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Maximizing and measuring social impact


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BUSINESS AND PHILANTHROPY have traditionally formed a dichotomy. Business is the pursuit of monetary profits, philanthropy the pursuit of social good with donated money.

This dichotomy has been eroding so that a complex spectrum has developed between business and philanthropy, with pure profits and pure charity situated at the extremes of that spectrum and the middle of the spectrum composed of organizations that incorporate charitable and for-profit elements in different ways. These hybrid organizations may be called social impact companies, benefit companies, venture philanthropy or social enterprises.

Organizations can creatively hybridize charitable and for-profit elements in a variety of ways. A for-profit company may simply seek to do social good while making a profit for its shareholders. More complex models can involve tax-exempt charities that, at some level, incorporate commercial or for-profit activities into their structure and operations. Sophisticated counsel is often needed to avoid serious tax risks in establishing such an operation, but there is more leeway for tax-exempt entities to engage in commercial activities than many first imagine. If well designed, it can be a powerful engine to maximize social impact.

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Two examples provide a glimpse into the variety of potential social impact models that are based on a hybrid of for-profit and charitable elements to maximize social impact. One is a U.S.-based 501(c)(3) tax-exempt charity with on-the-ground foreign operations and employees. This organization owns a for-profit subsidiary whose commercial activities serve two goals: They directly further the charitable parent company's tax-exempt purpose, and the resulting profits provide funding for the charitable parent. Ideally, the for-profit subsidiary will fully fund its parent's operations, resulting in a self-sustaining social impact organization.

Another example is a relatively young scientific research institute with a large endowment. This institute is a 501(c)(3) exploring a variety of for-profit operations to accelerate its ability to fulfill its tax-exempt purpose and maximize its social impact. For example, this institute is interested in establishing a technology transfer office to enable the income-producing commercialization of its intellectual property. It is also interested in forming a venture capital investment arm to use its and others' money to fund startups.

This institute's for-profit activities were prompted by a donor conditioning a donation on achieving social impact milestones. This is part of a growing phenomenon of donors, charitable innovators, investors and entrepreneurs showing interest in incorporating for-profit models to maximize social impact.

The increasing emergence of social impact as a goal highlights the need for and challenges involved with measuring that social impact. Investors in for-profit operations are accustomed to being able to quantify their return on investment in a single, fungible unit of measurement: dollars. For-profit investors who care about social impact need a measurement for quantifying the social impact of their investment.

Social impact measurement is also important in the nonprofit world. Nonprofits are commonly compared based on their financial reports to assess how much of their dollars go to programs versus overhead. While this financial evaluation can highlight inefficiency, many nonprofits view this measurement as deeply limited and flawed. Maximizing social impact is often complex and expensive. A financial review misses the more important metric of how much social impact is actually achieved.

Currently, no comprehensive system exists for measuring social impact, but people are beginning to develop solutions. The measurement of social impact is challenging, multifaceted and controversial. However, it is vital to enable both social impact investors and charitable donors to evaluate the success of their investment or donation dollars in achieving social impact.

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