

The Impact Compass

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Introduction

What job should I take to maximize my impact potential, that is my potential to generate positive social impact? Which deal will maximize the impact return of my investment dollars? Which nonprofit will make the most of my donation? Can a well-intentioned social program have a negative impact on the communities it serves?

At the Center for Social Innovation, our impact coaches often discuss these questions with business students. As academics, we rely on randomized control trials to assess the social and environmental outcomes, both long-term and short-term, of societal interventions or programs. Here's the problem: Carefully designed studies are costly and aren't always practical when trying to assess a future employer, develop the theory of change of a nascent social enterprise, or look at a seed-stage venture deal. Evaluating the potential impact of a product, service, organization, or policy, absent study results and serious modeling capabilities, is an art and a privilege of long-time experts who can draw from a robust set of experiences to inform their judgment.

Over the years, experts have developed their own compasses, seeing patterns and building on each other's mistakes. In talking to them and going through the extensive literature on impact measurement, three big no's and six dimensions have emerged as particularly helpful in gauging the relative impact potential of programs or startups, and to make sense of the impact of established organizations when access to insider studies and data is limited. The Impact Compass helps conceptualize impact and provides the tools to assess the relative social impact of various organizations or ventures. It was developed at the Stanford Graduate School of Business by the Center for Social Innovation for students, program managers, and funders.



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The Three Big No's

In this day and age of ubiquitous information, quick online research can uncover the obvious flaws of already debunked impact models. Flaws fall in three categories.

First, some interventions have **no impact at all**. For example, in most cases, giving African households a solar cookstove to replace the traditional wood burning method is not effective at solving the health issues women face from inhaling fumes. Most of the time, the sun is not shining when women need to cook and the solar cooker doesn't get used.

Worse, organizations may present a demonstrated **negative impact on society**. Well-meaning organizations that equipped rural villages with water pumps enabled children to grow up with clean water, only to put their lives in danger when the pump broke and they hadn't developed the needed immunity to handle untreated local waters.

Finally, some interventions **violate ethical principles**. In a typical Kantian approach, socially conscious individuals hold themselves uncompromisingly accountable to a set of ethical standards. Those pertain to issues of environmental preservation, natural resources management, working conditions, health, safety and security, property rights, labor conditions, governance transparency, and so on. They consider certain human rights worth protecting, regardless of social impact, and these rights serve as a constraint on business decision-making. Deciding what's acceptable and what's not is ultimately personal and requires us to wrestle with difficult ethical questions. Some constraints are obvious: People should not be enslaved for society-wide benefit. Other questions are more complicated: Is bribery acceptable if it allows the delivery of food to starved children in Somalia? Should you close your eyes to child labor if those kids are a family's only revenue source? Is animal cruelty okay in order to find a cure for cancer?

For the purpose of the Impact Compass, the Three Big No's — demonstrated ineffective solutions, interventions with negative impact on society, and violating ethical principles — receive a potential-impact score of zero. Organizations that clear this initial screening will be analyzed along six impact dimensions.

No Proven
Failure

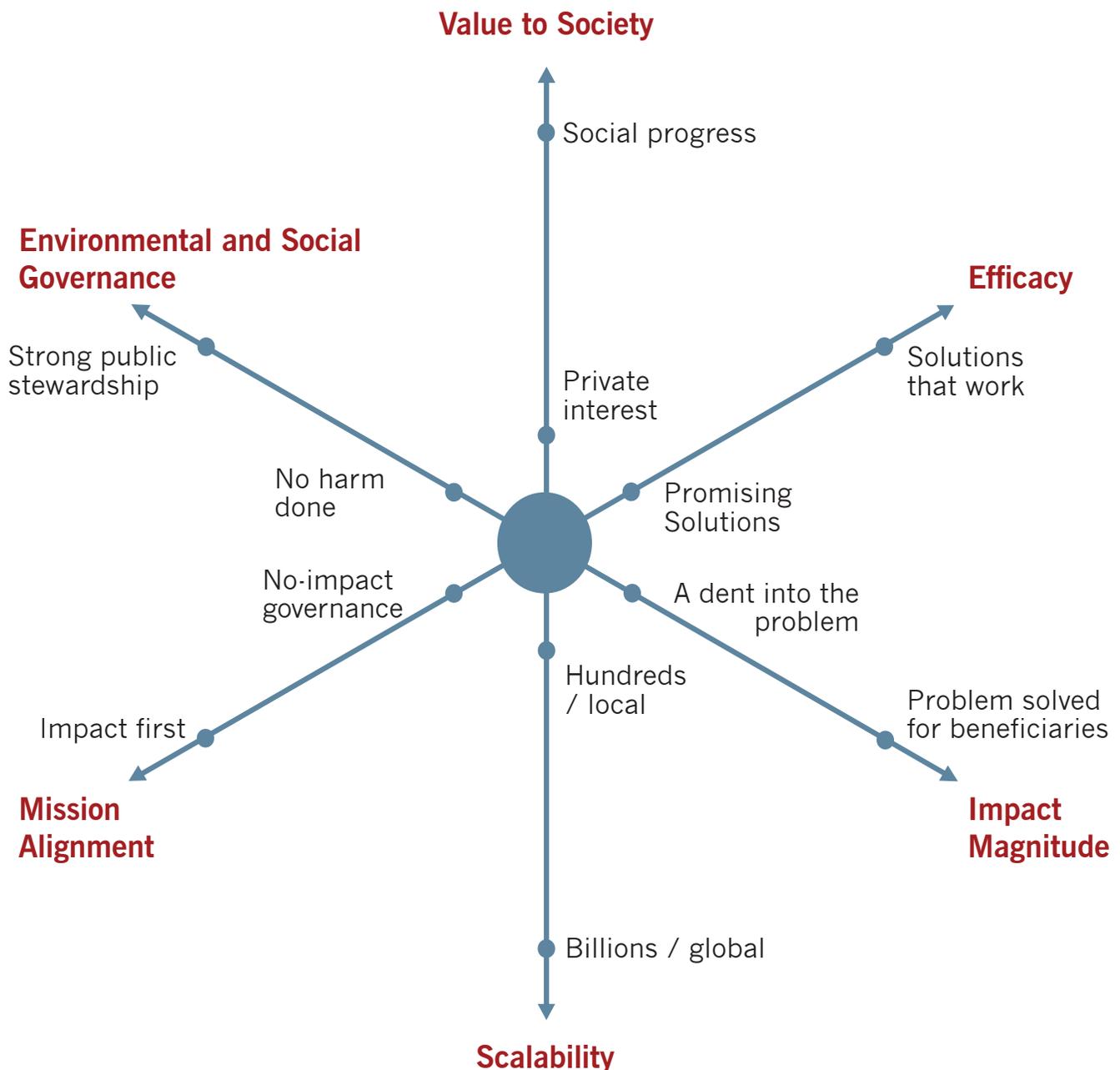
No Negative
Societal
Outcome

No Unethical
Behavior

The Six Impact Dimensions

Organizations that clear the Three Big No's typically maximize their impact when they

1. address a dire societal need,
2. design effective interventions,
3. address the issue in depth,
4. deliver at scale,
5. anchor their mission through organizational features that will carry them for the long haul, and
6. operate in a way that adds value to all constituents involved.



VALUE TO SOCIETY

How does the intended outcome deliver societal value?

Owning a car or a diamond ring, despite bringing practicality or joy to someone's life, are far back on the priority list behind the ability to eat three times a day and sleep under a roof at night. Access to food and water, availability of affordable housing, access to electricity, the benefit of a safe neighborhood, clean air to breathe, political rights and freedom of expression, religious tolerance, the opportunity to go to school ... all are tangible and intangible aspects of life that people value around the world and that take priority over less fundamental needs. We have been using the Outcomes Matrix, developed by Big Society Capital, an independent financial institution with a mission to help grow social investment in the UK, as a thorough inventory of those fundamental needs.

Whether there is more impact to be had in fulfilling one need or another highly depends on what's already available to communities. The Social Progress Index, developed by Michael Porter's Social Progress Imperative, helps identify how far along the social progress spectrum 128 different countries have traveled and to what extent their different areas of fundamental needs are currently satisfied. The index aggregates 50 social and environmental indicators that capture three dimensions of social progress: basic human needs, foundations of well-being, and opportunity.

**PRIVATE
INTEREST**

**SOCIAL
PROGRESS**



Positive contributions to society

- *Clean water in San Francisco*
- *MoMA in New York*

Advances social progress where it's particularly needed

- *CO2 reduction in China*
- *Early childhood education in US inner cities*

Advances social progress where it's needed *most*

- *Clean water in Chad*
- *Public health clinic in Afghanistan*

VERIFIED EFFICACY

How certain are we of the effects of the solution?

Stanford GSB alumna Heejae Lim launched a social startup, Talking Points, to improve the education outcomes of second generation students by addressing the challenges their parents face in communicating with their children's teachers. Many studies demonstrate the importance of parents' engagement in their children's education, an insight that provides a good level of confidence that the Talking Points texting platform with its integrated translation services will help students develop into successful learners. The actual effects of the intervention might only become evident after several years of schooling. To increase her chances of delivering powerful results, Lim has built several intermediary indicators of success into a robust impact measurement plan that will help her organization stay focused on results.

Social sector workers are in the business of changing human behavior; they operate in complicated systems and with long-term horizons. Unless there are known studies demonstrating the success of similar programs in the exact same environment, most interventions aren't guaranteed to yield the expected outcomes at the onset. A careful review of the theory of change, i.e. the thinking behind how an intervention will bring about change, provides hints as to their potential. Equally important is an organizational culture of learning with a concrete plan for measuring outcomes and a commitment to implementing the changes required to course-correct as needed.

Case Study

According to a U.S. Environmental Protection Agency December 2015 report, "Household air pollution ranks as the world's fourth worst health risk, primarily in developing countries where cookstoves are used, and the second worst health risk for women and girls, causing approximately 4 million premature deaths annually and a wide range of illnesses."

Many well-intended development initiatives have launched low cost cookstove programs. However, research has shown that stoves that only partially reduce fumes are ineffective at delivering sufficient indoor air quality to curb pulmonary diseases. Development projects without a commitment to evaluation or an interest in learning from existing studies are still pouring millions of philanthropic dollars into ineffective solutions.

A successful pilot or local implementation can increase one’s confidence in the efficacy of the solution but is rarely statistically significant. Nor does it guarantee that the solution will work at scale or for other categories of beneficiaries. For example, insecticide-treated bed nets consistently reduce malaria morbidity and mortality in sub-Saharan Africa but their effectiveness has been less consistent in Asia. Similarly, voluntary HIV testing and counseling interventions are facing varying degrees of uptake in different African countries. Medical interventions such as vaccination campaigns undergo rigorous clinical trials that establish the efficacy of solutions with high certainty. Long-standing educational programs like Reach Out and Read, a nonprofit working to incorporate books into pediatric care to encourage families to read aloud together, have been able to prove their model. Research shows that Reach Out and Read’s program results in more frequent reading at home, accelerated vocabulary, and critical brain stimulation.

Organizations running demonstrated solutions generally leverage positive random control trial study results in their fundraising efforts as the ultimate demonstration of efficacy and are more readily able to scale their solutions. Today, Reach Out and Read serves one in four children living in poverty in the U.S. and continues to grow each year with the vision that one day the model will be a part of every young child’s checkups.

PROMISING SOLUTIONS

SOLUTIONS THAT WORK



Unknown but promising, with commitment to measuring outcomes

- *Talking Points*

Positive pilot, not statistically significant, or transposable

- *Voluntary HIV testing and counseling in Eastern Africa*
- *Insecticide-treated bednets in subsaharan Africa*

Advances social progress where it’s needed *most*

- *Reach Out and Read*
- *Vaccination campaigns*

IMPACT MAGNITUDE

How complete is the solution for each beneficiary?

Programs like Sesame Street are very effective at teaching millions of kids 1-2-3s and ABCs and at igniting an interest for learning that will stay with them for years. Research has shown that children who frequently view Sesame Street at age two score higher on school-readiness tests in kindergarten than those who don't. Frequent Sesame Street viewing in preschool is associated with grade point averages in high school that are almost 16 percent higher than those of children who didn't grow up watching the show. Sesame Street "graduates" read more books for pleasure, place higher value on academic achievement, and express less aggressive attitudes than those who watch rarely or not at all.

However, even if the program's results are felt for years to come and help students in the acquisition of additional knowledge, a 1:1 tutoring service offers a more comprehensive literacy solution that will teach students algebra, geometry, creative writing, literature, and more.

Similarly, there are varying degrees of magnitude in the results of programs designed to minimize the carbon footprint of individual households. Opower leverages insights in human behavior to motivate homeowners to conserve energy, thereby reducing but not eliminating the household's carbon footprint. Tesla offers several options, including an electric car, wall batteries, and rooftop solar shingles, to switch parts of a home's energy consumption to clean energy, taking care of a significant part of its carbon footprint. Net zero emission homes provide the ultimate comprehensive solution that totally eliminates domestic carbon emissions. The Impact Magnitude dimension of the Impact Compass is meant to capture the depth of the intervention and how much of the problem it actually resolves for an individual beneficiary.

A DENT INTO THE PROBLEM

PROBLEM SOLVED



Small but measurable progress at unit level

- *Sesame Street*
- *Opower*

Substantial progress at unit level

- *Nurse Family Partnership*
- *Tesla*

Problem eliminated at unit level

- *1:1 tutoring that raises student achievement to be on par with peers*
- *Net zero emission homes*

SCALABILITY POTENTIAL

How much of the affected community can this model address?

Solutions to social issues can be delivered at different levels of scale. Ashoka inventoried four levels of impact: direct service, scaled direct service, systems change, and framework change.

Impact at a **direct service** level addresses the needs of populations in the 100's or 1000's. The likes of soup kitchens or local student mentoring programs deliver food, services, and other direct benefits that enhance a community's well being locally.

Scaled direct service, delivered through "models that unlock efficiency and impact through well-managed logistics of an intervention or solution," can benefit millions of individuals across vast geographies. Examples include the Red Cross, Americorps, and large-scale refugee resettlement programs.

Impact at a **systems change** level focuses on solving the root cause of a problem. "It often involves policy change, widespread adoption of a specific methodology by leading organizations in a sector, or creates new behaviors within an existing market or ecosystem." Social innovations such as microcredit or Fair Trade and Energy Star certifications have driven impact by changing the fundamentals of how markets operate. Organizations such as Wikipedia and Khan Academy leveraged technology to reinvent how we deliver knowledge, pushing the boundaries of the education system globally.

**HUNDREDS;
LOCAL**

**BILLIONS;
GLOBAL**



Thousands

Millions

Billions

- *Local mentoring program*
- *Tesla*

- *Charter network influencing teaching practices at scale*
- *Opower*

- *Sesame Street*
- *Wikipedia*
- *Khan Academy*
- *Energy Star Certification*

Framework change affects individual mindsets at a large scale, which will ultimately change behaviors across society as a whole. Organizations working at that level pursue the creation of social movements such as Black Lives Matter, women's rights, civil rights, or social entrepreneurship.

A careful examination of an organization's proposed strategy to reach scale provides helpful insights into its potential reach. Programs with limited local scope require different organizational models than programs that aspire to address the needs of billions. Whether the organization will be able to power its strategy largely depends on its business model and its ability to sustain its burn and attract the capital it needs.

ESG

How responsible is the intervention with regard to environmental and social governance?

Alter Eco, a San Francisco-based supplier of chocolate and grains, is leading a sustainability crusade working to shift mindsets and practices in the area of international trade. Alter Eco is setting an example by sourcing using Fair Trade principles, producing only organic and non-GMO foods, working towards 100 percent compostable packaging, and offsetting its carbon emissions by means of large-scale reforestation programs in the cooperatives that produce its crops. These efforts make Alter Eco a good steward of the environment and contributes to enhancing the livelihood of its suppliers. Its commitment to reporting also sets an example of transparent governance.

Whether in the form of traditional goods or services, the production of impact outcomes requires the integration of physical and/or intangible inputs, collaboration with people, and interactions with the environment. The way an organization is conducting business generates additional benefits to and/or imposes negative effects on its constituents beyond the product or service being created.

Organizations like Sustainalytics and the CDC Group provide specialized environmental, social, and governance research and analysis to help assess organizations along these three dimensions.

**NO HARM
DONE**

**STRONG PUBLIC
STEWARDSHIP**



No severe deficiency in any dimension

- *Khan Academy*
- *Teach For All*

Exemplary in at least one dimension

- *Patagonia*
- *Goodwill*

Exemplary in two or more dimensions

- *Intel*
- *CISCO*
- *Alter Eco*

MISSION ALIGNMENT

To what extent is the organization outcome oriented?

The more an organization is designed with impact in mind and with a mandate to prioritize its social and environmental bottom line, the more sustainable its impact will be long term. We identified five indicators of mission focus that predict the ability of an organization to deliver on its impact promise over the long haul:

A well-articulated theory of change helps professionals uncover the assumptions of their impact model.

A commitment to impact measurement and reporting sets up the organizations for learning. As Peter Drucker would say: “If you can’t measure it, you can’t manage it.”

Structural and capital choices that protect the mission: Kiva, the Gates Foundation, and the Environmental Defense Fund have incorporated as nonprofits as the ultimate mission anchoring mechanism. Aero Farms took advantage of the new hybrid incorporation forms now available in most states (Benefit Corporations in California) that institutionalize the mission of an organization and allow or even make it the responsibility of the directors to deliver on it. Traditional for-profit corporation structures can be augmented with mission-anchoring options such as founders’ preferred stocks or constituency statutes. Finally, Etsy and Alter Eco are examples of B-Corp certified

NO-IMPACT GOVERNANCE

IMPACT FIRST



Fewer than two indicators in place

Two or three indicators in place

All indicators in place

- *Apple*
- *LuluLemon*

- *Patagonia*
- *Learn Zillion*
- *Whole Foods*

- *Kiva*
- *Gates Foundation*
- *d.light*

organizations that leveraged the B-Lab certification program to hold themselves publicly accountable to their standards of ethics and impact goals. Intimately intertwined with structure choices are the sources of capital an organization relies on. Expectations for a specific internal rate of return put a time pressure on the organization and force hard choices between impact and profitability. The more patient its capital, the more an organization will be able to put impact first.

Aligned economic and impact models: An organization like d.light that sells lighting solutions to the poor increases its impact every time it makes a sale. It's in its best interest to optimize the product for the poor thereby maximizing the impact of the company. Conversely, Tom's Shoes designs its products for the affluent market where it collects revenue. Because it's donating shoes in the developing world, the organization has no incentive to adapt its models to the needs of people at the bottom of the pyramid. The tension between the impact and revenue sides of the buy-1/give-1 model puts Tom's Shoes at risk of missing the mark on the impact side. As these two examples illustrate, the more alignment between the impact and financial models of an organization, the more focus it can have on impact.

“While searching for career opportunities in the bay area, I explored a mix of public, private, and non-profit entities. The CSI Impact Compass was helpful to assess their differences and determine which organizations and companies I would want to work for.”

— Whittney Tom

Impact Potential Score

Using the six dimensions of the Impact Compass allows us to compare the significance and nuances of the potential for impact of various organizations. The impact potential score is obtained by multiplying an organization's scores on the six different three-point scales. The model simulates the need for all elements to be in place to make progress toward an organization's or program's impact. It represents the amplifying and interactive power of each of the six dimensions of impact on all others (in contrast to a simple additive sum). Further, no credit is given for a score of 1. It makes no assumption as to whether a dimension might be more powerful than the others at amplifying impact. A further project might look into the relative influence of the six impact dimensions in different industries. In particular, we expect the ESG dimension to play a less critical role in service-oriented than in product-dependent activities. Whereas the impact potential score is an overall summary, managers should pay close attention to the six individual elements.

A lower impact potential score doesn't necessarily indicate a less worthy opportunity. Conceptually, the best possible intervention to cure an orphan disease will always score lower than the most perfect solution to end poverty for billions of people. Philanthropists deciding where to direct their hard-earned resources and prospective employees making job decisions generally consider a seventh dimension which represents their personal fit and passion for the issue.

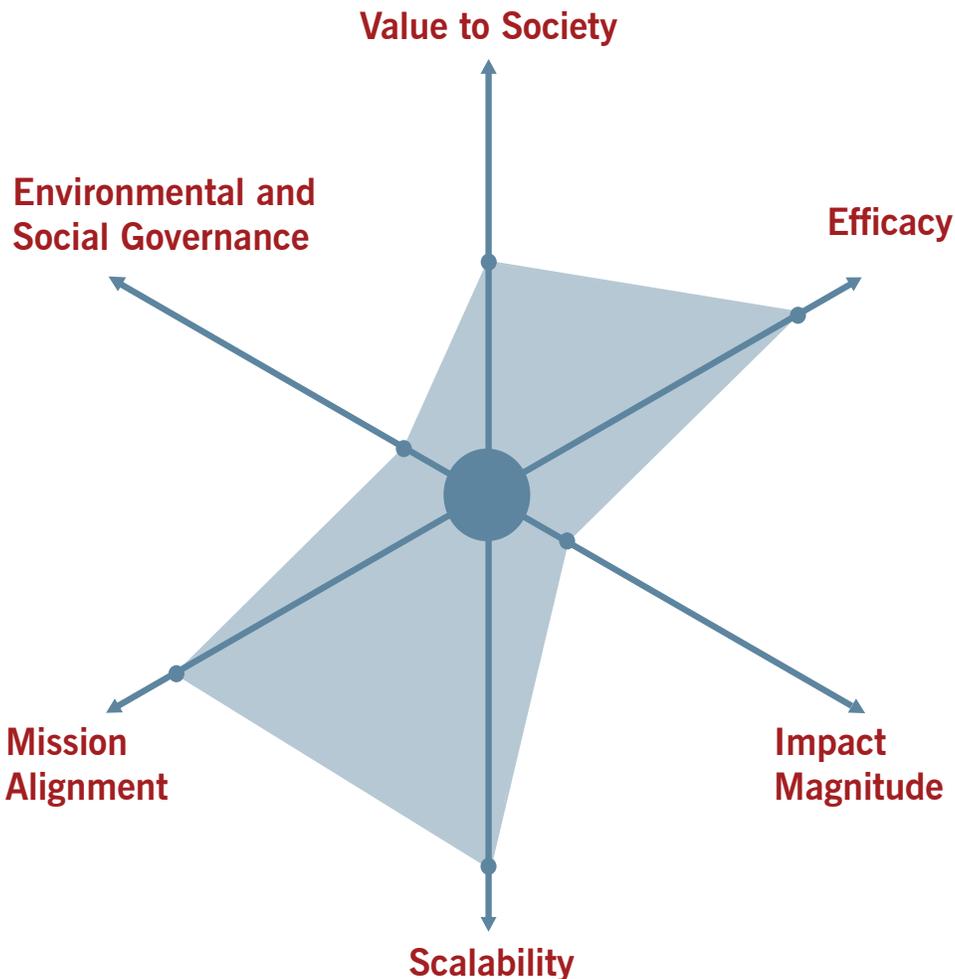
The relative impact potential scores of different interventions designed to achieve the same societal outcomes provide helpful insights for decision-making. Our students have used it to think through internship and job opportunities, to analyze the impact promise of investments, and to design their own social ventures. To compare organizations, some students like the compounded impact potential score best; others find the visualization more expressive and nuanced.

SESAME STREET EXAMPLE

How would Sesame Workshop score on the Impact Compass?

Let's take an example: Sesame Workshop has been producing educational programs that bring valuable literacy outcomes to often underserved students. Watching these programs has been demonstrated to produce long-term commitment to learning but, while the program reaches millions, it is not providing a comprehensive literacy solution.

The Workshop was structured as a nonprofit to ensure its long-term commitment to its educational mission. It is deeply committed to robust program evaluation. Finally, its operations involved a complicated supply chain with typical footprint in the entertainment industry and no remarkable initiative to mitigate possible externalities. Based on this analysis, its impact potential score is a robust 54.



No Proven Failure

No Negative Societal Outcome

No Unethical Behavior

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Ethics Worksheet

Define your threshold for the following business practices.

Area	Externalities Mitigation Opportunities	Example of Business Practices to Consider	Define your Threshold
Environment	Biodiversity conservation, natural resources management, environmental preservation	Animal cruelty, proactive destruction of species, unmitigated pollution of rivers, air, water, or land, lack of transparency, proactive cover-ups, climate change denial, man-made environmental disaster	
Society	Labour and working conditions	Slavery, child labor, unsafe working environments, unlawful labor practices, violations of human rights, discrimination	
	Community health safety and security	Public safety hazards, unmitigated displacement of people and traffic, creation and proactive cover-up of negative impact of product (cigarettes, guns, dangerous addictive substances)	
	Property rights	Land acquisition and involuntary resettlement, displacement of indigenous people and proactive destruction of cultural heritage	
Governance	Governance	Use of bribes, corruption, lack of transparency, unorthodox accounting methods	

Mission Alignment Deep Dive

When is it important to make structural and capital choices that protect the mission? One such case is when the revenue model creates tensions with the mission of the organization. The table below guides you through common revenue models and their potential for profit/impact tension.

Revenue Model	Mission / Profit Balance	How it works
Direct sales to beneficiaries (e.g., charge for product, fee for service, interest payment)	In alignment	Charge beneficiaries for products or services.
Pay-as-you-go	In alignment	Make large expenses affordable by allowing users to pay in increments.
Pay what you want	In alignment	Patrons decide for themselves what the service is worth to them.
Cross-subsidization	In tension	Charge according to the ability of different customer segments to pay.
Alumni pay	In alignment	Previous users pay for product or service on behalf of beneficiary.
Franchise fees	In alignment	Charge fee for access to assets such as brand and process guides, to enable others to replicate model.
Advertising	In tension	Charge advertisers for access to consumers or audience.
Subcontracting impact mandate from government	In alignment	Service offerings meet needs of multi lateral, bilateral, federal, state, and/or local government funding sources.
Pay for success	In alignment	Contract with government to receive payment conditioned on demonstrated impact.
Ownership	Neutral	Share in the upside or downside of property ownership.
Transaction fees	In alignment	Fee charged, fixed and/or as a percent of the transaction enabled by the service or platform, such as in a two-sided marketplace or sharing economy service.
Subscriptions, Software as a service (SaaS)	In alignment	Fee for access to centrally hosted software or source of content on a subscription basis.
Licensing technology (B to B)	In alignment	Provide a technology or service key to enable the impact of program operators delivering products or services to the underserved.
Freemium	In tension	Offer free services to beneficiaries and a premium service to paying customers.

Mission Alignment Deep Dive

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Impact Model	Mission / Profit Balance	How it works
Collaborative	Neutral	Provides beneficiaries with services to facilitate access to markets.
Employee owned	Neutral	Allow employees or customers to have equity in company.
Direct employment	In tension	Train and hire beneficiaries that are traditionally underemployed.
Ethical sourcing	In tension	Minimize the negative impacts on society and the environment along company's supply chain.
100 percent profit donation	Neutral	Donate 100 percent of profits to charity.
Open source	In tension	IP and research findings available for all to use freely.
Pro bono	In tension	Donate expertise and services.
Buy one give one	In tension	Charge customers a rate that allows product donation to beneficiary.
Sponsorship	In tension	Donate percentage of sales to partner in charge of delivering impact.
Two-sided marketplace	Neutral	Provide platform and services that connect beneficiaries to new market opportunities.
Sharing economy platform	In alignment	Provide beneficiaries use of or access to capital-intensive products.

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