1. Introduction

If you’re ever in Stockholm, Sweden you should visit the Vasa Museum (Vasamuseet in Swedish). It is one of Stockholm’s most popular tourist attractions and one of the most popular museums in Europe. The museum was built for the sole purpose of displaying the reconstructed warship Vasa and educating the public about Swedish life in the 1600s and the circumstances surrounding the sinking of the Vasa (Vasa Museum, 2016). That story serves nicely as a metaphor for understanding the finances of social purpose organizations.

The Vasa was a wooden warship, built during the 30 Years War of 1618–1648 after Sweden lost a dozen ships and needed new vessels to support King Gustav II Adolph’s military campaign in the Baltic. The Vasa was the largest ship in the history of the Swedish fleet, with an extra cannon deck that the king himself had ordered during its construction. On August 10, 1628 the Vasa left her mooring at the royal palace for the first time, with 130 crewman and wives on board (for the celebration). It sailed some 1300 meters out toward the sea before a gust of wind caused it to heel over to its port (left) side. Water poured through the open cannon ports and the ship sank in the 32 meters deep channel of Stockholm harbor; 53 lives were lost. Hearings were held following the disaster but no precise cause was found and no one was held accountable. It was not until 1961 that the Vasa was successfully salvaged. The salinity of the water and the shelter of the harbor had preserved its remains to a remarkable extent (Fairley, 2016). The ship was reconstructed over time and the Vasa Museum built around it, adjacent to the harbor (Vasa Museum, 2016).

A variety of factors seem to have contributed to the sinking of the Vasa (Fairley, 2016) including an escalation of size and armament requirements, lack of knowledge about how to build such a large and innovative (two-gun deck) ship or calculate its stability and performance characteristics, and management and planning problems including failures of communication and accountability. In retrospect, however, the physics of the Vasa just didn’t add up. In essence, the Vasa took on an ambitious new mission as the largest and mostly heavily cannoned warship to date, without the proper foundations. The Vasa was top-heavy with an extra cannon deck but not enough ballast to maintain its stability. Nor, given its design, could
it have added enough ballast without compromising its mission. In particu-
lar, adding the required ballast would have pulled its lower cannon deck
below the waterline.

SHIPWRECKS AND COURSE CORRECTIONS

What does the Vasa story have to say about the finances of social purpose
organizations? For one thing, the great success of the Vasa Museum is
a tribute to its inspired conception and economic support structure. Its
mission was very clear and compelling from the start, allowing it to sustain
itself on fee revenue, with a small margin of grants funding and sponsor-
ships from public and private sources (Persson, 2016; Swedish National
Maritime Museums, 2016). (The museum is overseen by the Swedish
National Maritimes Museums, along with two other museums but stands
largely on its own financially.) That coordination of mission with sources
of financial sustenance is a central theme of this book. For another, the
Vasa’s sinking parallels the dangers of trying to achieve a mission without
the requisite financial foundations in place. Far too many important social
purpose organizations have floundered in recent years and many have
indeed sunk while others have had to trim their sails or change course.
Here are just a few examples:

In July 2016 the Arizona Theatre Company announced that it would close its
doors if it could not raise an additional $2 million to finance the 2016–2017
season. An appeal to donors was sufficiently successful to keep the doors open
(Hijazi, 2016; Arizona Theatre Company 2016).

Architects for Humanity was founded in 1999 and grew to $12 million in
revenues by 2012. AFH became recognized, receiving the TED prize and
providing leadership in the open architecture movement. But it had serious
funding challenges, relying almost completely on donations and experiencing
budget overruns and declining donations in recent years. In 2015 it filed for
bankruptcy (Lecy and Searing, 2016).

You Gotta Believe is a homeless prevention program for youth in foster
care in New York City and Long Island. Until 2015 it received 40 percent
of its annual $700,000 budget under contract with NYC’s Administration
for Children’s Services (ACS). In 2015 ACS enacted severe cuts, reducing
YGB’s government support to 10 percent of its budget. The shortfall threat-
ened YGB’s viability. However, an online petition by a well-known radio host
and a playwright on change.org resulted in an annual fundraising event called
Voices for the Voiceless that secured $500,000 for YGB in its first year. YGB also implemented a new fee for service model for some of its programs. YGB staff and board are now optimistic about the future, under its new finance strategy (Schaffer, 2016).

The National D-Day Memorial in Bedford, Virginia, opened in 2001 in the town that suffered the most casualties per capita in the D-Day invasion. The private foundation that supports the memorial has struggled financially since its inception, with donations, admission fees and endowment returns failing to keep pace with debt from construction and operating costs. The Memorial seeks to be taken over by the National Park Service (Dunn, 2014).

In 2013 Cooper Union, the esteemed private college established by industrialist Peter Cooper in 1859 to provide quality education in science and the arts for talented students regardless of economic circumstances, faced a traumatic financial crisis that led it to impose tuition fees for undergraduates, breaking a century-old tradition (Kaminer, 2013).

After liquidating its depleted endowment in 2009 to cover costs, the New York City Opera filed for bankruptcy in 2013 and closed its doors after 70 years of operation. The Opera faced mounting debt after years of deficit operations, borrowing from endowment and failure to raise new funds or collect on pledges (Stewart, 2013).

In 2012, Hull House, the venerated settlement house/social services organization established by Jane Addams in 1889, closed its doors as a result of bankruptcy stemming from chronic deficits and failures to control costs and establish sustainable revenue streams (Cohen, 2012).

In 2009 the Shriners Hospitals, after having lost substantial value in its endowment and facing chronic deficits, considered closing six of its hospitals. In 2011 the organization modified its 89-year-old policy to provide free specialized care to children by deciding to collect insurance payments (Osby, 2013).

WCLV was established in 1962 by two co-owners as a commercial radio station licensed to broadcast classical music in northeast Ohio. As classical commercial radio stations disappeared from radio spectra across the country under competitive pressures, WCLV continued to focus on its stated mission to keep classical music on the radio. As the owners grew older, they searched for a way to maintain this mission in perpetuity. In 2001 they worked with the Cleveland Foundation and the local (nonprofit) public radio
and television organization in Cleveland, called Ideastream, to establish the WCLV Foundation, a new 501(c)(3) public charity to which they donated WCLV. Later, the foundation was closed and WCLV was transferred to Ideastream as one of its in-house programs (Lewis, 2012).

In 1998 Joan Kroc gave $90 million to the Salvation Army to build a comprehensive, luxurious community center in San Diego. Based on this model, Ms. Kroc left $1.8 billion in her estate in 2003 for the SA to build thirty more such centers around the country. The bequest paid for construction costs and an endowment to cover operating costs. However, the value of the gift was arguably insufficient and its value was substantially depleted by the recession of 2008–2009, requiring major additional local fundraising efforts in the cities where the new centers were to be located. Two centers were cancelled but by 2014, 25 were operating and total of 28 were scheduled for completion (Strom, 2009).

In 2008, the Milwaukee Shakespeare theater company went out of business after the Argosy Foundation, the principal funder of its $1.3 million operating budget, declined to renew its sustaining grant. Argosy, a family foundation, faced a cash shortage as a consequence of the national financial crisis and recession (Milwaukee Journal Sentinel, 2008).

In 2007 New York State eliminated its funding for zoos, botanical gardens and aquariums; this along with reduction in support by New York City and lagging earned revenues as a result of recession caused severe financial distress for the New York Botanical Garden in the Bronx. The NYBG cut its operating budget by 12 percent, laid-off staff, canceled several programs and delayed construction of its new parking garage. With a well-diversified income portfolio, NYBG was able to weather the storm, restored its programming and regained its financial footing by 2010 (Pogrebin, 2009).

Ben & Jerry’s was established as an ice cream store in 1978 by Ben Cohen and Jerry Greenfield with the intent of pursuing a “double bottom line” of profits and social benefits generated through socially responsible workforce, environmental and agricultural practices. The company was established as a for-profit corporation with a board of shareholders including the entrepreneur–owners. In 2000 the company was bought by Unilever, a multinational consumer goods corporation. Controversy followed as to whether Ben & Jerry’s had abandoned its social goals, whether it was required by corporate law and market forces to sell out, and whether the social purpose activities and practices it had pioneered would continue under the new ownership (Page and Katz, 2012).
It should come as no surprise that many contemporary nonprofit and other private social purpose organizations (SPOs) face serious financial challenges and conflicting economic pressures. Many of the foregoing cases are large organizations, prominent enough to draw media attention. Yet it is well-known that small and young organizations are especially vulnerable. Social scientists call this the “liability of newness,” a condition of particular concern in the social sector, given the recent growth of social entrepreneurship, new forms of social business and the continued proliferation of nonprofit organizations (Lecy and Searing, 2016).

Social purpose organizations, small and large and mid-sized – social service agencies, schools, health care organizations, arts institutions, policy advocacy associations, environmental groups, socially-oriented businesses and cooperative enterprises – are asked to perform a delicate balancing act: achieving a social mission while sustaining themselves economically. Devoted to their social missions, they have limited leeway in pursuing financial success at the expense of mission; required to break even or face financial ruin, they are also chastened to pursue their missions with suitable restraint and risk tolerance. The tensions that result from this situation can manifest themselves in a variety of ways, sometimes exploding in spectacular fashion as some of the above cases demonstrate. Indeed, even some of the most esteemed organizations, such as Hull House, Shriners Hospitals and Cooper Union have been severely distressed financially in recent years. Some such as Hull House and the New York City Opera have succumbed to the pressures. Others, such as the New York Botanical Garden, WCLV and the Salvation Army have demonstrated their resilience under fiscal stress. Indeed one may argue that the tension between mission and financial sustainability experienced by social purpose organizations can also be a source of strength. Unlike conventional businesses, SPOs are normally not solely dependent on market sales. Managed smartly, they can take advantage of other sources of finance from parties that support their social missions. That indeed, is the prime message of this book, and the basis of effective financing strategy for social purpose organizations.

Of course, the causes of financial distress are not simply financial. Economic circumstances change over time – both in terms of cost factors and changes in demands for services, leadership and governance failures abound, and missions become obsolete. Organizations ranging from Drexel University (Paul, 2008) to the New-York Historical Society (Guthrie, 1996) to the New York City Opera (Levy, 2015) to Hull House (Cohen, 2012) are replete with management, governance and strategic failures and even corruption. Every SPO has its own story to tell. Nonetheless, generating sufficiently robust sources of income to support the chosen mission is always critical, and poor choices of income strategy constitute a
common factor associated with an SPO’s inability to make ends meet or to grow. Moreover, as emphasized in this book, the opportunities for income development vary from organization to organization. Given competent management and governance as prerequisites this book offers a guiding framework with a set of principles and income strategies that can be adapted to a broad spectrum of SPO circumstances. It is helpful, however, to begin with a working definition of a social purpose organization and some historical perspective on the financial context within which SPOs now operate.

SOCIAL PURPOSE ORGANIZATIONS

SPO is not (yet) a commonly used term. More usual designations include nonprofit organizations and social enterprises but these terms are too restrictive for the purpose here. As conceived in this book, SPOs are private organizations (separate from government and operating in a market economy) which include a social or public purpose as an integral and explicit part of their missions. This certainly embraces traditional nonprofit organizations and the various manifestations of what is now termed social enterprise. However, neither of the latter terms fully reflects the notion of SPO. For example, nonprofits that lack an earned income component are often excluded from consideration as social enterprises, while the term “social enterprise” is not always used in a way that encompasses forms such as sustainable businesses, public/private partnerships, socially-focused cooperatives or charitable nonprofits. While some scholars argue for an expansive definition of social enterprise (Young, Searing and Brewer, 2016) the term SPO is less fraught and more explicitly accommodating of a variety of organizational forms and international variations. The need for such more inclusive terminology stems from the historical evolution of market economies as understood by scholars and policymakers.

Fifty years ago, the economy of the United States, as well as those of other industrial democracies, was viewed simplistically as having two essential parts – business and government. Textbooks in economics and public finance ignored the presence of charities, associations, cooperatives and other mutual and public service organizations, and little consideration was given to businesses that pursued anything other than profits. Citizens, of course, realized that there was more to it than this, but they did not associate their churches, hospitals, schools, museums, orchestras, community centers, advocacy groups, social service organizations, or even grant-making foundations, with any cohesive “third sector” commensurate with business or government. Rather, such organizations were thought of
as charities, associations or community groups having little to do with one another, and supported primarily by charitable giving and volunteering. That conception began to change in the 1960s and 1970s in the U.S. when the federal government’s Great Society programs poured massive funding into nonprofit organizations for the delivery of social, health, education, arts and cultural and environmental services; when foundations came under attack for their social activism in civil rights and education; and when scholars began to take notice by formulating new theories of the nonprofit sector.

Still, the notion of the third sector consisting essentially of charities supported primarily by donations and volunteering persists, in the U.S. and elsewhere. Even in large contemporary established nonprofit organizations, development officers focus primarily on charitable giving from individuals and grants from foundations and corporations, giving short shrift to the broader picture of nonprofit finance as considered in this book. Similarly, in higher education, where a plethora of graduate and undergraduate programs in nonprofit management and social enterprise has blossomed over the past thirty years across hundreds of universities in the U.S. and abroad, the teaching of resource development primarily focuses on traditional (charitable) fund-raising for nonprofit organizations. Only recently have the concepts of “social entrepreneurship” and broader-based “social investing” infiltrated these curricula in a serious way.

CHANGES IN THE SOCIAL SECTOR

The reality of the third sector – what the management guru Peter Drucker liked to call the “social sector” – is much more complex than it was even thirty years ago – in at least two important ways. First, charitable giving, while it has grown in absolute terms, is now relatively a much smaller part of the overall finances of nonprofit or other social purpose organizations. Good numbers on this are hard to find because most estimates (in the U.S. at least) derive from tax data that have limited detail and fail to cover smaller organizations or churches. Still, the available numbers are striking. As recently as 1980 private donations constituted 34 percent of the revenue of philanthropic organizations, the rest deriving from fee income, government grants, and investments (Rudney, 1987). Even that statistic shows that many nonprofits were never just simple charities. However, by 2010 that number had declined to somewhere between 10 percent and 13 percent (Salamon, 2012; Roeger et al., 2012). Fee income from private sources alone currently constitutes half of nonprofits’ operating income, with fees and contracts from government accounting for another 24 percent.
This is not to argue that the charitable component of social purpose finance is no longer important. Indeed, the charitable share of nonprofit revenue is much higher in certain segments of the sector such as churches and the arts. Moreover, when a value is put on volunteering, the share of income from charitable support increases by roughly half (McKeever, 2015). Rather the point is that the primary focus on charitable fund-raising for nonprofit finance is misplaced and needs to be broadened to include other more abundant sources including fees for service and government support.

The second way in which social sector finance is more complex today than it was thirty or fifty years ago is that the sector itself has changed in important ways. In particular, scholars have highlighted the “blurring” of the sectors (Billis, 2010), wherein nonprofits are now much more engaged with business than they used to be, running their own commercial ventures for profit, as well as partnering with for-profit business in numerous variations of joint ventures and sponsorship and ownership arrangements (Cordes et al., 2009). Moreover, nonprofits themselves, while still dominant as a legal form, are no longer considered the only kind of private social purpose organization in the U.S. Indeed, the broader concept of “social enterprise,” once narrowly conceived in the U.S. as commercial activity carried out by nonprofits in service of their social missions, has become a much more inclusive idea – encompassing a variety of legal forms and arrangements (Young, Searing and Brewer, 2016). These include new for-profit entities such as low profit, limited liability companies (L3Cs), various types of “benefit” or social purpose corporations, so-called B Corps – for-profit companies certified by the nonprofit B Lab as meeting specified standards of social and environmental responsibility, as well as social purpose cooperatives and various types of public/private partnerships which often involve combinations of nonprofit, for-profit and government organizations. Although these for-profit and low profit alternatives currently represent only a small fraction of social purpose activity in the U.S., there are a growing segment of the social sector (Brewer, 2013) that cannot be ignored and indeed show considerable promise for addressing some of the chronic and intractable social problems of the present day, such as poverty, literacy and environmental degradation. Moreover, nonprofits per se, while growing in prominence in other parts of the world, are not necessarily as dominant elsewhere as they are in the U.S. The cooperative form, for example, has been adapted to social purposes such as work integration for marginalized populations in Europe and is an important structure for social enterprise in other regions as well. So-called “social cooperatives” are conceived as occupying the intersection of nonprofit organizations and member-serving cooperatives (Defourny and Nyssens, 2012). In some
countries such as Italy and Sweden the government provides substantial funding for social cooperatives (Kerlin, 2012). In the United Kingdom, the Community Interest Company (CIC), a newly devised hybrid nonprofit/for-profit form has made substantial inroads as a vehicle for social enterprise over the last decade (Regulator, 2010).

While this book concentrates largely on the financing of public benefit nonprofit organizations per se (designated as 501(c)(3) charitable organizations by the IRS in the United States), the blossoming of social enterprise and the blurring of the sectors favors use of the term social purpose organization (SPO) as the generic default. Clearly the financing of these various types of organizations encounters different sets of constraints, legal requirements and resource opportunities. However, they also share a challenge common to all entities with a social purpose that must sustain themselves financially in the market economy – how to support the provision of goods and services or ventures with social purpose, in a market context and a democratic society, where the market is geared to consumers shopping for private goods and investors seeking to gain from the profits of businesses in which they buy and sell shares or debt; and where government is drawn to the preferences of a majority while protecting minority interests. In this context, all SPOs must negotiate the margins of the marketplace where public benefits are symbiotic with profitmaking, where the niches of government programming may coincide with their particular social goals, and where the diverse philanthropic impulses that motivate generous individuals and charitable institutions can be rallied for support of their particular missions.

Taking this broad, generic approach to the finance of SPOs makes certain things immediately apparent. First, the marketplace, government and philanthropy are all imperfect mechanisms for pursuing social benefits through private organizations. The marketplace does not easily accommodate goods and services that cannot be sold for a profit, no matter how socially beneficial. Some connection between social purpose and private gain must be made in order for market revenues to support social ventures. Government does not automatically respond to socially beneficial projects either; who receives and who pays for those benefits matter and coalitions must be successfully assembled to enlist taxpayer support. And philanthropy can be a haystack of potential donors requiring careful sifting to match and engage donors of diverse preferences with ventures having particular social goals. Given the wide variety of missions addressed by SPOs, and the diverse potential mechanisms for their support, there is no simple financial formula that will suit all SPOs, or even all SPOs within broad categories such as social service or the performing arts. For example, consultants who may recommend a simplistic “one-thirds strategy” for...
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nonprofits – one third fees, one third government, one third gifts – are just flying by the seat of their pants.

FASHIONS IN FINANCIAL STRATEGY AND BENEFITS THEORY

Nonetheless, different financial strategies tend to come into fashion over time. In the heyday of the Great Society programs of the late 1960s and early 1970s, government financing of nonprofits in the U.S. expanded significantly in many different fields, including the arts, and securing government grants and contracts seemed the smart thing to do. Later, with the success of American Express’s sponsorship of the restoration of the Statue of Liberty and corporate support of the 1984 Olympic Games in Los Angeles, cause-related marketing became the rage and many nonprofits were encouraged to pursue this strategy. Following the examples of endowment managers at Yale, Harvard, Stanford and other large nonprofits in the booming 1990s, building an endowment became the strategy of choice for many nonprofits. More recently, social enterprise has entered the lexicon of SPO finance. Based on the relatively diminishing role of philanthropy and the proliferation of nonprofits and other SPOs since the 1990s, it was now thought that every nonprofit should commercialize its products and find ways to price and sell its mission-related services and engage in additional ventures that could turn a profit. Of course all of these strategies have a place in the arsenal of SPO financing options, but none constitutes a panacea. Paradoxically, however, neither is diversification of income sources necessarily a preferred strategy for every SPO or nonprofit organization. The issue of diversification is a complex one that will be discussed in Chapter 11. Suffice it to say here that an underlying theory is required to determine just how much an individual SPO’s income should be diversified and what its particular mix of income sources should be. That is the overriding goal of this book – to offer the “benefits theory” of SPO finance as a framework for choice of the sources and mixes of financial support for any given SPO.

There are two common aspects of SPOs on which the benefits theory is built: First, that all SPOs have social missions to which they are dedicated; accordingly, benefits theory is anchored in the pursuit of mission. This is important although it takes different forms for different types of SPOs. Nonprofit organizations are perhaps the most straightforward case. Nonprofits are established for the explicit purpose of achieving a social (charitable) mission and all of its resources must ultimately be dedicated to that purpose. Other types of SPOs such as social purpose businesses,
public/private partnerships and cooperatives often incorporate an element of (usually limited) profit distribution to those in control (members, owners or shareholders) and are concerned with private gain to some degree in addition to their social missions. This book is concerned primarily with the financing of the public aspects of the missions of SPOs in a manner that assures the organization’s economic viability. This does not restrict the analysis of SPOs that include a component of private benefit, but the latter is of interest only as it applies to helping support the SPO’s social mission.

The second common feature of SPOs on which the benefits theory is based is that almost all sources of support for SPOs are transactional in nature. Passive investment income which does not entail direct exchange of services or benefits, is arguably an exception although the sources of capital for such investments indeed often require transactions with donors or other sources (see Chapters 8 and 10). In this dimension benefits theory recognizes that all SPOs operate in the marketplace, broadly defined, and each must make ends meet in the most effective way. The transactional character is of course most obvious for SPOs that take the form of for-profit businesses that transact with their customers and investors. In the same spirit, cooperatives are engaged in transactions with their members, and in many cases the consumers of their products. Traditional nonprofit organizations are more subtle in this respect, but this is where the benefits theory makes its biggest contribution. Nonprofits do depend largely on fee income which generally derives from private market transactions. In addition, government support can take the form of grants or contracts, but in either case the funding agency expects something in return for its financial support. Gift income is even more nuanced, but understanding the interests and reciprocal expectations of donors, institutional funders and volunteers is critical to the securing of such resources as well. Overall, the “benefits” that SPOs offer, reflecting the preferences of their various resource providers (and the constituencies whom those providers seek to serve), are thus key to what they can negotiate for resources in return.

ORGANIZATION OF THE BOOK

The remainder of this book is organized as follows. The next chapter examines in greater detail the economic, political and social context in which nonprofits and other SPOs have operated in recent years – the patterns and trends that SPOs must understand and negotiate in making their decisions about sources of support. This context is dynamic and diverse, featuring various cross-currents stemming from changes in public policy, vicissitudes
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in the economy, changes in technology, fashions in management strategy, international differences, and new social problems and challenges, which in turn have affected the relative availability and perceived efficacy of different sources of economic support. However, unlike businesses and government organizations which tend to blow with the economic and political winds in pursuit of profits or votes, social purpose organizations presumably use their individualized missions as their compasses. As a result, SPOs tend to be resilient in the face of cross-currents and formulaic panaceas, and relatively steadfast in their financial underpinnings over time. This echoes a cornerstone of the benefits theory of SPO finance – that SPOs’ income portfolios are anchored in mission and adaptive in adjusting to circumstances in a dynamic environment that both threatens their stability and offers them new opportunities.

The third chapter explicitly presents the benefits theory framework of SPO finance. The main idea is that mission determines what kinds of goods and services an SPO provides and whom it serves and benefits. This in turn drives the possibilities for finance. Some evidence from research shows that this is indeed how SPOs tend to operate, if only intuitively. Recognizing and codifying this rationale allows SPOs to exploit it more effectively.

The fourth chapter examines the nature of benefits, beneficiaries and income contributors and their connections with mission and services. Here the language of public and private goods as developed by economists is employed and adapted to distinguish the outputs of SPOs in various fields of service. The recognition that SPOs vary by mission, services and benefits helps explain why the income portfolios of SPOs are so (justifiably) varied and why a homogenous approach to SPO finance is naïve and inappropriate.

Chapters 5 through 9 explore the financing of SPOs reliant on alternative sources of income, respectively fee or earned income, gifts and grants, governmental funding, returns from investments, or diversified among these sources. Each of these chapters describes how the nature of the services connects with the particular type of income secured, and the various strategies that may be employed for that purpose – for example alternative pricing strategies in the case of earned income, or different approaches to fund-raising in the case of gifts and grants. Each chapter offers case studies of SPOs that support themselves primarily through the source of income under scrutiny. In Chapter 9 a similar analysis is presented for SPOs with highly diversified income portfolios, indicating how that pattern conforms to the mixed character of their missions, services and beneficiaries.

Chapters 5 through 9 focus principally on operating income. In Chapter 10 attention turns to capital funding because SPOs with different cost structures and legal forms have substantially different capital requirements
and alternatives for funding them. Here the benefits theory is applied to the raising of capital funds for endowments, buildings and other assets, so as to connect sources of capital with long-term benefits and beneficiaries.

Chapter 11 further develops the concept of an SPO’s “income portfolio,” in the context of risk management, financial solvency and growth. Here it is noted that SPOs must manage a variety of interconnected portfolios including portfolios of programs, assets, investments and income sources. Classical portfolio theory from the financial management field is considered as a perspective for understanding SPO income portfolios. In particular, we consider the virtues and challenges of “diversification” of income as a way of buffering an organization from financial perturbations and storms. Certain aspects of income portfolios, however, limit or complicate the application of classical theory, including the possibility of unanticipated shocks in the economic environment. Still, portfolio theory requires estimates of return on investment in alternative income sources which benefits theory can help supply. Two conclusions follow from this analysis. First, that diversification must be supplemented by other means of risk management, such as the maintenance of reserve funds. Second, that benefits theory serves as an overarching framework for shaping SPO income portfolios, and providing the information for a robust risk management and income development strategy.

Finally, Chapter 12 offers some practical advice and tools for SPO resource development. This includes the notion implied throughout the book, that SPOs require broader staff capacities, focused not just on charitable fund-raising but on the wider set of possible (and likely) sources of income support. With this in mind, some general principles of SPO income development strategy are summarized and templates and tools offered to facilitate the thinking of SPO leaders and development personnel of the 21st century. The reader is invited to apply and adapt these templates and tools to cases offered throughout the book and to his or her own organizations.

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Introduction


