high unemployment levels, slow job growth, and government cutbacks. For roughly 20 million low-income Americans¹ who face significant and multiple barriers to work – people with disabilities including mental health illnesses, people who have experienced homelessness or incarceration, and young adults disconnected from school and work – disproportionately high unemployment rates are not a new phenomenon. To overcome barriers to employment, these individuals, their families and the communities that care about them have developed innovative ways to connect to the workforce. This paper describes a promising approach that we will refer to as employment social enterprises – businesses that create jobs with the explicit purpose of employing low-income people facing multiple barriers to employment and generating revenue to offset costs. The paper further describes the policies that could fuel its growth. Employment social enterprises build on the supported employment approach offered by transitional jobs programs by providing supported employment with the high accountability that is demanded of any business competing in markets.

Introduction

In a climate of constrained public resources, this is an especially fitting moment to consider how the market, public policies, and targeted subsidies can catalyze the exponential growth of this particular market-oriented, locally initiated approach to job creation that has been developed in many parts of the country. With an influx of wounded warriors returning from Iraq and Afghanistan, state and local governments rethinking incarceration policies in the face of budget constraints, the taxpayer and social costs of stubbornly high rates of homelessness, and unprecedented levels of unemployment among young people, the country is in need of a sustainable, long-term solution that can create jobs and put disconnected, low-income people to work, while enlarging the circle of opportunity and hope.

Federal, state and local policymakers have experimented for decades with various job-creation strategies and subsidies to increase access to work for people with low incomes and barriers to employment.

Community economic development policies and public benefit agreements have included the following: (1) tax incentives for businesses locating in enterprise zones; (2) mandates to hire specific populations for companies receiving public contracts or operating in revitalization neighborhoods; and (3) targeted commercial lending to businesses located in low-income communities, small businesses, and businesses owned by underrepresented groups such as women and people of color. In the workforce system, there is a growing recognition of the value of subsidized supported employment experiences or “transitional jobs” to help this population deepen its access to the workforce. Expanding efforts to make education – particularly higher education – available to people with low incomes is also a key workforce development strategy.

While community economic development and other policy initiatives have helped many low-income people connect to economic opportunity, limited government resources to implement and enforce the initiatives have resulted in little increase in the sustained workforce engagement of individuals and families who face the most significant and often multiple barriers to employment. Although there have been some notable and successful innovations in this area, particularly among transitional jobs and other locally initiated programs, few have reached significant scale to serve this target population.

However, employment social enterprises have been effective in reaching this population with multiple barriers and they could grow significantly by making efficient use of start-up capital, well-designed incentives, existing subsidies, and increased sourcing of goods and services by companies from social enterprises. National Industries for the Severely Handicapped (NISH) represents 500 nonprofits that employ 130,000 people with disabilities (46,000 through a federal program called “AbilityOne” that targets federal procurement to these entities). It offers instructive lessons that can be built on about how an aligned effort aimed at benefiting a population with significant barriers to employment has grown substantially over time.

Our vision is that at scale, employment social enterprise will be incorporated into business communities, workforce systems, and economic development activities across the United States, opening the door to mainstream employment for those who face barriers that have prevented them from working.

Defining the Problem

Millions of working-age adults remain in poverty despite the changes to workforce and welfare policies of the 1990s. About 20 million of these adults face significant and multiple barriers to employment, including:

- Disabilities (physical, psychiatric, intellectual, developmental, drug or alcohol dependence, etc.);
- Histories of incarceration;
- Periods of homelessness; and/or
- No high school diploma.

These groups of people face extraordinarily high rates of unemployment, exceeding 50 percent. Notably, there is also a racial bias to these unemployment rates – overall 13.4 percent of African Americans are unemployed nationally compared to 7 percent of whites², and 86 percent of those defined as chronically homeless are African American³. An analysis of data on veterans noted that “Veteran status and black race significantly increased the risk for homelessness for both men and women.”⁴

Low rates of workforce engagement result not only in poverty, but also in significant public expenditures ranging from the costs of law enforcement and incarceration to emergency, entitlement, and safety net services. Society also foregoes the tax revenues, social benefits, and other positive contributions that would accompany their gainful employment. For these individuals, persistent poverty exacerbates and protracts already difficult circumstances.

Additionally, limited access to employment (and often also to education) not only results in significant financial and personal costs but ultimately constricts social mobility and civic participation, in many cases for multiple generations. For most adults, work is key to social identity and status by providing a person with a role and social connections in addition to income. There is strong evidence that income or socio-economic status is a powerful “social determinant of health” and that people with the lowest incomes are more likely to become sick and die early than people with higher incomes, even when studies control for individual-level health risk behaviors.⁵

Even in better economic times, job applicants facing multiple barriers to work are much less attractive to employers than others. Employers are uncertain about how to distinguish between those who are work-ready and those who are not, view them as a risk, and attempt to screen them out of hiring processes. When they are hired, they are less likely to retain jobs or advance, often because of their limited exposure to workplace settings; underdeveloped work habits; interpersonal skills; or economic, health or personal crises that interfere with work. Employers have limited tolerance for these challenges among their frontline workforce, and consider their high turnover a routine cost of doing business. As a result, these individuals remain on the outskirts of the workforce with limited access to education or training.

A Promising Market-Based, Grassroots Approach

One promising approach to promoting employment for people with significant and often multiple barriers has arisen out of local nonprofits’ development of a particular subset of social enterprise that we call employment social enterprise. The Social Enterprise Alliance defines social enterprise as “an organization or venture that advances its social mission through entrepreneurial earned income strategies.” Roberts Enterprise Development Fund (REDF), a California-based venture philanthropy, defines a social enterprise specializing in employment as, “a revenue-generating venture founded by a nonprofit to create jobs for individuals who face significant barriers, while simultaneously operating with reference to the financial

bottom-line.”⁶ This approach is distinguished from nonprofit-run businesses that are created for the primary purpose of generating revenue for other activities of the organization.

With a market-oriented approach focused on creating social value, employment social enterprises leverage private resources, sometimes also with public subsidies, to efficiently create and fill jobs with people who would otherwise have a hard time getting or keeping a job. From the sale of goods or services, employment social enterprises earn income, which covers most normal business costs such as wages, benefits and equipment. Subsidies often help cover some of the costs of the support systems to help employees succeed.

Employment social enterprises provide their employees with a real job, a paycheck, a forgiving and supportive environment, coaching and other supports to help them move into the private-sector workforce and retain jobs. Some transitional jobs programs take advantage of the social enterprise model as the vehicle for delivering a supported employment experience. Social enterprises, in particular, provide employees with work experience in a context that mirrors the work environment they will face in the private market – a job that exists based on market demands and is dependent on continuing demand, adaptability to the changing market and high quality delivery.

Employment social enterprises provide not only an entry point to employment, but they also develop the individual’s employable skills in a market context, best positioning the employees to successfully transfer to the private market and achieve sustainable employment. Some, especially those focused on young people, also incorporate formal education. Many such enterprises build relationships with other businesses, creating pathways to help their employees, once they have achieved on-the-job success, move on to private-sector employment in companies that need prepared entry-level workers. In contrast with other transitional jobs models, this creates opportunities for long-term employment and the potential for advancement. Many track outcomes in order to improve performance and achieve even greater success over time.

Not all of the enterprises that have entered this field have been successful. Under the best of circumstances it is a challenge to start up a viable business, let alone start a business whose mission is to employ people with significant challenges. Though not all have been able to flourish, promising results have been achieved.

Despite the success of some enterprises, individual organizations and the industry as a whole have not reached the scale necessary to employ significant numbers in every community and to put in place clear, accessible pathways to employment for a significant percentage of the target population nationally. While we do not know with certainty the full scope of the industry, a subset of unpublished data from a survey administered by the Social Enterprise Alliance indicates that a little fewer than half of 135 social enterprise respondents that are focused on workforce development employ between six and 50 people.⁷ About 25 percent employed five or fewer, and the balance employed more than 50. While we do not have a precise count of such enterprises around the country, we do know that about 500 nonprofits are part of a network

supported by NISH, leveraging the federal AbilityOne program that facilitates public procurement from nonprofits that employ more than 100,000 people with disabilities.

For the past 15 years, REDF has invested time and resources into many of the outstanding San Francisco Bay Area-based employment social enterprises. It has now expanded to southern California with the support of a Social Innovation Fund (SIF) grant from the Corporation for National and Community Service and the private philanthropy of its Board of Directors and local and national foundations.

REDF's assistance to its social enterprise portfolio has included multiyear start-up or philanthropic venture capital and direct, hands-on business assistance. Among the groups currently or previously supported by REDF are Buckelew Programs, Community Gatepath, the Coalition for Responsible Community Development, the Community Housing Partnership, Community Resource Center, Chrysalis, the Center for Employment Opportunities, Community Vocational Enterprises, Juma Ventures, New Door Ventures, Rubicon Programs, San Francisco Conservation Corps, San Francisco Clean City, St. Vincent de Paul of Alameda County, Taller San Jose, and Urban Strategies (Green Streets), which is a partnership with McCormick, Baron, Regan, and Weingart Center Association. Common elements of these enterprises are:

- A double bottom line, focused on employment of people with significant barriers and operation of a sustainable business;
- The sale of goods and/or services to commercial or government purchasers; and
- A supportive operational environment that directly provides or facilitates employees' access to a range of services intended to assist them to retain jobs, move into the private-sector workforce, and advance.

What We Know and Don't Know about Outcomes and Cost Effectiveness

For more than a decade, REDF has tracked the activities and outcomes of its partner employment social enterprises. The purpose of this effort has been two-fold: to help employment social enterprises learn and improve; and to meet philanthropic and public funders' requests to assess the value of their investments.

REDF devised a set of tools and measures to track the progress of social enterprise employees, including collecting demographic data and information on employees' use of public services or incidents of homelessness or incarceration. From 1998 to 2008, REDF partnered with BTW Consultants (BTW), an evaluation consulting firm, to gather long-term data about REDF's initial portfolio of social enterprise employees through a series of interviews conducted at time of hire and then at six-month intervals for up to two years—regardless of whether the employee had left the nonprofit social enterprise. Results from BTW's research involved approximately one-third of the 3,313 employees hired in REDF grantee social enterprises between 1998 and 2006.

The results were promising and REDF is continuing to strengthen the evidence base to lay the groundwork for the social enterprise industry to grow to a scale that can support greater evaluation rigor.⁸ Among those interviewed 18 to 24 months after hire, 77 percent were still working. Their average hourly wage increased by 31 percent and monthly income from employment nearly doubled between time of hire and the follow up. Over time, more people move from enterprise to non-enterprise employment. The most profound insight was that people who are generally assumed to neither want to nor be able to work in fact are keenly interested in employment, and when offered a supportive work environment, are very much able to succeed on the job.

Pioneering the notion of Social Return on Investment (SROI) as an alternative to financial analysis methods that focus solely on financial return, REDF has combined community cost savings with the social enterprise's revenue generation data to demonstrate the economic and social value of social enterprise.⁹ In addition to cost savings, REDF is exploring a method to compare investment against social mission outcomes such as job retention, increased income, and health and housing stability to derive measures that more accurately show value generation and social return. In its groundbreaking initial SROI work, and in much of the world-wide SROI theoretical work done since then, the central focus has been on community cost savings realized. Application of the SROI methodology to REDF's portfolio of nonprofit job-creating social enterprises showed that every social enterprise resulted in net positive returns in the form of community cost savings.

While unquestionably a positive result, REDF determined that its analysis understated the true "return," since financial cost savings represented only one aspect of the beneficial results realized when chronically unemployed people become employed. Results such as improvements in employment performance and employability, and health and housing stability, were only captured in so far as they created community cost savings, although they represented outcomes that were dramatically positive in and of themselves beyond the dollars savings they generated.

REDF has embarked on next-stage development of SROI to address this underrepresentation of return and to improve the systems required for producing replicable, reliable analyses. Organizations in REDF's portfolio have also measured how employment affects public expenditures such as public safety and incarceration costs. And on the positive side of the government ledger, employees are working and paying taxes, as are their social enterprise employers.

Most significantly, in a time of constrained public resources, earned income is covering a significant portion of the costs of what public and philanthropic resources would otherwise fund as part of job training and wage subsidies. The groups in REDF's portfolio have earned more than \$125 million in revenue from their businesses. Depending on the business and type of employee supports being provided, these revenues can cover up to 100 percent of the employment program's costs. Often social enterprises need investment during their start up and early stages, but can contribute small to large proportions of revenue toward their program costs. As some social enterprises mature, they have been able to generate enough revenue to pay

for most or all of the program costs involved in supporting their employees. Many of the earliest investments that REDF made, for example in New Door Ventures' Ashbury Images screen printing business and bicycle shop, Juma Ventures' ballpark concessions business, and Rubicon Programs' landscaping business, have resulted in sustainable businesses that continue to generate revenue and employ new people year after year.

REDF continues to build on its early measurement efforts, working with its partners to improve and streamline data collection. Under its Social Innovation Fund grant, REDF has engaged the national research firm Mathematica to undertake an evaluation of the majority of its new nine-member California portfolio in order to assess the results in terms of duration of employment, income and related outcomes, as well as to better understand the components of the model that are most important in achieving those results. We are also working on an improved approach to assessing SROI, incorporating what REDF has learned from previous efforts.

In addition to REDF's work, there have been other empirical studies on the impact of employment social enterprises and of other approaches to employment for people with severe and multiple barriers. A three-year random assignment study conducted by MDRC of the transitional jobs social enterprise run by the Center for Employment Opportunities (CEO) in New York City (CEO is now part of REDF's SIF portfolio to replicate in California, as well as that of the Edna McConnell Clark Foundation) found definitive reductions in recidivism overall, and further that "CEO had its strongest reductions in recidivism for former prisoners who were at highest risk of recidivism, for whom CEO reduced the probability of rearrest, the number of rearrests, and the probability of reconviction two years after random assignment."¹⁰ According to a companion cost study, savings of almost \$4 resulted from every \$1 invested.¹¹

The federal Department of Health and Human Services sponsored an evaluation by MDRC of employment programs for hard-to-employ people in New York, and four other states, and MDRC also evaluated four transitional jobs programs funded by the Joyce Foundation.¹² Some of the key findings – which are influencing new publicly and privately funded transitional jobs programs – include the following:

- Overall, while transitional employment has increased short-term employment, it has not been demonstrated to increase long-term employment in unsubsidized jobs.
- Some transitional jobs programs (such as the one run by the Center for Employment Opportunities in New York) have not only increased short-term employment rates, but have also decreased public costs (in CEO's case for incarceration, in other cases, for TANF).
- Transitional jobs may have a greater impact on long-term employment through a focus on:
 - Not only soft skills, but also training in industry/occupational skills;
 - Making period of transitional employment in a private company, with the potential to roll over into a permanent, unsubsidized job;

- Provision of reemployment assistance, financial incentives/earnings supplements, and ongoing employee supports

Many of these elements are now integrated into social enterprises, and the field is assimilating the findings of this new data. In most social enterprises, there is some opportunity for individuals employed in transitional job slots to roll over into permanent employment. The relationships with commercial customers that are fundamental to the social enterprise business model also create avenues for long-term job placement. And the objective of social enterprise is for the employment itself to be unsubsidized (supported by the business) and structured like a regular job – not a “program.” It is also important to note that the intended duration of employment varies among different social enterprises with some – particularly those targeting people with severe disabilities – offering long-term employment, and others – particularly those targeting young adults and people exiting incarceration – targeting shorter durations of employment more in line with transitional jobs.

There are commonalities and differences between enterprises that intend to provide long-term employment and those creating transitional employment:

- The business model itself has to be viable.
- There must be a market for the goods or services.
- The organization must be able to successfully compete for a share of that market.
- The employment environment and the jobs must be structured to enable people who face specific barriers to access them. For example, some people may need part-time employment or flexible hours; or there may be a need for a higher ratio of supervisors to staff than in a comparable organization.
- There is a need for start-up capital at low or no cost (e.g. grant support).
- Often some ongoing subsidy is required for the “social costs” associated with the enterprise, which includes both the cost of services provided to employees and the marginal cost of additional supervision or other business modifications that are a direct result of employing people who face barriers.

Some factors differ. In general, if the objective is long-term employment, then there is greater emphasis on delivering a “living wage” and benefit package more comparable to or better than the market (e.g., “living wage” rather than just minimum wage), unless, as is true in some cases, the positions are designed to serve people who while working to their maximum ability are, due to their disability, likely to only work a limited number of hours and continue to receive public assistance. With long-term employment, the type of business and skill levels may be higher in order to result in the higher wage and benefit levels. And there may be more of an emphasis on customized hard skills training to meet business needs. A relatively limited set of employee supports may be offered, with the supports needed to retain employment built into the business

itself; or there is an expectation that employees receive that support elsewhere. Lastly, the financial model may place greater emphasis on long-term sustainability without subsidy, which may be more feasible with a workforce that is more stable than is the case in a “transitional employment” model.

Conversely, if the focus is helping people transition to competitive employment, the wage and benefits package may lag the market, in part as an incentive for people to move into other jobs. There may be greater emphasis on basic job skills such as punctuality, teamwork and accountability, rather than on hard skills training. In general, the expectation is that hard skills training will be provided for social enterprise employees much as it is for other front line employees – by companies which generally prefer to do their own “hard skills” training of front line employees once they hire them, or by educational institutions such as community colleges. In social enterprises focused on transition to competitive employment, a greater emphasis may be placed on the provision of an array of employee supports related to placement in and retention of jobs outside of the social enterprise. Lastly, social enterprises focused on transitional employment are generally more likely to build a business model that does require some ongoing subsidy for the social costs incurred as a result of both the more extensive social supports provided for job placement and retention, and the business costs of employing a deliberately transitional workforce.

Practitioners, funders and policymakers have struggled to identify what really works in engaging people in the workforce who face the most significant barriers, and to determine how to turn successful but limited-scope local innovations that employ people with multiple and significant barriers into sustainable national strategies.

The investment required to take a strategy to scale can be substantial; risk and uncertainty accompany the effort. To a certain extent, this is a chicken-and-egg dilemma. The investment necessary to scale a strategy depends upon the ability to answer fundamental questions about:

- Results – requiring more rigorous research;
- Necessary and sufficient program activities to achieve the results;
- Capacity, incentives, systemic changes and subsidies needed to achieve results; and
- Whether the innovation is truly replicable, scalable and sustainable.

The answers, however, will only come from implementing the strategy in a sustained way at an increasingly larger scale. Practically speaking, efforts that diminish risk and uncertainty will be necessary. Social enterprise mitigates risk and uncertainty in several ways:

- The generation of earned income – e.g., business revenue – diminishes funder risk;
- The existing national capacity diminishes execution risk; and

- The track record of double-bottom line results diminishes uncertainty, and the body of evidence continues to grow.

AbilityOne: A Federal Program Scaling Up an Aligned Set of Enterprises

An example in the disability sphere offers lessons about the use of incentives to create (at scale) enterprises benefiting people who face significant barriers to work. A powerful precedent for the promotion of employment social enterprises is the successful public-private partnership established by the Javits, Wagner, O'Day (JWOD) Act of 1971 (full disclosure – sponsored by the author's father). This Act revised a federal program initially created in 1938 to employ blind people by purchasing the mops and brooms they manufactured.

The federal program, now known as AbilityOne, was expanded in 1971 to include all people with severe disabilities and to include a broader array of goods and services purchased by many different federal agencies. NISH markets the program to federal procurement officers, and supports and trains the nonprofit agencies around the country that participate in the AbilityOne network. In total, they sell more than \$2 billion of goods and services to the federal government each year ranging from document destruction to total facilities management, from food processing to landscaping, with the Defense Department their most prominent customer. As a result, they create and provide jobs and increased independence to people with disabilities, employing more than 130,000 people on an annual basis (47,000 under the AbilityOne program, and the balance through other business that do not fall under AbilityOne) – many of them in permanent jobs, but some transitioning to commercial or public sector employment. Of the total, according to the most recent data available, about 30 percent are people with a mental illness, and the balance are individuals with physical, development, intellectual, substance use and other disabilities.¹³

The 500 organizations range in size from large Goodwills to very small businesses, and encompass a range of models. Some align well with the REDF definition of employment social enterprises with a keen focus on the double bottom line and a work experience similar to that in other competitive employment, others provide more limited work experience.

The nonprofits affiliated with NISH are eager to continue to create new job opportunities, and are now increasingly seeking commercial customers because the military is reducing procurement as it pulls out of Iraq and Afghanistan, and other federal agencies are downsizing in the face of budget cuts. The network itself has grown substantially, employing just 7,500 people in 1980. Many of the individual entities that are part of the network have become substantial businesses, with significant revenue (tens of millions of dollars), strong operational infrastructure and experienced business leadership. In that sense, they have laid the groundwork for growth. However, having been dependent on federal procurement since inception, while some enterprises are doing significant business with commercial customers, the whole network is just

developing the capability to market successfully to, and service contracts from, the private sector. Those that have more fully developed these relationships are poised for growth, but are in need of investment capital to expand.

Notably, three elements of federal policy catalyzed the growth of the NISH-affiliated nonprofits:

- 1) ***Procurement incentives that promote a sustainable market for the goods and services produced.*** First, federal law provides an incentive – a streamlined procurement process – to federal agencies that choose to procure goods or services through the AbilityOne program. The enterprises in turn must meet specific goals for the employment of people with severe disabilities.
- 2) ***Business assistance and other supports that help the participating organizations (called Community Resource Programs or “CRP’s”) maximize earned income.*** Several of the entities that are part of the AbilityOne system have flourished and grown not only because of their access to federal contracts but also because these contracts have been stable, allowing the businesses to grow with some predictability. As the businesses have become stronger over time, they have been able to market their products and services to other private-sector customers. For example, a group of CRPs provided document destruction services to the Treasury Department and other federal agencies. Once they were running well, and had proven their ability to meet tough federal standards for security and performance, these businesses joined together as a formal business network, successfully marketing their services jointly to other private-sector clients.

To support and grow these businesses, Congress chartered an independent intermediary called NISH with two primary purposes: to cultivate business from federal agencies and to deliver technical assistance to employment social enterprises. The intermediary works to ensure that the CRPs fulfill their contracts and meet their employment objectives. The intermediary is funded by a fee (now 3.75 percent) on the federal contracts.

- 3) ***Subsidies for the support services.*** The third policy element has provided at least some access to existing support services for people with disabilities through federally funded vocational rehabilitation, Medicaid and other targeted programs.

Policies have driven growth. Together, these three policies have resulted in the growth of a sophisticated and effective network of nonprofit-run private-sector enterprises that employ tens of thousands of people with severe disabilities. These sustainable businesses provide jobs through income earned by delivering necessary goods and services to the federal government. The NISH-affiliated Institute for Economic Empowerment collects data on the demographics, employment and income status, and use of benefits of the people employed, and the nonprofits affiliated with NISH have clearly met the double bottom line by generating billions of dollars of revenue and employing a significant number of people.

Critics point to three major concerns: (1) that too little effort is made to help the enterprise employees transition to private-sector jobs, (2) that the model is too dependent on public, rather than private-sector, market opportunities, and (3) that the wages paid to employees range widely. The network has begun to address these issues through a major effort to market to commercial businesses, an increased emphasis on private-sector job placement, and increased attention to wage levels. In many cases these enterprises offer wage and benefit packages averaging \$11.50/hour for employees working on government contracts. Another way the wage issue is being addressed is through a greater focus on helping employees move into competitive employment situations when they can, and where there are opportunities to move up the career pathway to a living wage.

Social enterprise business selection is also directly relevant to the wage issues. In general, it is difficult for U.S. businesses to be cost competitive with other countries on unskilled manufacturing. However, service businesses – particularly business-to-business as opposed to business-to-consumer markets – are more difficult to outsource overseas and offer the potential to maintain reasonable wages levels. Additionally, some markets are willing to pay a premium price for specific features, such as locally sourced food.

Lastly, evidence indicates that people with serious disabilities continue to face a job market that often discriminates against them in hiring, making the transition to private sector employment challenging, although some companies are now hiring NISH to train them in how to better manage people with disabilities within their workforce.

What State Policies and Investment Strategies Would Enable Greater Scale

Based on the results achieved to date, employment social enterprises appear to be a promising route to employment for a wide range of individuals. These groups include the people served by the AbilityOne program who have serious physical, intellectual and developmental disabilities, as well as mental illness, and individuals who face other significant barriers to work, including the enormous pool of young adults disconnected from school and work, and individuals with histories of incarceration and homelessness. Each of these populations in turn include single mothers; veterans – with growing numbers returning to their communities with injuries and chronic conditions related to their service in Iraq and Afghanistan; and young people, including those exiting the foster care system.

Building on the lessons of AbilityOne and NISH, and REDF's efforts to significantly expand employment social enterprise in California and nationally, as well as the broader literature on scaling up promising social innovations, we believe that there is now a window of opportunity to implement new policies that would result in the scaling up of the social enterprise and, in turn, the creation of significant new job opportunities for people who face significant barriers.

This window is open for several reasons, including: government, private donors and the public are unusually concerned about the issue of jobs and joblessness in the context of the current recession; nonprofits are increasingly motivated to find new ways of doing business because of the cutbacks in public support; business schools are rapidly integrating a curriculum focused on social entrepreneurship and social enterprise because their students are demanding it, and those graduates are seeking socially relevant jobs; and business is increasingly seeking out new ways to practice not only corporate philanthropy, but the integration of social purpose into their business practices, because the talent they wish to attract, and their markets (from socially minded consumers to government) are increasingly interested in seeing it happen.

Arguably, the employment social enterprise model is more sustainable and scalable than other alternatives as it would generate earned revenue, and the growing platform would allow for the ongoing experimentation necessary to hone the model further so as to achieve the desired results of long-term employment and increased incomes for hundreds of thousands of people.

Recommended Policies

- 1) ***Procurement incentives.*** Incentives and other policies that encourage routine public and private sector procurement from employment social enterprises would fuel the stability and growth of the sector and create jobs. The Rockefeller Foundation has been exploring the potential for “impact sourcing” internationally (detailed in an Accenture report¹⁴), and the concept can be applied in the U.S.

Opportunities: State and local governments could increase social enterprise procurement in the context of spending on energy and energy efficiency programs, infrastructure revitalization and housing development. In addition to eliminating barriers to nonprofit social enterprises competing for these contracts directly, such as restrictions that only permit for profit companies to qualify, the government can also provide incentives in the form of “scoring bonuses,” for example, to prime contractors that subcontract with social enterprise.

Private-sector firms – particularly those that operate in publicly regulated environments or whose consumers would respond favorably to socially motivated business practices, including anchor institutions such as hospitals and educational entities (schools, universities, etc.) – are likely to respond favorably both to these kinds of incentives and efforts by government, business and other civic leaders to recognize their community commitment through procurement and hiring. The Cleveland Foundation’s initiative – which has engaged local anchor institutions in procuring from several cooperative businesses owned by local, low-income residents – is an example.¹⁵ A national business council of companies that undertake significant purchasing and hiring from employment social enterprises with high-level leadership and attention could galvanize action.

The Small Business Administration and private entities like the Supplier Development Council could incorporate nonprofit-run employment social enterprises into their definition of supplier diversity. This would drive businesses that currently use the SBA definition to set procurement targets to include social enterprise in their annual goal-setting. The Community Reinvestment Act (CRA), which provides incentives for banks to invest in programs and services that benefit underserved and low-income communities, could recognize procurement by financial institutions as qualifying for credit under the CRA.

Challenges: Current procurement policies and related tax incentives designed to drive business toward specific niches tend to favor women- and minority-owned businesses, businesses owned by disabled veterans, small businesses and businesses located in designated low-income neighborhoods like enterprise zones. Nonprofit-owned social enterprises are now rarely part of the equation, although new policies could change that. A clear, widely accepted definition of employment social enterprises would be an important prerequisite. The Social Enterprise Alliance has taken preliminary steps to establish this but it has not yet been fully implemented. To be effective, the definition must be widely recognized as applying only to those entities with the capability and commitment to earn significant revenue from its commercial activities while employing a significant percentage of the targeted populations.

In government procurement, there are sometimes restrictions on contracting out, particularly if doing so displaces unionized, public employees. And there is significant competition from regular small business for these kinds of market advantages. Both the private and public sector are seeking the highest quality, most experienced, lowest-cost contractors. Employment social enterprises would have to be competitive on both price and quality, and may also be held to certain wage requirements making competitive pricing more challenging.

- 2) ***Start-up grants and business assistance to social enterprises.*** Financial investments and business assistance are needed to start up and improve the competitiveness, scale and efficiency of employment social enterprises so that they can succeed in obtaining contracts while also fulfilling their workforce development mission. Investments in innovation that develop new business opportunities accepted by the marketplace could result in job creation that does not displace other businesses or employees but adds net new jobs. Leadership talent that is prepared and adequately compensated is a fundamental prerequisite for social enterprise growth.

Opportunities: The development of Social Impact Bonds (SIBs) and related “Pay for Success” programs offer an important, new avenue for supporting the start-up and growth capital needs of social enterprise.

The AbilityOne/NISH network funds these costs through a fee (3.75 percent) on federal procurement – this could be replicated for commercial contracts.

In addition, foundations and individual donors interested in market-based social innovations may be willing to invest in these costs directly or through intermediaries. A recent federal Social Innovation Fund grant to REDF provides \$6 million over four years, matched by an equal amount of private funding, for these kinds of investments, with the grants that flow directly to social enterprise matched again (earned income counts against the match). This has already served as a catalyst for philanthropic and governmental support.

Another opportunity is expansion of the federal Community Economic Development Program administered by the Department of Health and Human Services, which has been severely reduced recently, but has historically provided start-up funding that many local nonprofits have used to expand social enterprise and create jobs. Increased funding, latitude and flexibility on use of the funds, and the types of businesses funded, along with providing more resources for in-depth capacity building and technical assistance would fuel expansion of social enterprise.

The Treasury Department's Community Development Financial Institutions (CDFI) program is another potential opportunity. CDFI's cannot only deliver low-cost, somewhat "patient" capital, but can also use some of their CDFI funds directly for capacity building and grant making. There are opportunities to structure creative programs that blend up front grants and capacity building with longer term lending as businesses get up and running, and customers are secured.

The Community Reinvestment Act has been responsible for the flow of significant resources to CDFI's, which have been an important channel that banks have funded in order to meet their CRA requirements. Banks have also directed resources directly to nonprofits. Much of the funding has been invested in real estate – including affordable housing and commercial development, and far less of it in business development. Social enterprise may offer a new vehicle for grant making and potentially other investments that could qualify for CRA credit.

Challenges: To attract philanthropy and investment, funders will want to see evidence of results and other elements that make social enterprise sustainable—such as public and private procurement – so that their resources are leveraging scale and, in the case of impact investors, can be repaid. Grant support in the form of "enterprise philanthropy" as outlined in a new report, can help lay the groundwork for an industry that can eventually grow exponentially through lending and impact investing.¹⁶

Government has to be convinced of the value of social enterprise to invest in start-up and capacity building. This will require increasingly solid and compelling evidence of results that include the government cost savings that can be achieved. This in turn requires some upfront funding of evaluation.

Fundamentally there are risks to the kind of venture capital required for these investments in capacity and start up. Government, as a steward of scarce taxpayer dollars, has still shown some appetite for these kinds of investments through new innovation funds – with the Social Innovation Fund of the Corporation for

National and Community Service, for example, providing support to REDF's grant making and business assistance to social enterprise. This is also a promising proposition for foundations and individual donors – particularly those with business experience – interested in spurring the development of these revenue-generating models.

CDFI's may not be familiar with social enterprise, or know how to assess investment risk or structure programs to select and finance these entities, build their capacity or help them grow. Partnership with other intermediaries with this kind of experience – as has been the case with affordable and supportive housing, charter schools, day care centers and other models – could facilitate the initial period of investments.

- 3) ***Redirected subsidies for social costs, training and job placement.*** Subsidies will be needed in many cases for what REDF has defined as the “social costs” of employment social enterprises. These are both the employee supports—the services necessary to help a multi-barrier population find jobs, succeed in the work place long-term, and advance (including certified training at community colleges, for example) – as well as the excess business costs incurred by entities that employ individuals who face significant barriers (e.g., higher manager to staff ratios, lowered production targets). While earned income can cover apples to apples business costs, making them more sustainable than many other similar interventions, most social enterprises require some subsidy for these social costs. In some cases, the resources can be provided through partnerships with other organizations already funded to deliver job placement, and through other supports. Employers can be encouraged to hire employees who are graduating from social enterprise, but to more widely open up the commercial job market may require incentives or the assurance of ongoing support for the employees. NISH's Institute for Economic Empowerment is undertaking a pathways-to-careers demonstration project in Utah that incorporates an Employer Payroll Tax Incentive (EPTI) to encourage employer groups to support the hiring of people with severe disabilities. This incentive would take the form of a reduction in the employer's share of FICA taxes paid on all employees currently or previously receiving SSI and/or SSDI. Similar incentives are being discussed in the context of the increasing numbers of people who have recently joined the ranks of the long-term unemployed in the wake of the recession of the past several years.

Opportunities: Workforce Investment Act (WIA), and state Employment Training Panel (ETP) resources could be used for these supports. However, there are barriers to using WIA and ETP for employment social enterprises and for the multi-barriered populations they employ – particularly for those enterprises that provide transitional rather than permanent employment. These barriers could be removed through changes to the governing legislation or, potentially, through waivers granted by the publicly appointed governing body.

Other federal programs (Supplemental Nutritional Assistance Program) and state programs (criminal justice system efforts to reduce recidivism, for example) as well as local entities (such as community colleges) could

also partner with social enterprises, delivering key employee supports. California’s Medicaid waiver offers an opportunity for social enterprises to enroll employees in health insurance, improving their access to medical care for chronic conditions and other conditions many of them struggle to deal with as they go to work. In some cases, foundations may be willing to subsidize some employee support costs, but their resources are limited compared to the magnitude of the costs and the long-term nature of the need.

Like any successful business, the most financially successful social enterprises generate profits. If a social enterprise is able to generate enough profits to break even on its business investment costs, any additional profit can be used to offset employee support costs. A social enterprise’s ability to cover their social costs depends on the business model and the long-term market for its services, as well as how efficiently it is run. Additionally, by offering the on-the-job work experience that is so valuable and hard to come by, social enterprise organizations may find that they can attract contributions from public and private agencies willing to offer work and housing supports, training in hard skills and assistance with job placement to employees who have social enterprise jobs .

There is intriguing potential in the use of “pay for performance” or so-called “social impact bond” methodologies by government. This new approach requires private foundations and investors to make significant capital available upfront to an intermediary that orchestrates an intervention that saves the government money. If the intervention meets savings targets agreed upon in advance, the government repays the investors or philanthropists. To the extent that social enterprise can demonstrate government cost savings – through reduced recidivism to prison or homelessness, reduced use of hospital emergency services, or increased taxes paid by the employees and enterprises – this option may be viable for scaling up services in social enterprise. However, it is not yet clear how the long-term costs – after the bond has been repaid – would be funded.

Challenges: Because funding for the social costs may flow from multiple government agencies, it can be costly and inefficient to apply for, manage and report on. In addition, the performance- based incentives within WIA tend to direct funding toward more able workers, who can more easily meet the job placement goals. This competitive pressure is particularly salient now as workers across the spectrum suffer from high unemployment. Lastly, foundations are reluctant to provide significant funding without knowing that their resources will eventually be replaced by another source.

Intermediaries like REDF have a role to play in facilitating the policies and practices that leverage existing resources, given the complexity of accessing and integrating multiple funding streams.

- 4) ***Administrative data to assess results.*** For practitioners and funders, long-term data on job retention and wages would allow them to evaluate the efficacy of social enterprises, compare these outcomes to those of other programs, make improvements if they are not achieving their objectives, and

demonstrate to public agencies and philanthropy the value of providing support. Assessing the impact of social enterprises on jobs and wages, as for other employment programs, is quite costly, because administrative data (e.g., unemployment insurance or tax data to determine or confirm employment and wage rates) is not routinely accessible to social enterprises (nor to many other community-based workforce programs).

Opportunities. California is one of nine state partners in an effort to use administrative data to assess the effectiveness of WIA, Unemployment Insurance (UI) and Temporary Assistance for Needy Families (TANF) programs as part of the Administrative Data Research and Evaluation Project.¹⁷ Thus, there is already some precedent for use of administrative data that could be extended to social enterprise.

Challenges. Generally this kind of data is limited due to privacy considerations, and often can only be accessed by government agencies, and/or through costly third-party evaluators. One way to address this is to deliver group data without individual personal information identified.

Vision: Employment Social Enterprise is Part of the Mainstream

Our vision is that at scale, employment social enterprise will be incorporated into workforce systems and business communities across the U.S., opening the door to mainstream employment for those who face barriers to traditional jobs. Commercial businesses, financial institutions, philanthropy, government and nonprofits all have an important role to play in making this happen. Social enterprises will be a profitable proposition, able to return a modest profit to investors, although their social costs may require ongoing subsidy.

Work and income have powerful impacts on health and well-being for people, their families and communities. For most working-age adults, work is usually the most important source of income, which is critical to material well-being, including safe and stable housing and adequate nutrition. For most adults, work is key to social identity and status, providing a person with a role and social connections, in addition to income.

This is not about scaling up one organization or one program, but it is about making systemic, sustainable changes that impact the marketplace, and about creating enterprises and jobs that can serve as a pathway into the workforce for significant numbers of people who would otherwise be unemployed. To really move the needle on poverty, the proposals we make to open the doors of opportunity must be accompanied by increased respect for the front-line workforce, and a combination of pay, benefits, tax policies and other supports that enable them to earn and save sufficiently to achieve a living wage.

Impact at scale. Creating a tier of social enterprises that target employment to those who would otherwise have a tough time getting hired, with sufficient job opportunities to accommodate 500,000 people annually,

would create a sea-change in the employment prospects of those currently locked out of the workforce. The enterprises would offer a range of wage and benefit packages, with those focused on long-term employment offering more, and those aiming to transition employees into competitive employment offering less. The range of business models would vary, depending on opportunities in a particular locale. Based on experience, some of the more promising business models appear to include: electronic waste recycling, laundries, property services, food commissaries, concessions and staffing services – but many others from call centers to landscaping are being tried. A near term vision (ten years) is having thriving social enterprises in at least 25 cities, capable of employing 100,000 people. Philanthropy, financial institutions and government all have a role to play.

The levels of procurement required to achieve 100,000 more employed would be approximately \$4 billion if we use the benchmark of the AbilityOne program, which employs about 47,000 people with \$2 billion of public procurement (and many more through commercial procurement already in place). This is a tiny fraction of federal, state and local government and private sector procurement in the U.S. The government alone buys more than \$300 billion in goods and services each year, with more than \$70 billion going to small businesses.¹⁸

Based on the experience of REDF and NISH, the investment in infrastructure, measurement, start-up, capacity and verification required to accommodate this level of scale would be about 3 percent of the total procurement and, as in the AbilityOne/NISH model, could be a fee paid to an intermediary or intermediaries to perform these functions.

If the procurement can be aligned with growth targets, allowing for repayment this would enable impact investing, not only a fee on procurement, to cover a portion of the costs. Social costs would be largely funded over time through redirection of resources. And the overall costs would be significantly reduced by the taxes paid by the individuals employed, the positive economic impacts of the businesses and jobs created, and savings as a result of decreased incarceration and other publicly funded programs.

The “flywheel” of productivity, dignity, self-sufficiency and hope would turn, making individuals and organizations that are net consumers of taxpayer support into taxpayers that contribute to family stability, the economy and the community.

Conclusion

Employment social enterprises are business-oriented innovations developed at the local level. They have shown considerable promise in helping low-income populations overcome significant and multiple barriers to employment and become much more self-sufficient. Their double-bottom line business model is sustainable at a time of constrained public funding. While scaling these efforts nationally faces considerable challenges,

well-crafted public policies and private initiatives that build a sustainable, market-oriented delivery system can lead to more effective outcomes and more efficient uses of subsidies over the long term.

The AbilityOne program offers lessons for taking employment social enterprises to scale. The Social Innovation Fund grant to REDF aims to scale employment social enterprise in California and beyond, offering an important opportunity to strengthen the data on results while putting thousands more people to work, and bringing together a broader community of practitioners, funders and evaluators to hone and articulate a widely replicable, sustainable model that delivers results based on evidence-based practice.

If private and public funders seize this opportunity to influence the development of programs to focus on performance and measure progress against clear objectives, they can incentivize desired outcomes such as long-term private-sector job retention and educational pathways that lead to advancement on the job. They can also prioritize services for specific populations such as young adults or those who have been incarcerated.

Well-crafted public policies can address the challenges described above to make employment social enterprises more effective in helping people succeed at work and become tax-paying, contributing members of society, while reducing the taxpayer costs of poverty, incarceration and homelessness. As the employment social enterprise industry grows and matures, the approach will be further improved. In addition, ever-improving cost-benefit and outcome assessment will drive smart approaches to the use of philanthropic and government investments, incentives and the pathway to scale.

Carla Javits is the President of REDF. REDF helps to create and grow “double bottom line” enterprises that earn income while employing people with high barriers. She oversees REDF’s efforts to build the field by broadly sharing the results of its extensive, multi-year effort to measure outcomes. Prior to joining REDF, Carla was with the Corporation for Supportive Housing (CSH) for fifteen years, helping nonprofits develop housing with services for homeless people. Previously, she worked for the California Office of the Legislative Analyst, and was Director of Policy and Planning for the San Francisco Department of Social Services. Carla serves on the Board of Advisors for The Philanthropic Initiative, is an Advisor to the Board of NISH, serves on the Board of Directors of Northern California Grantmakers, and The Melville Charitable Trust, and holds a Masters of Public Policy and BA from the University of California, Berkeley, and an AA in Hotel and Restaurant Management from SF City College.

Endnotes

- ¹ No studies have explicitly defined and described the total population of people who face barriers to work. REDF estimate is based on an unpublished Advanced Policy Analysis for the Goldman School of Public Policy prepared by Francie Genz for REDF that synthesizes multiple studies that looked at discrete populations, including ex-offenders, homeless people, disconnected youth, and people with disabilities and serious mental illness.
- ² Bureau of Labor Statistics, Oct 5, 2012 Economic News Release Employment Situation Table A-2. Employment status of the civilian population by race, sex, and age. <http://www.bls.gov/news.release/empsit.t02.htm>
- ³ <http://www.dol.gov/sec/media/reports/hispaniclaborforce/>
- ⁴ http://works.bepress.com/dennis_culhane/116/
- ⁵ Price RH, C. J. (2002). Links in the chain of adversity following job loss: how financial strain and loss of personal control lead to depression, impaired functioning, and poor health. *Journal of Occupational Health Psychology* , 7 (4): 302-12.
- Robert Lin, C. S. (1995). The Impact of Unemployment on Health: A Review of the Evidence. *Canada Medical Association Journal* , 153: 529-540.
- Robert Wood Johnson Foundation Commission to Build a Healthier America. (2008). *Issue Brief 4: Work and Health* . Princeton NJ: Robert Wood Johnson Foundation
- ⁶ The author is president of REDF.
- ⁷ *Social Entrepreneurship: A Portrait of the Field*, Community Ventures, Inc. <http://www.communitywealth.com/pdf-doc/Field%20Study%20FINAL%207.14.2010.pdf>.
- ⁸ This evidence is promising, yet has the limitations associated with preliminary evidence. In addition to the lack of comparison data, the loss to follow up was high, and analysis showed those lost to follow up were more likely to have histories of homelessness. More information on this research is available from REDF at www.redf.org.
- ⁹ REDF's SROI measurement toolkit provides only a partial cost-benefit analysis. It does not compare the employment social enterprise model to other methods of moving people into the workforce (largely because of the large costs of such an assessment). Also, the SROI model does not allow for explicit attribution of the social return to the employment social enterprise efforts as opposed to other programs or changes in peoples' lives. Nonetheless, the outcomes suggest it is worth exploring the potential of the employment social enterprise model further.
- ¹⁰ Janine Zweig, Jennifer Yahner, and Cindy Redcross, *Recidivism Effects of the Center for Employment Opportunities (CEO) Program Vary by Former Prisoners' Risk of Reoffending*, MDRC, October 2010. <http://www.mdr.org/publications/574/full.pdf>.
- ¹¹ The majority of these benefits came in the form of reduced criminal justice expenditures and the value of services that CEO participants provided to government agencies in the transitional job work sites
- ¹² David Butler, Julianna Alson, Dan Bloom, Victoria Deitch, Aaron Hill, JoAnn Hsueh, Erin Jacobs, Sue Kim, Reanin McRoberts, Cindy Redcro, *What Strategies Work for the Hard-to-Employ?*, *Final Results of the Hard-to-Employ Demonstration and Evaluation Project and Selected Sites from the Employment Retention and Advancement Project* , MDRC, May 2012 <http://www.mdr.org/publications/630/overview.html>
- ¹³ For more information, see NISH's website: <http://www.nish.org/NISH/Rooms/DisplayPages/layoutInitial?Container=com.webridge.entity.Entity%5BQID%5B3289C649A4B65B4AB7BF230AC4F5A53F%5D%5D>.
- ¹⁴ Exploring the Value Proposition for Impact Sourcing: The Buyer's Perspective, Gib Bulloch and Jessica Long, Accenture, and The Rockefeller Foundation, 2012
- ¹⁵ <http://www.fastcompany.com/1767329/how-evergreen-cooperative-lifting-cleveland-residents-out-poverty>
- ¹⁶ From Blueprint to Scale: The Case for Philanthropy in Impact Investing, Harvey Koh, Ashish Karamchandani and Robert Katz, *Monitor Group with Acumen Fund*, April 2012
- ¹⁷ <http://www.ubalt.edu/jfi/adare/>
- ¹⁸ http://www.ago.noaa.gov/ago/docs/small_business_contracting_with_the_government.pdf

About the Big Ideas for Job Creation Project

[Big Ideas for Job Creation](#), a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, with the support of the Annie E. Casey Foundation, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity. Taken together, these Big Ideas can create millions of new jobs for our country.



The Annie E. Casey Foundation