Pioneering for Financial Viability:
Metro Denver Social Enterprise Survey Report

For:

The Denver Foundation

Social Venture Partners

By:

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Executive Summary

Over the course of five months, we've analyzed the landscape of Metro Denver social enterprises by conducting a comprehensive survey, which highlights the complexities of running a successful social enterprise that achieves financial return and meaningful social impact. We employed a blended approach to the survey methodology with the hopes of better understanding these complexities and providing both social enterprises and impact investors with the opportunity to shape a mutually beneficial impact investment. From the comprehensive survey findings, we've found the following key insights and implications to be true for Metro Denver social enterprises:

1. Social enterprises require both financial and non-financial capacity building support from impact investors, specifically non-financial support in the areas of business plan strategy, financial management, measuring impact and outcome, and people management.

2. Obtaining grant funding and obtaining debt and equity financing remain a heightened challenge for most social enterprises due to the lack of capacity and resources to source an investment, time pressures, ability to measure impact outcomes, and cost of financing.

3. Social enterprises that employ a significant to high social impact strategy and market rate of financial return strategy are more likely to become financially and socially viable through earned income sources; alternatively, social enterprises that employ some to modest social impact and market rate or above market rate of return are less likely to achieve the organization's intended financial and social outcomes.

4. Social enterprises that have a steady earned income stream, which covers most or all of the organization's operating expenses, and have only one focused revenue stream are more likely to make a profit or break even than social enterprises that have multiple revenue streams, and in turn, lackluster earned income performance.

5. Impact investors should look for social enterprises that prove high performance (or have the potential to highly perform) in the following key factors for growth and
sustainability: organizational culture, talent retention, demand for products and services, consistent grant funding year-to-year, and a sustainable revenue model.

6. Although social enterprises believe they are leveraging the appropriate human capital to achieve their social mission, a third of these organizations believe their financial capital strategies do not align with the social mission, and more than half of these organizations believe they are not using proper government resources. Thus, there is great opportunity for public-private partnerships through Pay-for-Success models (whether private or publicly supported) for The Denver Foundation and Social Venture Partners’ impact investing programs.

7. As social enterprises continue trending towards profit making businesses, The Denver Foundation should consider acting as a guarantor for businesses that have a steady level of earned income but need a partner to build a line of credit.

This survey report expands on the above findings through the following sections:

Introduction

Methodology

Landscape

People & Purpose

Financial Viability

Capacity Building

Limitation & Implications

Limitations of the Study

Thank you for your time and guidance over the past five months! We've thoroughly enjoyed working with The Denver Foundation and Social Venture Partners, and hope this report will provide valuable insights to the organization for its grantee and investee relationships.
Introduction

This report presents the findings of the Metro Denver Social Enterprise Survey 2018. A survey instrument was designed to understand the needs and expectations of various non-profit and for-profit social enterprises within the Metro Denver Region. With the intent to support the developmental needs of the social enterprise sector, this survey report provides insights about social enterprises formation and organizational structure, their plans and needs for growth, and interest in receiving impact investing funds. This survey therefore aims to add to and strengthen the limited extant evidence base, and provide a clear picture about how these organizations are operating, and how the foundations and its investors can support these organizations to achieve the desired social and financial return.

The survey design was influenced by the elements of two behavioral theories in public health and social entrepreneurship. These two theoretical frameworks were dovetailed to create this study’s conceptual framework (figure 1). The conceptual framework helps us understand the existing structure of social enterprises and interpret our empirical findings with a goal to suggest how foundations can further help support these social enterprises in tackling the prevalent problems of practice.

The theory asserts that to bring about sustainable social and behavioral change, it is important to assess the Knowledge, Attitude, and Practice of the population under study. These elements fundamentally assume a linear association to influence a behavioral change and produce the desired actions that in turn reflects the overall health of the organization. These elements are further impacted by a variety of forces in the environment. These social, political and economic forces also drive the organization’s vision and beliefs, which in turn get translated through their actions in addressing the social needs of the society.
To further investigate and explore these driving forces to address social opportunities and challenges within the Metro Denver region, the conceptual framework for this study also incorporated the following five key elements suggested by Zahra et al. (2008):

**Prevalence:** According to Zahra et al. (2008), “a major reason for the existence of social opportunities is the prevalence of needs in human society.” The social needs and issues of society influence an organization’s beliefs and enable them to define their problem of practice. Further, by focusing on the identified prevailing social problem, organizations are motivated to develop business models addressing the prevalent societal needs.

**Relevance:** According to Zahra et al (2008), “the relevance of a social problem can also determine whether entrepreneurs see an opportunity in resolving a problem, or whether they view the problem better suited for the attention of others.” This element fundamentally shapes the way in which organizations respond to various forces in the environment. By juxtaposing the identified social problem or issue with creative business models or solutions, organizations become relevant in addressing the society’s complexity and persistency of the social problems.

**Accessibility:** As suggested by Zahra et al (2008), “social entrepreneurs must differentiate themselves in order to gain the legitimacy, funding, and resources necessary to sustain their ventures”. Accordingly, organizations seek resources that are innovative, non-traditional and viable – financially and socially.

**Radicalness:** Due to the rising complexity in the needs of the society, it becomes extremely important for organizations to look for radical solutions. This element is referred as an opportunity to which a major innovation or social change is necessary to address a particular problem (Zahra et al., 2008).

**Urgency:** One of the reasons why social enterprise exists is due to the urgent needs of the vulnerable population within the society that not only continues to remain unmet, but are also further exacerbated due to the prevailing economic, political, and societal conditions. According to Zahra et al. (2008), social entrepreneurs recognize these urgent needs and their search for solutions to justify the speed and timeliness of their responses to such social issues.
Methodology

An online survey questionnaire was designed and administered on nonprofit and for-profit social enterprises, which are currently operating within the Metro Denver region. These organizations were identified through a variety of sources, including but not limited to Social Enterprise Alliance, B-Labs, Social Venture Partners, Google Maps, and The Denver Foundation.

The organizations were shortlisted based on the four key focus areas of The Denver Foundation including Economic Opportunity, Basic Human Needs, Education, and Leadership & Equity. The survey request link was sent out to fifty (50) organizations within the Metro Denver region. A total of thirty-eight (38) complete responses (76% response rate) were gathered via an online close-ended questionnaire.

The individuals who represented their respective organizations in this survey were CEOs (70%), Founders (14%), and Lead Development Staff (16%). These respondents rated the quality of the survey questionnaire as very good (score: 7 out of 10)

Of these organizations and individuals, 97% have provided us the consent to mention their names as a respondent to this survey. (see appendix 1).

Landscape

This section looks at the types of social enterprise, the proportion of the organization on the development stage continuum, their geographical location and reach, the sectors they work in, and their human resource capacity.

The breakdown of the organizational legal structure of the sample is as follows:

- 79% of the sample respondents are registered as Nonprofit with 501(c)(3) status.
- 8% of the sample respondents are Nonprofit under a Profit Making Subsidiary
- 8% of the sample respondents are For Profit Limited Liability Companies
- 5% of the sample respondents are For Profit Public Benefit Corporations
Based on the developmental stage of the organization, the study found that a majority of respondents classified themselves in Growth (establishing and formalizing the business) or Expansion stage (expanding the business offerings geographically or through product mix). On the other hand, in the context of developmental stages, it was found that some of the already established organizations have considered themselves in soul-searching phase. This is due to the fact that such organizations have recently established a social enterprise unit within their non-profit or parent organization structure, and are currently developing ideas and business model for the same. The figure 2 shows these respondents self-reported belief regarding the developmental stage of their respective organization.

The average age of the organizations in this sample was 19.6 years. Although the average age seems to be on a higher side, we found that some of these organizations reported the establishment year of their parent non-profit organization instead of the year in which their social enterprise was established. However, it is worth noting that 16% of the organizations are new start-ups with an average age of 3.2 years.

Due to these identified variabilities in the average age and self-reported developmental phase, this study shall aim to provide only an overall insight for the sample as a whole.

![Figure 2: Development stage of the organization](image)

### Table 1: Organizations age

<table>
<thead>
<tr>
<th>Age group</th>
<th>Organization count</th>
<th>Avg. Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5</td>
<td>6</td>
<td>3.2</td>
</tr>
<tr>
<td>6-10</td>
<td>9</td>
<td>8.8</td>
</tr>
<tr>
<td>11-15</td>
<td>4</td>
<td>13.3</td>
</tr>
<tr>
<td>15+</td>
<td>19</td>
<td>31.2</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>19.6</td>
</tr>
</tbody>
</table>
However, the analysis may cite these stages wherever the findings are found consistent across the stages, and statistically significant.

Are the organizations working where it is needed the most?

The study found that a vast majority of the sample respondents are primarily focusing their work within the Denver region only (figure 3). This demonstrates the reach of the movement into communities and is also an indicator that the Metro Denver region is more likely to benefit with these organizations who are focusing their capacities to address the prevailing needs of the local communities.

The top three primary economic sectors in which these organizations participate include employment and skills training (39%), providing social welfare interventions (32%), and education (26%). However, the scale at which the organization participates in these sectors may vary and is based on every organization's philosophy, vision, and practice. Also, these organizations may focus on more than one primary and/or secondary sectors. It was interesting to see that training for employment and skills development as well as education were also considered as a secondary sector of most of these organizations. 29% of these respondents also reported that the secondary focus of their organization is related to either retail or wholesale business. Table 2 provides a complete list of economic sectors in which these organizations participate.

A majority of these organizations' central focus as well as additional focus, up to a certain extent, have been (a) workforce development, (b) improving a particular community in the society, (c) promoting economic equity, and (d) creating employment opportunities. While the focus continues around ensuring economic equity and employment development, we
also found that access to affordable housing, healthy food, and public transportation as well as protecting the environment have been the least focus for most of these organizations (table 3). The rising property value and gentrification in the Metro Denver region can further perpetuate inequality as well as pose challenges and hardships for the disadvantaged population to achieve an acceptable quality of life. Thus, although the social enterprise respondents in this survey do not consider these areas of focus, the prevailing need for intervention in healthy food, affordable housing, and public transportation continue to be significant issues facing the Metro Denver region.

### People & Purpose

This section looks at how social enterprises work, which groups they seek to support and employ, and the change they are making.

95% of these organizations are actively involved in dual mission of reaching out to the larger communities through its products and/or services as well as having a direct impact on the beneficiaries of the organizations’ social purpose.

58% of the respondents (21 organizations) have annual direct customers of over 500 people. Of these organizations, twelve (12) also have over 500 beneficiaries who are directly impacted by its social purpose. This indicates that such organizations either work to support or provide employment to those who are in direct need of such assistance.

We also found that the spirit of volunteerism continues to remain a backbone of these organizations. The study finds that 87% of the organizations are actively seeking to leverage

<table>
<thead>
<tr>
<th>Organizations focus</th>
<th>Central focus</th>
<th>Additional focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to affordable housing</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Access to healthy food</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Creating employment opportunities</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Economic injustice</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Improving a particular community</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>Improving health and access and equity</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Promoting economic equity</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>Promoting education and literacy</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Protecting the environment</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Public transportation</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Supporting other social enterprises or other nonprofit organizations</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Supporting vulnerable children and young people</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Workforce development and employment</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

*Table 3: Organizations area of focus*
community support through voluntary engagements. Also, 71% of the organizations in the study report that they are able to seek volunteer support in equivalent to or more than the number of employees in the organization. Interestingly, 21% of the respondents (8 organizations) have less than 50 employees and rely on 250+ volunteers in carrying out the organizations’ activities. The data also reveals that 79% of these organizations are directly serving those who are in poverty and/or disadvantaged areas; 63% are serving individuals facing financial hardships; and, more than 40% of these organizations are providing their services to people who are experiencing homelessness, mental illness, or are chronically unemployed (table 4).

<table>
<thead>
<tr>
<th>Populations organizations serve through direct service and/or providing employment</th>
<th>Services Directly</th>
<th>Indirectly Benefit</th>
<th>Seeks to employ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chronically unemployed</td>
<td>15</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Ex-offenders</td>
<td>15</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Experiencing or coming out of homelessness</td>
<td>16</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Individuals with a physical disability</td>
<td>12</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Individuals with cognitive disability</td>
<td>13</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Other social enterprises/organizations</td>
<td>11</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>People facing financial hardship</td>
<td>24</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>People in poverty/disadvantaged areas</td>
<td>30</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>People struggling by vulnerable immigrants</td>
<td>10</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>People with mental illness</td>
<td>16</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Seniors seeking to maintain independence</td>
<td>10</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Substance abuse</td>
<td>11</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Young parents in need</td>
<td>8</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Young people leaving care</td>
<td>5</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Young people/children</td>
<td>14</td>
<td>15</td>
<td>4</td>
</tr>
</tbody>
</table>

*Table 4: Populations served by the organizations*

The study also finds that one of the ways these organizations are serving the marginalized population is through actively providing employment opportunities. Further, these services and gainful employment have a ripple effect through indirect benefits and impact to other social enterprises, young children and the families of the primary beneficiaries.

Overall, this gives us insight into the fact that these social enterprises have a greater reach, engagement, and accountability to the communities in which they are currently operating.
Financial Viability

In addition to understanding the social enterprises community impact, the survey narrowed in on each organization’s financial viability. To best understand how the social enterprise respondents business capacity linked with social performance, we created the Financial & Social Viability Grid, which highlights the social enterprises’ financial and social strategy for those organizations that made a profit or broke even in 2017. This section will further explore the importance of 1) a steady earned income stream and primary methods for revenue generation, 2) grants as a key to success, 3) size and scope of operating expenses, 4) organizations that lost money, 5) current sources of capital funding, 6) anticipated need for financial investment, and 7) use of impact investments.

Financial & Social Viability Grid

Throughout the survey, respondents were asked to provide specific information related to the social enterprise’s financial viability and social impact. To best understand the data, we separated the social enterprises based on whether the organization made a profit, broke even, or made a loss in 2017. We then matched the organizations that made a profit or broke even with their financial strategy of 1) no expected financial return, 2) below market financial return, 3) market rate financial return, or 4) above market financial return. Then, we combined the financial data with the reported social impact strategy of 1) some social impact, 2) modest social impact, 3) significant social impact, and 4) high social impact. From this data, we can generalize that social enterprises are more likely to break even or make a profit when employing a significant to high social impact strategy and a market rate or above market rate return financial viability strategy. As reflected below, the data shows four organizations that made a profit in 2017 with a high social impact strategy and no expected financial return. These four organizations are successfully reliant on grant funding to run their businesses. As discussed in the next section, the survey results show that grant funding is still key to running a financially viable social enterprise when paired with steady earned income and the right impact investments.
Although it is possible to rely solely on grants, it is not a sustainable financial model for most social enterprises. The survey results show that obtaining grant funding is one of the top three challenges for most social enterprises regardless of age of the organization or stage of development. Thus, social enterprises that combine earned income, philanthropic investments, and grant funding together are more likely to end up in the upper right corner of the Financial & Social Viability Grid.

Steady Earned Income Streams & Primary Methods for Revenue Generation

For 2017, 100% of the respondents reported that the social enterprise is making earned income; however, earned income alone does not mean the social enterprise earned a financial surplus or profit. The organizations that reported an earned profit or surplus included merely six percent (6%) of the overall sample. Twenty-four percent (24%) of social enterprises reported that earned income covers all of the operating expenses but does not make a surplus or profit, thus breaking even through earned income. And, seventy percent (70%) of the social enterprise respondents reported that earned income covers a portion of the organization’s operating expenses. Overall, only twenty-eight percent (28%) of organizations made a loss in the recent year (2017), so although 70% are not breaking even through earned income, the organization must leverage other methods of income to at
least cover the operating expenses. The survey data did not reflect a strong pattern across the different developmental stages or ages that could help predict whether steady earned income is tied to maturity of the organization. Overall, these statistics raise a warning for nonprofits that are looking to establish social enterprises for an earned income stream that adds financial gains to the overarching organization. As only 6% of social enterprise respondents reported a profit or surplus through earned income, it is likely that most social enterprises require external income sources (whether impact investments, grants, or donations) to balance the financial statement.

Diving deeper into earned income, the survey asked the respondents to share the organization’s primary methods for revenue generation. The respondents could choose more than one revenue stream with the options of: Fee-for-service; Products, Manufacturing, Sales or Resale; Services (commercialization of a skill or expertise to a market willing and able to pay); Membership Dues; Tangible Assets; Intangible Assets; Investment Dividends; and Unrelated Business Activities. Overall, the top three methods for generating revenue included Products, Manufacturing, and Sales (32%), Fee-for Services (27%), and Services (23.7%). The next closest method is Tangible Assets (8.47%), which due to the real estate climate in Metro Denver continuing to climb upwards, the data suggests that this is a potential area of opportunity for impact investments, particularly related to collaborative workspaces and affordable housing. In addition to determining the top three revenue generation methods, the survey data reflects that organizations employing only one revenue stream were more likely to make a profit than the organizations that employed one or more revenue streams. This is likely because the social enterprise is perfecting the focused revenue stream rather than trying to “boil the ocean.”

Grants are Key to a Successful Social Enterprise
In addition to earned income, the twenty-five (25) organizations that broke even or made a profit in 2017 received capital from the following sources: grants and donations (8 organizations); grants and donations, and low interest loans (6 organizations), and more than three capital sources (11 organizations). This finding shows that grants and donations remain a very significant capital source for social enterprises in addition to other capital sources. On average, organizations that made a profit or broke even received capital from the following sources:
- Grants from Foundations (64%)
- Individual Donors (15%)
- Nonprofit Social Investors (including Program Related Investments, Mission Related Investments, and Community Development Finance Institutions) (10%)
- Banks (5%)
- Other investors (6%)

Thus, there is a trend towards utilizing capital resources other than grants and donations and personal assets to provide social enterprises with the appropriate resources and financial viability. Yet, obtaining and attracting investment remains a top five challenge for most of the social enterprise respondents.

The Size and Scope of Operating Expenses
The substantial findings for the social enterprise respondents’ operating expenses reflect that nine (9) organizations had operating expenses of under $100,000 annually; sixteen (16) organizations had operating expenses between $100,000 and $1,000,000, and twelve (12) organizations had operating expenses over $1,000,000. From the soul searching to maturity phases, organizations reported varying operating expenses across the board; however, most organizations with an operating budget of over $1,000,000 classified the social enterprise as within the Expansion or Maturity phase of development.

Focusing in on the nine (9) social enterprises that reported a loss for 2017, the operating budgets were varied: three organizations had operating expenses under $100,000; three organizations had operating expenses between $100,000 and $500,000; and, three organizations had an operating budget over $1,000,000. Thus, none of the social enterprises operating within the $500,000 to $1,000,000 reported a loss for 2017. Therefore, it is likely that social enterprises operating within the $500,000 to $1,000,000 operating expenses budget may be more likely to break even or make a profit, and pay off a low interest investment loan from a community foundation.
Anticipated Need for Financial Investment

Sixteen (16) social enterprise respondents reported that the organization made a profit/surplus in 2017, and predict making a profit/surplus in 2018 and 2019. From those organizations, nine (9) organizations reported that additional external financing to grow the business is required, even though the social enterprise has a steady level of earned income. For most of these social enterprises, the operating budget is over $500,000 annually. Additionally, most of these social enterprises are over ten years in age.

37% of social enterprise respondents reported that they do not believe the organization is leveraging the right financial capital to achieve the organization’s social mission. Similarly, obtaining grant funding is a top challenge for all social enterprises, regardless of age or stage; yet, it is an important source of income for many nonprofit social enterprises who haven’t yet created a sustainable business through earned income.

Use of Impact Investments

In Metro Denver, Program Related Investments (PRI) and Mission Related Investments (MRI) are leveraged by twenty-nine percent (29%) of all social enterprise respondents (See Figure 4 below). Additionally, MRI and PRI investments are mostly used by more mature organizations. Out of the ten organizations that are leveraging MRI/PRI investments, six are over the age of fifteen years.

- Average Size: $346,111
- Average Duration: 5.8 years
- Average Interest Rate: 1.50%

Note: this analysis excludes one organization that was found to heavily skew the data on account of receiving a very high PRI investment amount.

Figure 4: Non-traditional financing options
Removing one outlier of a $6,500,000 impact investment loan, the average size, duration, deal flow time, and interest rate reported are indicated below:

- **Average Size**: $346,111
- **Average Duration**: 5.8 years
- **Average Deal Flow Time**: 3 months
- **Average Interest Rate**: 1.50%

Of course this statistic also shows that seventy-one percent of social enterprise respondents are not utilizing PRI or MRI investments for their businesses. This is likely due to the fact that most of the social enterprise respondents (64%) are heavily reliant on grant funding to run the business; however, as obtaining grant funding remains the number one challenge for these social enterprises, the findings suggest that as grant funding grows more sparse, social enterprises will look to PRI and MRI impact investments to help grow the business. In speaking with respondents through qualitative interviews, three CEOs/Executive Directors discussed the potential use of an impact investment for large business expenses like building expansion or purchase, key executive hires, and development of a new product or service. For day-to-day expenses, these impact investments are less sought out; however, if balanced with steady earned income, PRI and MRI investments are an affordable way for social enterprises to grow their businesses without taking out a market rate loan. Additionally, MRI and PRI investments are “patient” capital because the investments typically allow for an extended period of time (compared to a traditional bank loan) to pay off the principal balance. As MRI and PRI investments become more familiar within the social enterprise realm, community foundations and impact investors across Colorado have employed the Pay-for-Success models as well as Convertible Investments. Under the Pay-for-Success models, if certain social outcomes are achieved by the investee over the course of a specified time period, either the government (public) or donors (private), instead of the social enterprise, will pay back the investor for its initial contribution. With convertible investments, the PRI/MRI low interest loan prevails unless the social enterprise meets specific social outcomes, in which case the loan converts to a grant. Although these types of investments were not reported in the survey, the Metro Denver region is experiencing an uptick in these more customizable and impact-oriented approaches to impact investing.
The Denver Foundation should consider leveraging its Donor Advised Funds (DAFs) to employ a private Pay-for-Success impact investment, or utilize Convertible Investments for current grantees who are financially credible for an impact investment but also have the ability to create high to significant social impact.

Another opportunity for impact investments in the Metro Denver Region includes guaranteeing a loan through a traditional bank or lending institution (like a CDFI or MicroFinance Institution). This type of impact investment provides the social enterprise with access to a line of credit, and The Denver Foundation with a low risk investment. For best practice, The Denver Foundation should consider the earned income levels of the organization to assess its ability to pay off the principal balance of the guaranteed loan once it becomes due.

Capacity Building

Although ninety-four (94%) of respondents reported that they believe their organization possesses the relevant skill sets, connections, and aspirations to create a successful social enterprise, the organizations also report the following capabilities as weak: reacting to regulation and tax issues; making effective use of available technology; marketing, branding, and public relations, and measuring outcomes and impact. In contrast, when asked what support organizations would be interested in receiving for capacity building, all organizations ranked reacting to regulation and tax issues as the least important support factor. Thus, although it is a challenge for the social enterprises, it is not a top priority for growth.

As organizations with a double bottom line, social enterprises face the challenge of prioritizing the urgent demands of the communities they serve while also trying to run a successful business. Thus, it is unsurprising that social enterprises require both financial and non-financial capacity building investment; however, this dual approach is not often the norm. When asked to rank what capacity building support is most important to the social enterprise’s growth, the respondents were consistent in their answers. The social
enterprise respondents reported that the following needs are the most important areas for support by stage of development:

- **Soul Searching**: Developing and Implementing a Business Plan and Strategy;
- **Growth**: Financial Management
- **Expansion**: Measuring Impact and Outcomes
- **Maturity**: People Management and Human Resources

Overall, the social enterprises reported that the top five capacity building needs of organizations, regardless of age or stage, include:

1. Financial Management;
2. Marketing, Branding, and Public Relations;
3. Developing and Implementing a Business Plan and Strategy;
4. Measuring Impact and Outcomes; and
5. People Management (HR).

These key areas are significant to social enterprises' growth trajectories and are support factors that investors can help with by filing an advisory role in the business. Additionally, if these key areas are focused on for most of the social enterprises over the next five years, investors can likely expect significant expansion opportunities for the social enterprise.

**Biggest Obstacles Facing the Social Enterprise**

When asked what are the most important to least important obstacles facing the social enterprise for sustainable growth, the respondents answered as follows, by stage of development:

- **Soul Searching**: Obtaining Grant Funding (1st); Recruiting Staff (10th)
- **Growth**: Time Pressures (1st); Cost of Premises (10th)
- **Expansion**: Obtaining Grant Funding (1st); Cost of Premises (10th)
- **Maturity**: Obtaining Grant Funding (1st); Cost of Premises (10th)

Overall, obtaining grant funding is a top three obstacle for social enterprises regardless of age or stage of development. Additionally, obtaining debt or equity financing ranked
number five (#5) overall. Therefore, finding the right capital source and type of investment is a difficult obstacle for most social enterprises. To help bridge that gap, investors and community foundations might consider attributing some resources to help build capacity and ready social enterprises for impact investments.

Factors for Growth and Sustainability
In addition to learning the obstacles, challenges, and key areas of support for social enterprises, the survey also asked the respondents to rank the top factors that are most important for the organization's growth and financial sustainability over the next five years. Overall, the respondents answered that the following factors are most important for growth and sustainability:

1. Organizational Culture
2. Talent Retention
3. Demand for Products and Services
4. Consistent Grant Funding Year-to-Year
5. Sustainable Revenue Model

To support the finding that organizational culture and talent retention are significantly important to the organization's growth and sustainability, 97% of organizations reported that the organization is leveraging the right human capital to achieve the organization's social mission. Age or stage do not alter these findings.

When analyzing an investment, investors should look for high-performing (or the potential for high-performing) organizational capacity in these five key factors of growth and sustainability.

Measuring Impact
When asked to rank the organization's ability to effectively measure impact, the social enterprises were presented with a scale from one (inability to measure impact) to ten (highest ability to measure impact). The lowest score an organization reported was a 3/10 and the highest score was 10/10. Overall, the mean organizational rank of measuring
impact was 7/10. This finding is supported by an “I believe” statement where twenty-six percent (26%) of respondents expressed that the organization did not have the appropriate tools for measuring impact and outcomes. In contrast, 97% of the organizations believe that they have a clear strategy to achieve the intended impact. Thus, there is a gap between the ability to achieve impact and appropriately measure the impact.

These findings are important to impact investors because a portion of the expected return on investment is made through the organization’s social impact achievements. As a leader in the social enterprise and impact investing space, The Denver Foundation and Social Venture Partners might consider developing a universal tool that provides the investees with the appropriate metrics and ability to effectively measure impact across stages of development.

Limitations & Implications

Why Not Take an Impact Investment?

As mentioned above, the study found out that 29% of all respondents are currently using these investments as one of their financing options (figure 4). The study also found that 91% of these organizations either are able to broke-even or make profits in the last financial year. Another interesting data point this study found was that the organizations’ interest and capacity to consider non-traditional financial option is relatively significant as the organization progresses on the developmental phase (ages and stages) continuum.

It was also interesting to learn from interviewing a few of these organizations, CEOs and Executive Directors, that they consider non-traditional investment options as low interest loan investments that are most useful for important, big ticket projects such as building expansion, key executive hires, and developing a new product or service. While these types of investments can be categorized as a patient capital for social enterprises, these investments are least commonly sought for carrying out routine, day-to-day expenses.
While the majority of the respondents from this study are currently replying on grants and donation whilst have reported difficulty in obtaining it, leveraging finance through these non-traditional investment route can be a promising alternate.

Although the study sees a trend towards social enterprises leveraging this patient capital over the traditional grant reliance strategy, the study also found out that 48% of these organizations, although are resource constrained, also grapple with either the knowledge of appropriate financing, its cost, or lack resources to explore this option (table 5).

Can foundations and investors respond to these needs and challenges?

To bridge gap this challenge and complete the deal flow process, it is imperative for foundations and investors to reach out and educate social enterprises with appropriate knowledge and skills in order to influence their financing practices favoring non-traditional investment options.

To meet the end goal of this transformative sector - addressing the societal needs require a public partnership model wherein the government, foundations and social enterprise work in tandem. To overcome issues and challenges that delay the growth of social enterprises, foundations can engage in dialogue with the government and propose creating policies and incentives to benefit these organizations. The study finds that although these organizations are leveraging right human capital to achieve their social mission, a third of these organizations hold a belief that their financial capital strategies do no align with the social mission, and more than half of these organizations are not using proper government resource. Regardless of the organizations’ developmental stage or their age, these findings

**Table 5: Reasons for not seeking an impact investment:**

- Do not know where to find appropriate financing (18.60%)
- Cost of financing (16.28%)
- Time pressures/lack of resources (13.95%)
- Lack confidence and skills to take on financing (11.63%)
- Wrong timing (9.30%)
- No financing required (6.98%)
- Thought you would be rejected (6.98%)
were found to be consistent throughout the survey. In addition to being responsiveness to these needs, the study also found that two-third of these organizations are either unsure or have a belief that their organizations are not adequately prepared to respond to any unforeseen events that can create immediate or dire needs among your target population.

Overall, these findings assert that organizations have multifaceted needs within the realm of financial and non-financial investments. For being responsive to these needs require foundations and investors to consider “one window approach” and offer customized support to the organizations based on their developmental stage/age. As the priority and needs of these organizations evolve as they grow, it would be beneficial for foundations and investors to seek ways that can augment organizations’ knowledge and practices related to financial and non-financial aspects.

**Limitations of the Study**

This study aimed to understand the social enterprise sector from the investees’ perspective within the Metro Denver region. In the absence of any previous survey or research on this targeted market, the study’s findings are limited only to one year with no comparison to the previous years. Future research, once in three years, should focus on understanding the needs and expectations of these organizations in order to analyze trend and shifts in the social enterprise movement.

Also, this study was undertaken for a specific targeted segment, Metro Denver region, as well as enterprises that fall into the four key focus areas of The Denver Foundation. Therefore, these findings are limited, and cannot be generalized to a larger population of organizations that are either operating within the targeted segment or have focus area other than the ones focused by The Denver Foundation. A food for thought for future research could be to undertake a larger study by collaborating with other foundations, investors, and government agencies to look at the overall landscape of the social enterprise within the targeted segment or at the state-level.

The design of this study does not test for any interdependencies between variable factors that could possibly impact the overall outcome of the social enterprises. The absence of any available quantitative scale or construct for measuring the effectiveness and efficiency of social enterprise also limits this study from statistically correlating or predicting
relationship between and within developmental stage or age groups. Future researchers can create an equation or a regression model that can correlate and/or predict the outcome of social enterprise from the given available inputs/resources.

As the study finds that 60% of the respondents have reported broke-even or profits in their last financial year, future research can further deep dive into such organizations and identify conditions under which these organizations are thriving.

It might also be worthwhile to undertake future research and understand perceptions of government agencies along with the existing policies and incentives for social enterprises that can impact the development of this sector.

There is a general belief that the society is benefited from the work of the social enterprises. However, to create a level playing field for every individual in the society, adequacy of resources and support to the disadvantaged and marginalized population need to be accelerated. A key point here is to assess and measure the real impact of the overall sector through tracking the quality of life of the beneficiaries in the society. Large-scale research related to understanding the impact of social enterprises on the beneficiaries, and how effectively these organizations can address the unmet needs of the beneficiaries is extremely limited.
Appendix 1: Survey respondents

access
gallery

PRODIGY
coffee
house

GROWHAUS

WOMEN’S
BEAN PROJECT-

GRASP

Project
Angel Heart

The WILD

CSM LEARN
High Performance, for everyone

earthlinks
COMMUNITY ENDS ISOLATION

Hands of the Carpenter

Colorado Consumer Health Initiative

ART RESTART
A social enterprise of The Gathering Place

HUNGER FREE COLORADO

the center
Networking East Colorado

Colorado Enterprise Fund

COMMUNITY
DEVELOPMENT
SERVICES

Bayaud Enterprises
Employment Matters

Intercambio
UNITING COMMUNITIES
Communicate, Connect and Succeed

CEDS
COMMUNITY
DEVELOPMENT
SERVICES

Senior Housing Options
INCORPORATED

EXTREME COMMUNITY MAKEOVER

namasté
SOLAR

CoMAL
Heritage Food Incubator

learning source
SINCE 1994

WorkLife
更好的工作。
更好的生活。

Doctors Care
DoctorsCare.com