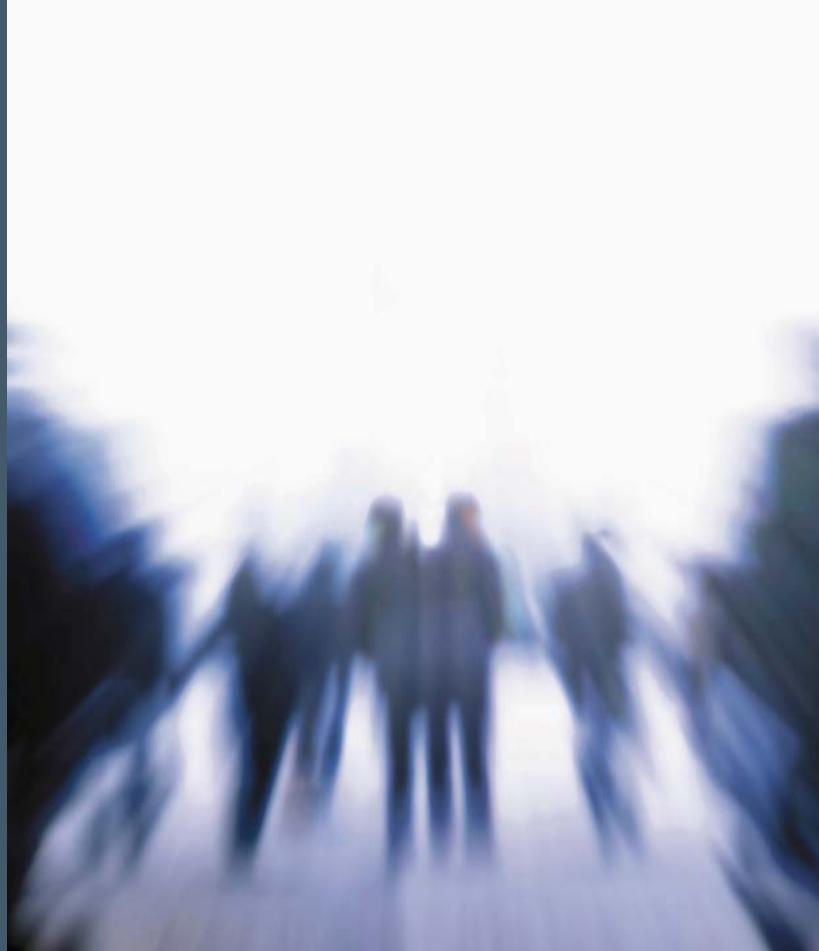


Accelerating Impact Enterprises



How to Lock, Stock, and Anchor Impact Enterprises
for Maximum Impact

Executive Summary

May 2013



DUKE CASE
THE RUCKEL
SCHOOL
OF BUSINESS CENTER FOR THE ADVANCEMENT
OF SOCIAL ENTREPRENEURSHIP
CASE i3: *The CASE Initiative on Impact Investing*

Executive Summary:

How to Lock, Stock, and Anchor Impact Enterprises for Maximum Impact

Impact Enterprises (IEs) are defined as financially self-sustainable and scalable ventures that actively manage toward producing significant net positive changes in well-being across underserved individuals, their communities, and the broader environment. This landscape scan focuses on privately-owned, for-profit Impact Enterprises with headquarters in the United States that generate less than \$25 million in revenues. The project's goal was to understand the evolution, potential, and needs of domestic IEs and to identify philanthropic, private, and public investment opportunities that can be targeted to accelerate growth and increase the likelihood of success among IEs and the emerging "impact economy" in the US.

Our findings and recommendations can be summarized in three verbs: Lock, Stock, and Anchor.

- LOCK** **Mission Lock through Certification Makes a Difference:**
 Certification resolves ambiguity and correlates with greater business success.
- STOCK** **Impact Correlates with Growth, Unless Focusing on Underserved Populations:**
 Take stock of the enterprise's impact targets, as they may influence its growth trajectory.
- ANCHOR** **Maturity Level of Ecosystems Can Be Measured and Influenced:**
 Impact Enterprises need to be anchored within strong communities of practice.

Our scan explored three questions related to the role of IEs in the emerging impact economy:

1. How Has the Overall Market of Impact Enterprises Evolved?

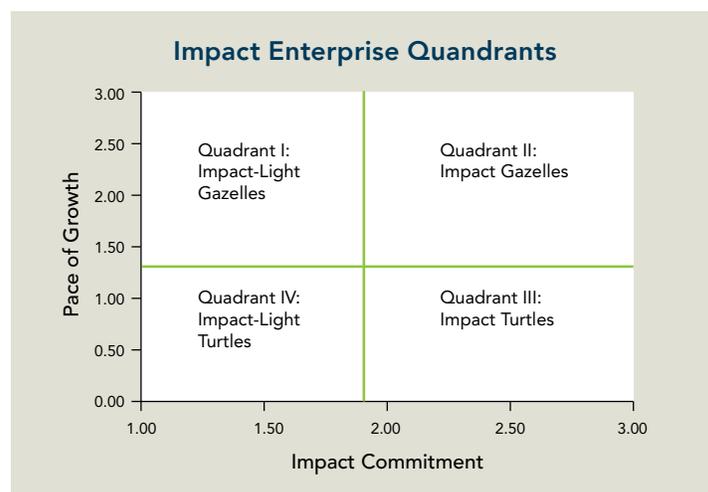
Impact commitment correlates with basic measures of business success. Contrary to the popular belief that companies working to have positive social and environmental impact have a hard time growing as fast or being as profitable as traditional enterprises, our research shows that at the enterprise level, a tangible commitment to impact, as expressed through specific, verifiable practices, is strongly correlated with overall business growth. This trend is statistically valid across all industry segments (all industries were clustered into eight industry segments), company ages, and geographies.

Within that, Mission Lock makes the biggest difference. As compared with a 2003 study by the RISE project at Columbia Business School, the most significant differences seen in this study are the new kinds of commitments that impact entrepreneurs have embraced to lock in their commitment to impact. Ten years ago, certified B Corps and legal forms like Benefit Corporations and L3Cs did not exist. There was significant friction in the marketplace about how to define and communicate impact as well as ambiguity about what it would cost to create social returns. Today, close to a third of respondents in our sample of domestic impact enterprises reported having product or company certifications, and our data showed that this tangible impact commitment was the most statistically significant factor correlating with basic measures of success. In other words, the certified companies were older, had more revenues, had more employees, raised more capital and were more profitable.

In fact, they were 4 times more likely, on average, to have a positive correlation with successful financial and growth measures than non-certified companies who identified themselves as impact enterprises.

2. Which Impact Enterprise Segments Have the Most Potential for Impact?

Impact correlates with growth, unless focusing on underserved populations. By mapping each company by *Pace of Growth* and *Impact Commitment*, trends and needs emerged more clearly. Based on the historical data collected, all 7 of our industry segments showed a positive correlation, on average, between high growth and high impact. Our report defines and explores 4 different IE quadrants: Impact Gazelles, Impact Turtles, Impact-Light Gazelles, and Impact-Light Turtles. The two Impact segments have the most potential for impact but need different kinds of capital and support.



The population the company targets, through its products, services, or operations, may influence its growth trajectory. Certain industry segments, including agriculture/food and financial services, have higher concentrations of companies with both higher growth patterns and higher impact commitments. The weakest correlations between growth and impact occurred within the manufacturing and transportation industry segment. However, regardless of industry, companies in the US working to serve underserved populations, including low-income populations in the US and internationally, have been less successful at achieving high growth, on average.. The significant exception to this is the niche of IEs targeting minorities, which was the only segment serving an underserved population that showed a positive correlation between impact and growth.

3. What Do Impact Enterprises Need to Succeed?

IEs need capital that matches their growth trajectory. Once we mapped the companies according to their growth and impact commitment, we looked at their reports on types, rounds, and amounts of capital raised. Within the high impact/high growth companies, angel funding appeared to be a significant gating factor. Companies not able to access angel funding at an early stage seemed less likely to be able to attract later capital, despite their early growth. In addition, a significant number of companies within every industry reported high impact but slow historical growth. Foundation program-related investment (PRI) funding is an underused resource within this segment – very few IEs here reported having raised PRI funding while this is the segment that instrument was designed to serve.

IEs need to be anchored within communities of practice. We also looked more carefully at several industry sectors where the companies' product or service is inherently impactful (like affordable housing or K-12 educational services). Studying the maturity patterns within these heavily impact-aligned industries revealed some distinct strategies around how to drive strong impact marketplaces. Some of the most popular needs the entrepreneurs expressed in our survey matched these lessons from the impact sector analysis: they wanted more peer networking with experienced entrepreneurs in their industries and more local hubs or centers of excellence centered around common problems of industry or stage, not just location.

Recommendations

In summary, when the actors within the impact economy work to lock in mission, take stock of the populations targeted by the mission, and anchor impact enterprises within supportive communities, we believe the overall ecosystem for impact enterprises will dramatically improve. Our key recommendations to build more mature ecosystems for impact enterprises for policymakers, investors, academics, intermediaries, and entrepreneurs include:

1. Support the development and adoption of impact certifications and standards for return and impact;
2. Develop and support sector-focused Centers of Excellence, which can develop and deepen relationships between the impact sector participants, especially between service providers, IEs, and impact investors;
3. Ensure that interventions fit the impact sector's needs according to market maturity level or IE's needs according to stage of development; and
4. Continue to subsidize efforts to address underserved or disadvantaged populations and support public policy research and incentive development to address these populations' challenges.

To download the full report, go to: <http://bit.ly/accelerateimpact>

Catherine H. Clark and Matthew H. Allen
The CASE i3 Initiative on Impact Investing at Duke University
www.casei3.org

DUKE CASE
THE FOUQUA SCHOOL OF BUSINESS CENTER FOR THE ADVANCEMENT OF SOCIAL ENTREPRENEURSHIP
CASE i3: The CASE Initiative on Impact Investing

Bonny Moellenbrock
SJF Institute and Investors' Circle
www.sjf institute.org



Chinwe Onyeagoro
O-H Community Partners
www.ohcommunitypartners.com

