NATION SWELL

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Seven critical design choices for corporate impact investors

Read time: 20 minutes or less

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The bottom line

As the global impact investing market surpasses **$1 trillion USD**, a small yet growing number of companies are adopting the strategy. Some are even organizing working groups to create and share best practices, including the Global Impact Investing Network's (GIIN) new Corporate Impact Investing Initiative.

Corporate impact investors are motivated by the limitations of traditional philanthropy to fundamentally alter the structural disadvantages of capital markets, the desire to diversify their social impact strategies, the proven possibility of competitive financial returns, and intensifying pressure on the private sector to help finance the UN Sustainable Development Goals (SDGs).

Regardless of their motivation, what these enterprising companies are discovering is a world of opportunity and constraint, one that requires intentionality and conviction when designing an impact investing approach that best serves the organization and its goals.

To support the aspirations of would-be and nascent corporate impact investors, NationSwell went behind the curtain with four successful and well-established leaders in the space. We dug deep into their investment philosophies, models, and mechanics with the intent to pinpoint the most fundamental design choices that determine a program's shape and direction.

The pages to follow summarize our learnings from these four investors, organized around a short but load-bearing list of questions that any new corporate impact investor will need to resolve with clarity. Each question is followed by further explanation of its significance, illustrations of how the four model organizations answered it for their own purposes, and additional guidance from NationSwell on how to approach the choices at hand.

The seven fundamental design choices:

1. **What is your impact investment thesis and how does it align with company priorities?**
2. **Where do your investments originate within the enterprise?**
3. **Are you investing directly in companies or indirectly through funds and intermediaries?**
4. **How are you reaching beyond traditional networks to source investment leads?**
5. **Who should be at the table when making investment decisions in order to optimize for efficacy and efficiency?**
6. **What will be your level of involvement with investments after cutting a check?**
7. **How will you measure and report the impact made through your investments?**

Strategic guidance

1. What is your impact investment thesis and how does it align with company priorities?

Why this decision matters

An impact investment thesis provides a framework for decision-making and governs all aspects of your strategy. A strong thesis can encourage internal buy-in across your company by providing the testable, measurable, and reproducible scaffolding needed to set specific investment priorities, calibrate risk, measure ROI, and tell your story. An investment thesis is an essential philosophical underpinning to any new impact investing program.

Approaches from the field

Merck: a thesis aligned with core business priorities.
Merck's impact investing focuses on health solutions in low- and middle-income countries, where there are significant disparities in access to healthcare. This mission is aligned with Merck's broader business goal of improving health equity and access to healthcare worldwide.

American Family Insurance Institute for Corporate and Social Impact (AmFam): a thesis aligned with social impact priorities.
AmFam's venture investments focus on closing equity gaps across four social impact priorities: resilient communities, economic empowerment and justice reform, equity in education, and healthy youth development.

Visa Foundation: a thesis aligned with addressing structural barriers to access to capital.
Visa Foundation does impact investing through its endowment with a central focus on investing in funds led by women and underrepresented groups, which in turn invest in women and entrepreneurs from diverse backgrounds and geographies. Visa Foundation invests with an impact lens across asset classes and geographies given its global mandate.

Salesforce Ventures Impact Fund: a thesis aligned with strategic integration.
Salesforce Ventures Impact Fund invests in best-in-class enterprise software startups that also have positive and measurable social and environmental impact. Specific investment verticals are: climate tech, education and workforce development, financial inclusion, and digital health. As an investor, Salesforce Ventures can open opportunities for product integration, facilitate go-to-market partnerships, offer expert guidance on building a SaaS business, and enable curated interactions with customers.

Our guidance

As demonstrated by Merck, AmFam, Visa Foundation, and Salesforce Ventures, corporate impact investors typically align an investment thesis with a business priority, social impact priority, a structural priority, or a combination of these interests. An investment thesis should stem from an assessment of organizational priorities, unique assets, staff expertise, and leadership buy-in. Defining an investment thesis on the basis of this assessment will not only provide clarity for all stakeholders involved in the work, it will imbue a logic and structure on all downstream planning and implementation.

Clearly communicating your investment thesis to internal and external stakeholders from inception can help you demonstrate the efficacy of your overall strategy when you begin to see return on investments. Although clarity about your thesis and what you aim to accomplish through your investments is key, remember to remain flexible and expect that your investment thesis may need to change over time as you learn more about your program, gain further subject matter expertise, and/or shift business priorities.

2. Where do your investments originate within the enterprise?

Why this decision matters

Where investment dollars originate – from the balance sheet, through a foundation endowment, or elsewhere – can significantly change the mix of advantages and challenges facing a corporate impact investor. Certain investment structures will be more or less appropriate depending on your specific thesis and level of integration with other components of your business. Understanding the differences between approaches can help you advocate for the right one within your company.

Approaches from the field

Salesforce Ventures Impact Fund: Investing directly from the balance sheet.
Salesforce Ventures, including its Impact Fund, is funded with capital originating from the balance sheet at Salesforce Inc. Financial returns realized by Salesforce Ventures, whether from traditional investments or impact investments, are re-invested in Salesforce.

Visa Foundation: Investing from a foundation endowment.
Visa Foundation has committed $140M out of its endowment's investment activity toward impact investing. Their investments are allocated across asset classes and a mix of geographies. Successful performance of these investments has helped to encourage Visa Inc. to make impact investments from its own balance sheet, amplifying their social and environmental impact.

Merck: Re-investing funds.
Merck's impact investments originate from the corporate balance sheet, and financial returns may be reinvested directly into additional impact investments. This approach allows the company to sustain and expand on its initial $50M financial commitment.

Our guidance

Corporate impact investing is **usually done** from the balance sheet, but can also be done off-balance sheet or from corporate foundation funds (including endowments). There are certain advantages to each approach. Investing from the balance sheet may be an appealing option if your investment thesis is linked directly to your business priorities, or if your company's buy-in for impact investing is reliant on the reinvestment of financial return into the business. On the other hand, investing from a foundation endowment can create a clearer mandate for social impact, allow for independent financial performance expectations and lower liquidity expectations, and present the opportunity to prove the benefits of impact investing to other parts of the enterprise.

While each model has its advantages, you may find the greatest internal support and efficiency by using existing infrastructure and assets to start investing. Existing corporate venture capital funds can backbone the development of an impact-oriented venture fund, while an existing endowed foundation can offer readily available opportunities to invest directly in impact funds.

3. Are you investing directly in companies or indirectly through funds and intermediaries?

Why this decision matters

Companies can invest in funds, directly in social enterprises, or in intermediaries such as incubators and accelerators. Depending on where your funding is directed, your company's proximity to impact, and the risks and rewards of your investments, will vary. Additionally, the level of involvement with investments, and subsequently your team's time and resources, may shift depending on the nature of your approach.

Approaches from the field

AmFam: investing directly in early stage small and midsize businesses (SMBs).
AmFam invests directly in SMBs with founders that have proximity to the work. With that focus, AmFam's founder demographics defy the venture capital industry averages–65% of portfolio companies have at least one founder who identifies as a woman and/or BIPOC. AmFam's $100M venture fund invests at the Seed and Series A stages. Since cutting its first check in 2019, AmFam has invested in 28 startups across the United States.

Salesforce Ventures Impact Fund: investing directly in companies with strategic alignment.
Salesforce Ventures Impact Fund makes direct investments in companies across climate tech, education and workforce development, financial inclusion, and digital health. Their impact investments are aligned with relevant product areas within the business, enabling opportunities for deeper partnership. The Impact Fund has over 30 active investments and a handful of successful exits since launching in 2017.

Merck: investing in funds targeting low- and middle-income countries.
Merck invests predominantly in health-focused funds that are impact-driven and geographically oriented toward low- and middle-income countries. More specific investment priorities branch from key areas that resonate with the company's strategy: health infrastructure, diagnostics, financial inclusion, and telehealth, among others. Merck's impact investments originated with a $50M funding commitment from the corporate balance sheet. To date, the company has invested in 8 funds and 2 companies.

Visa Foundation: closing gender and racial gaps through funds and intermediaries.
Visa Foundation primarily invests in funds and intermediaries led by women and underrepresented individuals. Doing so aligns with the Foundation's overall thesis on closing gaps among communities with less access to capital (for instance, women founders on average receive less than 2% of venture capital funding). Visa Foundation's current impact investing commitment is $140M, to be invested over a 5 year period. Individual investments range between $1.5M-$10M. Since launching its impact investing strategy in 2020, the Foundation has made over 20 investments across a range of asset classes and geographies.

Our guidance

When weighing the benefits of indirect versus direct impact investments, you should consider the traditional investing history at your company and your long-term strategic goals. Investing in funds (indirect) offers greater distribution of risk and can scale capital for a larger number of end beneficiaries. It also requires less intensive due diligence relative to making direct investments. Generally, when investments are made into a fund, the investor is further removed from the actual work of the entrepreneurs and companies being invested in.

On the other hand, direct investments (e.g., venture capital) can offer clearer pathways to partnerships, increase the amount of control and decision-making available to your company, and offer more proximity to impact. Generally, it can be easier to measure and understand impact (e.g. number of people reached) with direct investments. By making direct investments in companies, large enterprises have more opportunity to be strategically and operationally valuable to those companies. But if your company doesn't have prior experience in traditional corporate venture capital, it may be a steep climb to build the know-how and infrastructure needed. Indirect investments offer a more approachable starting point.

4. How are you reaching beyond traditional networks to source investment leads?

Why this decision matters

Social capital brokers access to financial capital. How you work within and outside traditional networks will make a difference for who gets access to capital. Without making an intentional effort to reach beyond your traditional networks, or what comes organically across your desk, you risk missing high-impact opportunities and reinforcing privileged spheres of influence.

Approaches from the field

Visa Foundation: putting capital in the hands of historically underrepresented fund managers.
The Foundation intentionally invests primarily in funds that are managed by women and underrepresented groups. Their hypothesis is that diverse fund managers will be more likely to follow a similar cascade and invest in diverse entrepreneurs that are focused on generating strong financial and social impact returns.

Merck: joining communities of impact investors to exchange and strengthen ideas.
Merck was an early member of the GIIN, a convener of impact investors, and participates in Investors for Health and TONIIC. These groups help the company to stay up to date on industry research, open its networks, and participate in collective action.

AmFam: building connection and expertise beyond pitch events.
AmFam makes an active effort to integrate deeply with the subject matter of their investment priorities (e.g., equity in education, economic empowerment, and justice reform). By relying on the in-industry experience of its own team and by engaging with funding and hosting research collaboratives, conferences, and coalition summits, AmFam becomes more familiar with the sectors they're investing in. This allows them to meet innovators that may not necessarily be discoverable at more traditional finance-oriented convenings.

Our guidance

Capital markets, particularly in private equity and venture capital, traditionally rely on relatively closed networks of relationship and influence. In impact investing, where facilitating wider access to capital is a significant goal, closed social networks should be broken open. To do so, you can design a pipeline approach that intentionally surfaces underrepresented companies, founders, and opportunities.

You can build a more diverse pipeline in two key ways:

1. Have a clear selection criteria for investments that reach beyond word of mouth or reputation. Usually this includes some combination of topic area, geography, impact potential, and founder diversity.
2. Across all your inbound and outbound lead generation, scrutinize the extent to which your relationship networks are self-limiting and actively seek relationships that are closer to the ultimate work you're aiming to support. Consider relevant conferences, NGOs, and coalitions as sources of subject matter expertise and new relationships with which to widen the top of your funnel.

5. Who should be at the table when making investment decisions in order to optimize for efficacy and efficiency?

Why this decision matters

Having the right forms of expertise, representation, and lived experience at the investment decision-making table will increase the strength of your strategy. While it can be challenging to find the right mixture of representation on an investment team and investment committee (IC), doing so will improve the efficacy and efficiency of your decision-making.

Approaches from the field

AmFam: bringing diversity and subject matter expertise to decision-making.
Three of four Institute Directors at AmFam identify as a woman and/or BIPOC, and two have backgrounds in their investment priorities– education policy and administration, criminal justice, and social work. These four leaders ensure that personal and professional proximity to core issues is prioritized throughout the investment and partnership decision-making process.

Visa Foundation: prioritizing balanced perspectives and woman-led representation.
The Foundation's investment team is gender balanced, led by a woman as Head of Investments. Their IC is chaired by Visa's Global Treasurer (woman) and includes two Visa senior investment and finance leaders. Having an IC composition that includes a mix of Foundation and corporate leaders achieves a healthy blend of perspectives and expertise. In addition, having an IC of which 80% identifies as women embeds and enables the Foundation's mission to improve issues of gender equity in finance.

Our guidance

As the ultimate decision-making body, the IC's composition should not be overlooked as critical to the ultimate success of your impact investment strategy. As you consider the best approach to forming or integrating into an existing IC, we recommend asking four questions that can provide confidence that you have found the right balance of diversity, subject matter expertise, and incentives:

1. Are your IC members representative of the communities where you want capital to flow?
2. Do you have IC members who know finance/investing and members who know the impact space you're prioritizing?
3. Do you have IC members who want the work to succeed but who can also look at the decision-making objectively?
4. Do your investment team principals offer the knowledge and expertise needed to answer any questions about a niche opportunity?

6. What will be your level of involvement with investments after cutting a check?

Why this decision matters

Not every corporate impact investor wants or needs to be hands-on with its portfolio, but there's an opportunity to unlock greater collaboration and proximity to your areas of intended impact by doing so. Investees can benefit from the experience of your investment principals as well as your company's depth of resources if available and needed assets align.

Approaches from the field

Salesforce Ventures Impact Fund: driving organic pathways to partnership and feedback loops.
Salesforce Ventures Impact Fund is able to offer its portfolio companies access to a wide range of resources and knowledge in no small part because they are prioritizing investments with companies that are strategically aligned with Salesforce's core business. Salesforce Ventures provides its portfolio companies with operational support, connection to expertise, sales development, and regularly checks-in with companies about ways to partner.

AmFam: taking a step back and honoring that not all expertise is transferable.
While AmFam invests in companies that align with the subject matter expertise of their investment team, they note that the needs of those companies may not align closely with AmFam's internal resources and operational capabilities more generally (e.g., knowledge on particular elements of tax law for a Fortune 300 compared to a 5-person startup).

Our guidance

Establishing a posture toward your level of operational and strategic support of your portfolio is a foundational element of any investment philosophy. Some investors choose to take a full board seat with direct investments and/or schedule regular check-ins with investees to monitor financial performance and track impact. Other investors take a non-voting observer seat, meeting less frequently and focusing more on gathering information than on providing strategic guidance.

Begin by assessing whether your in-house assets match the potential needs of your investments and if there are organic opportunities to collaborate. Specific considerations should include:

1. The size of the investment and your ownership stake
2. Your team's/company's interest in being hands on with investees
3. The capability of your team/company to be helpful to the investee
4. Your team/company assets – such as related subject matter expertise – that you can provide to portfolio organizations

The results of this calculus may look different from one investment to the next, but the important thing is to know what your decision framework is and have consistent expectations of both your own organization and your portfolio based on that framework.

7. How will you measure and report the impact made through your investments?

Why this decision matters

Impact measurement represents one of the most challenging and varied aspects of corporate impact investing. While there is no clear consensus on the best philosophical and methodological approaches, there is value in arriving at a rigorous and internally consistent strategy. Doing so will help you to make more informed decisions about your current investments, refine your investment strategy going forward, and communicate the efficacy of your work to your internal and external stakeholders.

Approaches from the field

Merck: attributing impact proportionally to investment size.
Merck reports a single aggregated metric across its investments: "people reached with healthcare products or services." To calculate that reach, Merck reports a discounted figure that is proportional to how much stake the company has in each individual investment. Hypothetically, if they own 5% of a company, and that company reaches 100,000 people, Merck reports that its impact was to reach 5,000 people (5% of 100,000). Details on Merck's impact investing performance are available here.

AmFam: contributing to the overall impact of portfolio companies.
Broadly speaking, AmFam collects data about how their portfolio companies close equity gaps within their priority areas: healthy youth, equity in education, economic opportunity, and resilient communities. Like the majority of investors we spoke with, AmFam reports their impact based on a contributional philosophy, i.e. their support helped or contributed to a portfolio company's total impact. This approach is based on the notion that impact fundamentally belongs to portfolio organizations. AmFam reports publicly on the impact of their venture investments **here**.

Visa Foundation: tracking, assessing, and reporting impact longitudinally.
Like AmFam, Visa Foundation takes a contributory approach to measuring and reporting its impact. The Foundation tracks certain data longitudinally, particularly around the diversity of its investment portfolio. This allows the Foundation to understand whether their investments are helping to bring in more women and underrepresented voices into the capital allocation process, particularly relating to representation on fund boards, leadership, and investment decision-making bodies. More information on the Foundation's impact is available **here**.

Our guidance

There is a lack of consensus among corporate impact investors on how to measure and report impact, and the standards and benchmarks in place for tracking financial ROI are not in place for impact ROI. To ensure that impact measurement is prioritized equally to financial return, companies should agree upon what they want to measure and how they will do so.

Corporate impact investors can track their investment activities around various types of indicators and metrics. Those include: aggregated impact indicators that can be collected across investments (such as patients reached or lives impacted); investment-specific metrics (based on how an individual company or fund measures its own impact); qualitative and/or story-based impact indicators; and the meta impact on capital markets (BIPOC-led organizations funded, etc.).

Just as significant as deciding on which metrics to prioritize, companies should decide on whether they are taking a contributional or attributional approach to their impact reporting. Here it may be useful to differentiate between the impact that you are directly responsible for (e.g., the number of BIPOC founders receiving additional capital) and the impact that you are indirectly responsible for (e.g., the number of students educated by portfolio companies).

Coda

In our review of corporate impact investing models, we observed evidence of tremendous progress alongside persistent challenges–innovation alongside stagnation. One of the most clear and thematic headwinds facing corporate impact investors is the lack of available benchmarks against which to assess the performance of non-financial returns. It is, relatively speaking, easy for leaders to describe their financial returns–or at least their expectations of those returns–relative to the "market." To date, there is no equivalent "market" against which investors can index their social impact, leaving them with the difficult and unenviable task of measuring ROI against more idiosyncratic and narrowly formed expectations.

There are good arguments that this is not only inevitable, it is also the right answer. Chief among them is the position that each individual social enterprise–even those operating within the same sector–has a unique theory of change and therefore a unique output that cannot be fairly compared against another. But we would argue that this reasoning, while sound, undercuts a definitional tenet of impact investing: that societal performance can be approached with the same rigor as financial performance.

To make this sentiment real, impact investors should participate actively and transparently in the work of building standardized and robust datasets from which to discern the market, and to benchmark individual investment performance against that market. The Global Impact Investing Network's (GIIN) **IRIS+ system** offers a promising start. With standardized impact performance benchmarking now available on financial inclusion and agricultural key performance indicators, IRIS+ represents a lead example of the kind of platform that could advance impact management beyond the highly variable place it exists today. We hope to see its continued growth and adoption alongside other similarly ambitious efforts.

Table 1: Corporate impact investor comparison

	Merck	Salesforce Ventures Impact Fund	American Family Insurance Institute for Corporate and Social Impact	Visa Foundation
Investment Funding Source	Balance sheet	Balance sheet	Balance sheet	Endowment
First Year of Impact Investing	2018	2017	2018	2020
Type of Investments (Direct/Indirect)	Direct and Indirect	Direct	Direct and Indirect	Indirect
Total Investment	$50M	N/A	$100M venture; $105M partnership, programs and grants	$140M
Typical Investment Size	$5M for indirect investments, $1M for direct investments	$2M-$10M	N/A	$1.5M-10M
Total Number of Active Investments	10 (8 funds, 2 direct investments)	31	28 (venture)	20+
Priority Areas	Physical infrastructure, financial inclusion, digital and diagnostic solutions, pharmaceutical and vaccine R&D, and emergency response	Climate tech, education and workforce development, financial inclusion, digital health	Healthy youth, equity in education, economic empowerment and justice reform, climate and community resilience	Growth of gender diverse and inclusive small and micro businesses
Impact Investing Team Size / Composition	1 manager	4 investors	Venture fund includes 7 individuals: 3 principals, 3 associates, and 1 platform manager; Partnership fund includes 9 individuals: 2 directors and 7 partnership managers	2 Investment Professionals and external investment advisory support
Investment Committee Size / Composition	5 members, including 1 senior representative from each of the following teams: venture capital, corporate treasury, MENA affairs, sustainable access, medical affairs	All 30 members of the Salesforce Ventures team	N/A	5 members, including Head of Investments and Visa Foundation President, and 3 leaders from finance and corporate treasury

Related resources

1. Calculating the Value of Impact Investing | Harvard Business Review
2. COMPASS: The Methodology for Comparing and Assessing Impact | The Global Impact Investing Network
3. Corporate Impact Investing in Innovation | Stanford Social Innovation Review
4. Venture Capital's Next Unicorn? Impact | Bridgespan

NationSwell would greatly appreciate your feedback on this resource so that we can continue providing valuable insights to you and your organization. Please consider taking 30 seconds to complete **this brief questionnaire**. For more information about this project, please contact Liesl Schnabel (**lieslschnabel@nationswell.com**).

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