

The Social Impact Exchange

The **Social Impact Exchange** is a new effort from **Growth Philanthropy Network** and Duke University with funding from the Robert Wood Johnson Foundation. The Exchange is designed as a focal point for studying, funding and implementing large expansions of proven social purpose organizations. To that end the Exchange offers an “**investment clearinghouse**” (**free registration** needed) of top-performing nonprofits that are actively implementing growth strategies (read the full press release [here](#)).

The Clearinghouse is interesting because of the way it offers some of the attributes of a stock exchange. There has been a lot of talk in philanthropy about social stock exchanges, but I’ve often found the implementation of this concept of little interest. This is because when most people think of a stock exchange, they think of the prices of stocks moving up and down as the primary characteristic. A social stock exchange which attempts to mimic the pricing elements of a stock exchange is interesting, but I’ve yet to see an implementation that is particularly exciting. Instead, stock exchanges are valuable not only because they publicly reveal prices, but because they have certain requirements for organizations to be listed and ongoing requirements to stay listed.

Once an organization is listed on a stock exchange, it must adhere to higher levels of public disclosure than a non-listed company. Being listed on a stock exchange is called “going public” and a listed company is a “public company” as opposed to a non-listed or “privately held” company.

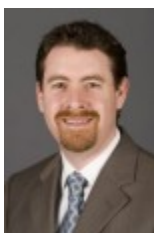
This all matters to philanthropy because the organizations listed on the new Social Impact Exchange are offering public access to documents such as due diligence reports, business plans and the results of independent evaluations (it appears that currently there are not standard documents that all listed organizations must have, but see [the documents listed](#) for the nonprofit Ways to Work as examples).

My friend **George Overholser**, has often pushed back on my urging for nonprofits to share more information about themselves publicly. George’s point is that most nonprofits are the equivalent of privately held companies, who may be damaged if they share too much of their internal issues with the public. While I’ve generally thought that nonprofits should have a higher required level of transparency than privately held companies, George’s point has always resonated with me. With the advent of the Social Impact Exchange, we have the beginning of a mechanism whereby a nonprofit that is ready to “go public” can list their organization and in exchange gain access to a wider range of philanthropic investors.

In addition, the Exchange plans to only list organizations who have demonstrated extremely high levels of impact and scale readiness or have demonstrated a significant level of effectiveness, and are increasing their capacity for scale readiness (groups **qualifying under each standard** are identified separately). This means that if the Exchange can establish credibility for their vetting process, 1) organizations who get listed will gain a marketing advantage due to their “making the grade” and 2) donors can have an increased level of confidence in Exchange listed organizations.

The Social Impact Exchange is more than just a list of nonprofits. It also hopes to be a hub for related research, publishing, education and training as well as an annual conference, business plan competition and regional meetings.

While this effort is still in its infancy, I think the organizers have gotten some key elements right. With the high profile funding from Robert Wood Johnson Foundation and the involvement of Duke University, the Social Impact Exchange is one to watch.



*Sean Stannard-Stockton is CEO of **Tactical Philanthropy Advisors**, a philanthropy advisory firm that serves individual and family philanthropists. Sean is the author of the **Tactical Philanthropy blog** and writes a monthly **column** for the Chronicle of Philanthropy. He is a member of the World Economic Forum’s Council on Philanthropy & Social Investing and has been quoted or referenced in The New York Times, Wall Street Journal, Washington Post, Financial Times and many other media outlets.*

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Here, here, Sean!

The other thing that drives me just a little crazy about “nonprofit stock market” buzz term is that people almost always forget to make a distinction between capital markets (that’s what a stock market really is) and regular old marketplaces (Amazon.com is a regular old marketplace.)

ALMOST NONE of the money that whizzes around a stock market ever goes anyplace near the companies. It is a SECONDARY market, a place where one investor buys shares from or sells shares to another investor. The prices are interesting because they represent investors’ opinions about how successful the companies will likely be in the future. But, with the rare

exception of a company that needs growth capital and is floating an Initial Public Offering, it has no direct bearing on what the companies are doing!

We should be careful about our metaphors, because even though stock analysts and their ilk are helpful to SECONDARY markets, they generally pay SCANT attention to the actual products and services of the companies they cover. Rather, they are all about making predictions about whether or not (given competitive dynamics) a company will be able to grow and sustain its profits. Moreover, unless there are millions and millions of dollars at stake (and there are in a real stock market), an equity analyst's in-depth analysis simply isn't affordable.

The vast majority of nonprofits aren't large enough to merit the expense of equity-analyst-style scrutiny. And their management teams are way too small to be able to furnish the type of information that equity analysts need to do their jobs. More to the point, stock-market topics take our collective eye off of what really matters: products and services. How much do they cost? Do they work as advertised? The sorts of things you can find out when you go shopping on Amazon.

That's what we lack: a regular old market—where money is simply exchanged WITH THE COMPANY for products and services, and where basic information about quality and quantity is made available. Unlike the stock market, the focus shouldn't be so much on the future viability of the organization. Rather, it should be all about the quality and the quantity of what's being bought: tutoring sessions, cups of soup, drug rehab interventions.

»» Posted by: **George Overholser** on January 4, 2010 02:47 PM

Comment

Such a market exists **in theory, on paper**. Under this scheme every citizen is a potential valuer of the positive or negative contribution that any organisation of any size or type - public, private or voluntary - makes to society. As an enrolled participant you personally evaluate those organisations that you know something about and feel are making particularly good or poor use of resources, either in terms of their objectives or execution. The favourable and unfavourable verdicts of each individual citizen on a particular organisation accumulate periodically into an overall plus or minus score. This converts at a set rate of exchange into cash - an additional stream of income or expense that fluctuates and can even shift between subsidy and tax according to its evaluated performance over time. The system ensures that the overall weight of positive and negative verdicts are always in balance. The total income for the favoured organisations is wholly financed by the total expense that the unfavoured organisations incur. Thus the overall level of economic activity is unaffected, but re-arranged in accordance with citizens' wishes, redistributing resources from organisations they believe

are over-funded to those that are under-funded, in a continuous journey towards an ideal equilibrium state where the return to the community as a whole on each dollar spent throughout the economy is seen to be equivalent. The aggregate free choice of all citizens rather than any central administration sets the pattern of redistribution. The role of central government is to legitimize the system as a whole and to determine how slowly or fast the new pattern evolves, by controlling the exchange rate at which a recorded verdict converts into cash. This can be set very low initially or even to zero to test the water, and gradually increased as confidence in the distributed wisdom of the population develops. A working system requires the development and roll-out of a suite of web interfaces together with automated back-end functionality for registering the participants, recording the verdicts, raising the debits and credits to the organisations concerned and effecting payment through their bank accounts. A complete specification is provided so that a prototype may be developed that will clarify the concept to the general public and demonstrate the potential benefits of adoption.

»» Posted by: **C Anderson** on January 7, 2010 06:58 AM

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Really wonderful post. this blog is awesome.

Posts with more information will be great.

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»» Posted by: **Nick Matyas** on January 7, 2010 10:15 AM