

The Social and Economic Value of Private and Community Foundations*
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An Analysis by Erin Brackney, OneStar Foundation

Groundbreaking report proposes a new nonprofit metric through analysis of the return on foundation investments.

A Fresh Approach

In a climate where operating budgets and overhead dictate how nonprofits' benefits are measured, authors Robert Shapiro and Aparna Mathur challenge readers with a fresh approach: measuring the impact of the nonprofit sector through social and economic outcomes. Considered the first wide-ranging estimate of its kind in the U.S., Shapiro and Mathur's report – titled "The Social and Economic Value of Private and Community Foundations" – examines the return on investments made by U.S. private and community foundations in 2007.

Traditionally, the corporate sector has calculated the rate of return (ROR) or return on investment (ROI) to communicate a firm's effectiveness in generating profit from capital. Using similar analysis, this report introduces a powerful new nonprofit metric – social profit. Shapiro and Mathur compared the rates of return for investments in nonprofit activities across 11 broad nonprofit categories and various subcategories. Their survey of literature included over 90 reports and evaluations on the social and economic return of nonprofit activities and a representative sample of over 1,263 U.S. private and community foundations.

"...On average, each dollar that private and community foundations provided in grants and support in 2007 produced an estimated return of \$8.58 in direct, economic welfare benefits." (Shapiro & Mathur, 2008)

While the estimated ROI of nonprofit activities varies across grant categories, the authors found that "on average, each dollar that private and community foundations provided in grants and support in 2007 produced an estimated return of \$8.58 in direct, economic welfare benefits." Therefore, the \$42.9 billion invested in nonprofits by private and community foundations produced a ROI estimated at \$367.9 billion in benefits to individuals and communities.

Estimated Value of the Direct Benefits of Private and Community Foundation Activities, By Category, 2007 (Shapiro & Mathur, 2008)

Category	Share of Total Grants and Support, 2006	Projected Grants and Support, 2007	Estimated Return on Investment	Value of Direct Benefits
Arts and Culture	0.12	\$5,226,392,067	9.77	\$51,044,431,513
Education	0.23	\$9,660,143,940	5.08	\$49,034,044,415
Environment and Animals	0.06	\$2,568,880,545	6.72	\$17,258,127,318
Health	0.23	\$9,858,394,845	7.60	\$74,922,982,437
Human Services	0.14	\$5,935,713,580	10.91	\$64,730,079,576
International Affairs	0.05	\$2,287,649,706	1.00	\$2,287,649,706
Public Affairs/Society Benefit	0.11	\$4,582,058,679	22.04	\$100,999,672,814
Religion	0.02	\$926,409,978	1.00	\$926,409,978
Science and Technology	0.03	\$1,235,175,914	4.96	\$6,126,867,646
Social Sciences	0.01	\$581,238,668	1.00	\$581,238,668
Other	0.00	\$37,939,837	1.00	\$37,939,837
Total	1.00	\$42,899,997,759	8.58	\$367,949,443,908

Direct and Indirect Benefits

The authors found that all categories of foundation activity produced returns at least equal to their support, with seven of the ten categories producing an estimated ROI of 5:1 or more. Most significant was their finding that \$4.6 billion in foundation grants and other support for Public Affairs/Society Benefit activities (representing a 10.7% share of all foundation support) produced an estimated \$101 billion in benefits – a rate of return of over 22:1. Other categories with extremely high returns were Human Services, Arts and Culture and Health, with returns of 10.91, 9.77 and 7.60 respectively. The types of benefits analyzed in the ROI calculations varied depending on the grant activity, but overall, they encompassed “...many hard-to-measure economic and social effects...” that foundations sought to improve through support provided. Examples include the number of people assisted combined with the estimated cost savings for in-home care of the elderly rather than hospitalization, the increases in household income and assets resulting from assistance to low-income women or the benefit in increased salaries from participation in job training, case management and job placement services and support.

Although Shapiro and Mathur focused primarily on the direct social and economic benefits generated by foundation investments, they also discussed the significant indirect benefits generated from foundation activities. They found that every dollar extended through a foundation grant also produces indirect economic benefits such as increased employment and incomes for the beneficiaries of these private and community foundation activities. Moreover, this income increase has a “multiplier effect” – the spending by those who gained jobs and additional income stimulates additional job creation and income for suppliers of the goods and services consumed by the initial beneficiaries. This economic activity and job creation also generates added revenue for federal, state and local government through property, income, state and city taxation. Much like the direct benefit calculations, these indirect benefits vary substantially across grant areas.

However, overall “...the authors found that the \$42.9 billion in foundation support in 2007 helped to generate nearly \$512 billion in additional household income and some \$145 billion in additional government revenues.” The report criticized the practice of policy makers targeting the tax-exempt status of foundations and the nonprofits they support in search of new revenue sources. Shapiro and Mathur presented substantial evidence that foundation support actually creates exponentially greater revenue – equal to at least three times the estimated tax monies forgone from these exempt entities.

“...The \$42 billion in private and community foundation support in 2007 led to \$511.9 billion in additional household income, through various multiplier effects, and additional tax revenues of \$61.9 billion for the federal government, \$44.7 billion for state governments, and \$38.8 billion for local governments.

(Shapiro & Mathur, 2008)

A Call to Action

Shapiro and Mathur's work represents a call to action not only for foundations, but for the entire sector to reclaim the definition of effectiveness away from outdated discussions of operating budget and overhead. Today, the term “nonprofit” must be replaced by a new metric of impact: social profit. Nonprofits, foundations, government, corporate sector stakeholders and volunteers each have a role in collaborating, investing in, evaluating or communicating to maximize the social and economic benefits of the nonprofit sector. By redefining this standard of measurement together, we can increase our collective impact – not just to strengthen the nonprofit sector's infrastructure or provide a higher quality or scope of services to those in need, but to make revolutionary strides in addressing and solving challenges now and for generations to come.

Full Citation:

*Shapiro, R.J. & Mathur, A. (2008). *The social and economic value of private and community foundations*. Washington, D.C.: Sonecon, LLC.