

Stanford SOCIAL INNOVATION REVIEW

Social Impact Markets

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Why a market for social innovations is needed now more than ever

BY ANDREW WOLK

EIGHT YEARS AGO, I organized a collaborative of funders and intermediaries—including New Profit Inc., Social Venture Partners, and United Way of Massachusetts Bay—to start a venture capital-type forum for Boston-area nonprofits. We called our experiment the Social Innovation Forum. The idea was to build a community of leaders representing nonprofits, philanthropy, government, and business committed to allocating resources to nonprofits on the basis of their performance. We were seeking to apply market mechanisms to form a new kind of market in Boston, in which social innovations that were demonstrating results could find the support necessary to continue their development and spread their impact.

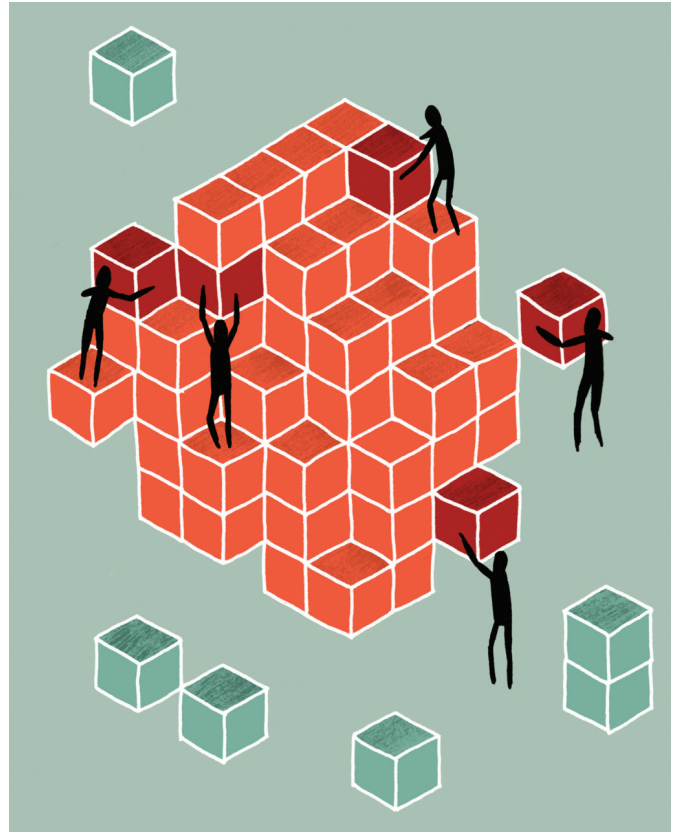
The Social Innovation Forum became a program of Root Cause in 2004 and has grown from a volunteer-led experiment to a Boston-area institution. I have watched its market-minded approach change the relationship between nonprofits with innovative ideas and the people who provide resources to them. The forum is organized around social issues and culminates annually in a showcase event where selected innovators give presentations. They pitch their organizations' missions and summarize the resources they need from individual donors, foundations, corporations, and in-kind service providers. This allows the potential donors at the event to make more informed decisions.

For the 1,000 resource providers and more than 40 nonprofits that have participated in the Social Innovation Forum since 2003, the dialogue between these groups has become honest and transparent. In addition, a shared understanding of the targeted social issues and performance data has become a primary basis for decision making.

What we have created is a social impact market: *a mechanism that provides the infrastructure, information, and incentives to enable individuals or institutions to provide financial, volunteer, or in-kind resources with the expectation of those resources resulting in social impact.* This marks a change in mindset from charity to philanthropic investment and is a sign that now more than ever society needs the rigor provided by social impact markets.

Markets provide an efficient way to allocate limited resources. And in today's tough economic times, there is no doubt that making the most of our limited public and private resources is more relevant than ever. It is critical that the United States do more with less as it seeks to find its next economic

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growth curve. In the meantime, it will take years before governments at all levels will have budget surpluses. Philanthropy, for its part, is just beginning to recover from the losses of the recession. We need to make the most of the nearly \$1 trillion of annual government and philanthropy funding going to the millions of nonprofit and government programs that address social issues today.

A model for accomplishing this, I believe, resides in the private sector. Today, we have a variety of mechanisms that allow for robust financial markets, so that innovation and entrepreneurship can flourish. If an individual develops an innovation, potential investors use data about that innovation's performance to decide whether or not to allocate resources. If the innovation performs well, it attracts more resources with the expectation of a financial return. If it performs poorly, resources move elsewhere. This basic principle of investment following results drives the financial markets—whether investment takes the form of a small loan to a startup or an angel equity investment in a more proven company.

With few exceptions, mechanisms and this mindset have not guided the allocation of the majority of our resources to support and grow social innovation. Too often, competing factors—such as political agenda, lack of information or agreement on program performance, and relationships taking precedence over data—hinder the decision-making process that drives investment and growth in the private sector. Developing social impact markets is a way to better allocate our limited resources.

LESSONS LEARNED

Over the course of the last eight years, I have come to recognize some important lessons that can help us to become more deliberate about how we develop social impact markets.

Nonfinancial Resources | In the early years of the Social Innovation Forum, it became clear that the ability to leverage volunteer time and use in-kind resources is often essential to building a sustainable nonprofit business model. Yet these resources are rarely organized. As I began to explore this more, I was amazed that in the United States today, volunteer time adds up to \$169 billion—supplementing the \$309 billion of philanthropic giving in 2009. I was unable to find any national data quantifying the value of in-kind donations, but the dollar value is likely to be equally substantial. *If we are going to succeed in doing more with less, we need to consider how best to allocate not just financial resources but also volunteer and in-kind resources.*

Sound Data | We began organizing each Social Innovation Forum around social issues like dropout prevention, school readiness, and

workforce development. We learned that the more we gathered data about the issue and information about the best approaches, the better it helped the investor community work together. It provided common ground for them to have conversations with organizations and to set expectations about performance. This ultimately became the impetus for Root Cause to start our own research department, Social Impact Research. *Information about social issues and recommended approaches is a critical component of the transparency and common ground required to develop social impact markets.*

Community Focus | All social change has a significant local component. We can consider ways to address the dropout rate nationally and at the state level, but people usually will rally around the communities they know and care about and the local programs that serve them. This is why our Social Innovation Forum has been successful in matching local innovators with local investors. The more social impact markets are linked to local issues and are embedded in communities where nonprofits, philanthropy, government, and business are working together, the more likely they are to take root and prosper. *Any effort to have state or national impact must start with the actions and investments of members of a local community.*

Government Involvement | Probably the greatest lesson I have learned is the importance of considering government for the development of social impact markets. This has the potential to be confusing, because private sector market proponents often criticize the involvement of government. Yet the vast majority of nonprofit funding comes from government. And in many cases, the delivery

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of nonprofit services occurs through government systems, such as schools and prisons. Government policies often determine the ways in which these organizations operate and are measured. *Any development of social impact markets must include government; otherwise, efforts will have a marginal impact.*

EARLY SIGNS OF SOCIAL IMPACT MARKETS

It took centuries for the financial markets to reach their current level of maturity. Today, we are beginning to see early signs of the same process unfolding for social impact markets. Below are examples.

Social Innovation Funds | Funds that have been created both within and outside government to incentivize innovative, results-oriented approaches are serving as excellent mechanisms to develop social impact markets. Within government, we have seen the introduction of the Social Innovation Fund at the Corporation for National & Community Service and the US Department of Education's i3 Fund. Outside government, similar funds are being supported by the Edna McConnell Clark Foundation, New Profit Inc., the Roberts Enterprise Development Fund, and Venture Philanthropy Partners. In addition, impact investing, funds that invest in for-profit ventures, are growing rapidly. They include Acumen Fund, Good Capital, Investors' Circle, and the NewSchools Venture Fund.

Social Issue-Focused Allocation of Volunteers | There are several examples of initiatives focused on better coordination of volunteer resources. The OneStar Foundation of Texas has committed to devoting all of its AmeriCorps volunteers to work in education. City

Year, which has 20 US locations, also has shifted from a general service program to allocating its volunteers to schools with the sole purpose of helping to reduce the dropout rate and expand college access.

Access to Information | In addition to the social issue reports produced by Root Cause's Social Impact Research unit, a number of initiatives and organizations focused on information and transparency have emerged in recent years. In Boston, the Youth Violence Prevention Funder Learning Collaborative has commissioned community-based research studies and issued reports to ensure that members can make data-driven decisions in their grantmaking. In New York City, the Management Innovation unit for the Deputy Mayor for Health and Human Services is coordinating the development of shared performance and financial indicators to increase peer learning for nonprofits.

These early signs of social impact markets are promising. And we will need many experiments that enable them to mature in a way that rewards performance without stifling early-stage innovations. One example is the new social impact bonds, which recently were introduced in the United Kingdom and are a proposed pilot in President Obama's 2012 budget. Developing more robust social impact markets will require changes in how nonprofits, business, government, and philanthropy operate. Each of these players will need to build new leadership skills, work across social issues and sectors, and rely more on information to make decisions. Ultimately, an environment in which more resources are allocated on the basis of performance will help us accelerate progress on the critical issues we face when we must do more with less. ■



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