

# WHAT IS AN IMPACT BUSINESS?

CHARACTERISTICS THAT DEFINE VENTURES  
AS IMPACT BUSINESSES

São Paulo  
September 2020

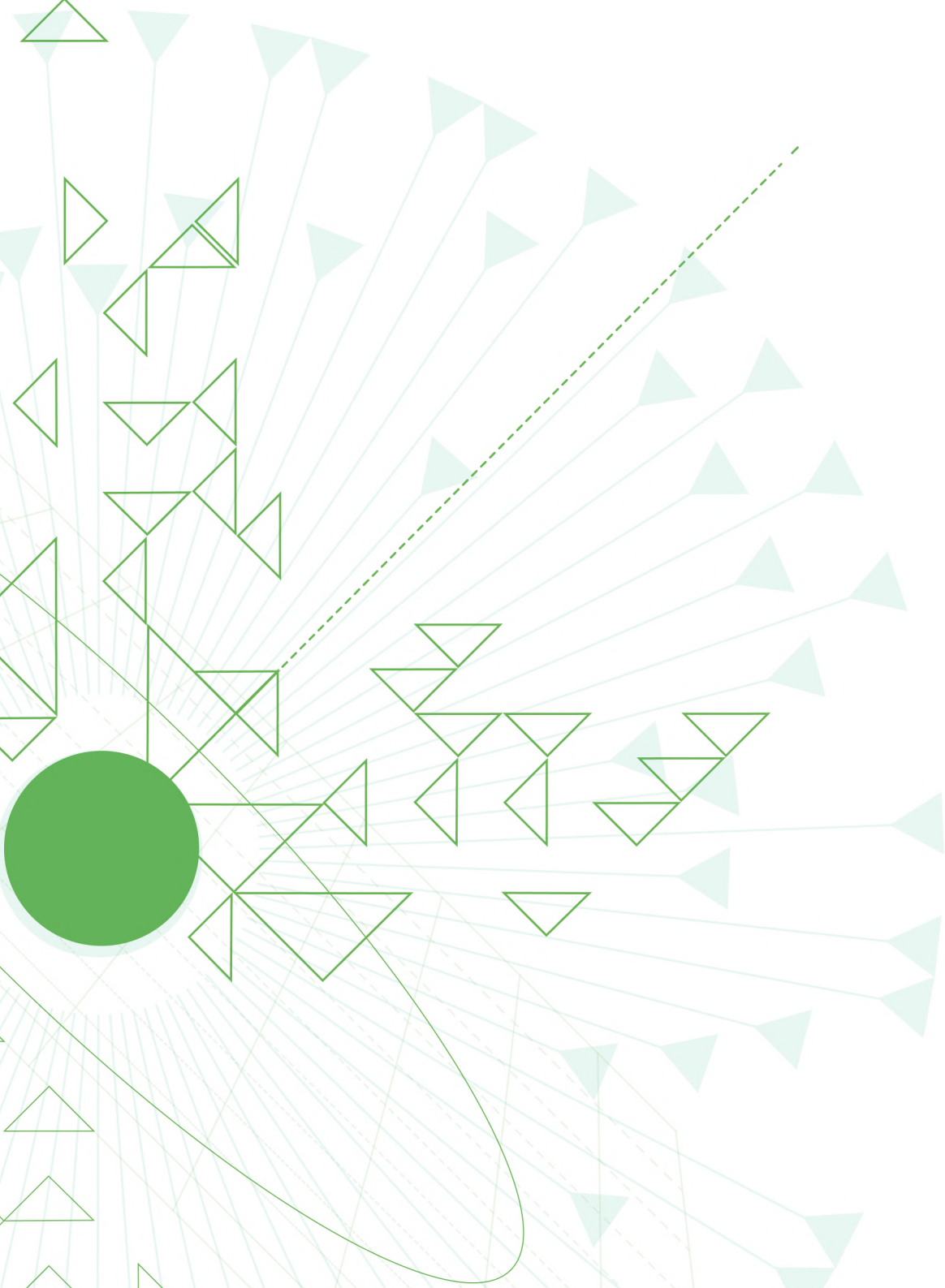
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**ALIANÇA**  
PELOS INVESTIMENTOS  
E NEGÓCIOS DE IMPACTO

Technical  
Partner

PI  
PE  
SOCIAL



# WHAT IS AN IMPACT BUSINESS?

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VENTURES AS IMPACT BUSINESSES

Instituto de Cidadania Empresarial - ICE  
Pipe.Social

**São Paulo**  
**September 2020**

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## OPENING WORDS FROM THE ALLIANCE FOR IMPACT INVESTMENT AND IMPACT BUSINESS

We strongly believe that some enterprises combine specific characteristics (in the way they are structured and operate) that we consider to be an efficient and powerful way to tackle social and environmental problems. We identify organizations with these characteristics as impact businesses.

We are aware that the definition and understanding of impact business will always carry some subjectivity. A given enterprise can be recognized as an impact business by some and not by others - and it is not the role of the Alliance for Impact to certify whether it is or is not.

With that being said, we have advanced two positions: the first is to acknowledge that not only impact businesses generate positive transformation in the lives of people and the planet. There are several other models, such as inclusive businesses, sustainable businesses, conscious businesses, B corporations and corporate philanthropy, which also need to be recognised. The second is to reinforce our belief that impact businesses represent the most effective possibility for attracting a portion of private capital, which today is invested in traditional markets, to solutions that directly address social and environmental challenges.

We work to develop an ecosystem that can support the creation and strengthening of more successful impact businesses. For that we understand that it is important

to have a clear reference for defining impact business, created and validated collectively, to be disseminated throughout Brazil.

More than 280 people were enquired during this study. We have received many generous and valuable contributions. We are aware of the impossibility of reaching an absolute consensus, but we are quite sure with the consensus we have found on this journey. We thank everyone for their contribution, especially our partner Pipe.Social.

We now start a new challenge together: to make this material known and useful to entrepreneurs, investors, accelerators and other supporters of impact businesses.

This study is rooted in the context of growth and development of Brazil's impact ecosystem in recent years. It embodies the country's legal and cultural boundaries in this regard. Thus, Impact Business is the most accurate term in comparison to the Portuguese free translation: Social Enterprise. In Brazil, Impact Business as a concept explains the panorama of the impact ecosystem while comprises other types of organisations, such as social businesses, trade-related civil society, and other business models.

ENJOY YOUR READING!

ALLIANCE FOR IMPACT  
INVESTMENT AND IMPACT  
BUSINESS TEAM AND BOARD



**ALIANÇA**  
PELOS INVESTIMENTOS  
E NEGÓCIOS DE IMPACTO



## MESSAGE FROM PIPE.SOCIAL

We at Pipe.Social received the invitation from the Alliance for Impact Investment and Impact Business - to carry out this consultation with the ecosystem about the concept of impact business - with two strong feelings: joy at the confidence in us to meet the challenge of facing this "pain" among those in the field, and a fear of not reaching a conclusive document that would contemplate all views.

Everything made sense once we put our expertise in research and active listening ahead of our institutional perception of the concept. The real and latent demand of the more than three thousand entrepreneurs registered with Pipe to better understand their business journey has also driven us forward. Every day we face the challenge of addressing the doubts and requests for help raised by entrepreneurs in order to navigate the impact business ecosystem more clearly, accessing more resources and speaking the same language as their backers.

We created this document keeping in mind the diversity of profiles and demands of these entrepreneurs, striving to find a tool that they can use to define and walk their impact path. It is also our intention to help them to build a cohesive identity that can strengthen the potential of impact businesses to transform the society in which we live.

We hope that this document will allay the main doubt that we hear daily via our interaction with entrepreneurs: "Okay, but what do I need to do to be considered an impact business?".

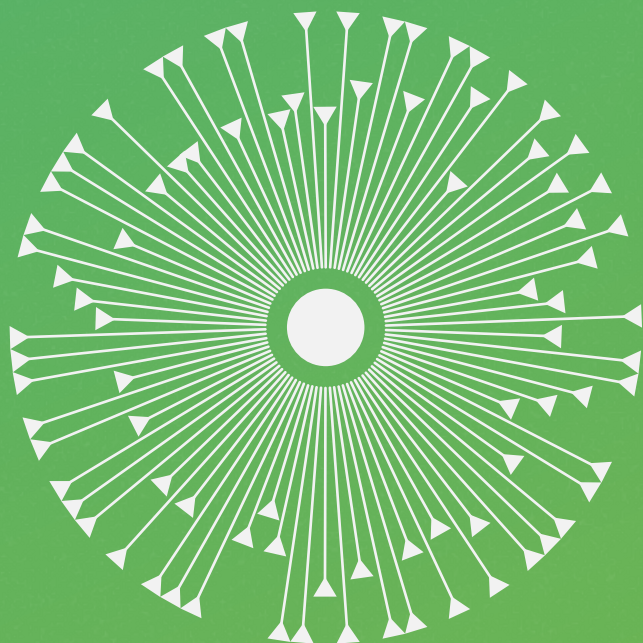
Here is a way that you can start the journey.

**PIPE.SOCIAL TEAM**





## INTRODUCTION AND PREMISES OF THE STUDY



In 2015, the Alliance for Impact Investment and Impact Business (known at the time as the Social Finance Task Force) launched a Charter of Principles for Impact Businesses, formulated with the participation of various actors linked to the cause of social finance and impact business. This document became a reference for academic studies, industry knowledge production and public tenders, as well as a guide for federal government action via the National Strategy for Impact Investment and Impact Business (ENIMPACTO).

Since then, the sector has witnessed the arrival of new and diverse actors, among them entrepreneurs, public-sector managers, investors, accelerators, teachers and researchers. Moreover, it has experienced a closer dialogue with other similar ecosystems, such as creative economy, community entrepreneurship, circular economy, B corporations, sustainable business, etc.

Faced with this scenario, a new consultation cycle to verify or refresh the characteristics that define impact business was both timely and necessary.

For five months the Alliance for Impact Investment and Impact Business, in partnership with Pipe.Social, listened carefully to the most diverse actors involved or interested in the agenda of positive socio-environmental impact. As a result, this group identified perceptions and validated understanding and concepts at this new moment in the ecosystem in Brazil.



This report is the result of that listening process, and provides an update on the common perceptions and views on the topic. It is a compilation of the current understanding of the impact business concept in Brazil, which does not presume to monopolise or conclude the discussion, but intends to be a guiding instrument for the positioning of the most diverse businesses.

This document takes as its starting point the four principles that were designed in 2015 to differentiate the minimum necessary characteristics of all impact businesses from those that are important but may be developed along the entrepreneurial journey. While it is important to be rigorous in our analysis of “WHAT” businesses produce, “FOR WHOM” and “HOW” they produce, we believe that these ideas can be matured and that we can positively influence businesses as to how they understand the commitments that turn their purpose into impact.

We are aware that the debate about the concept of impact generates many discussions. This study is open to that: an ongoing dialog among actors in the ecosystem, being aware that not everything is unanimous and that a nascent field like this must continually listen, analyze its transformations and reflect on its evolution.

*We invite you to join us  
in this conversation by  
getting to know what  
we have harvested.*

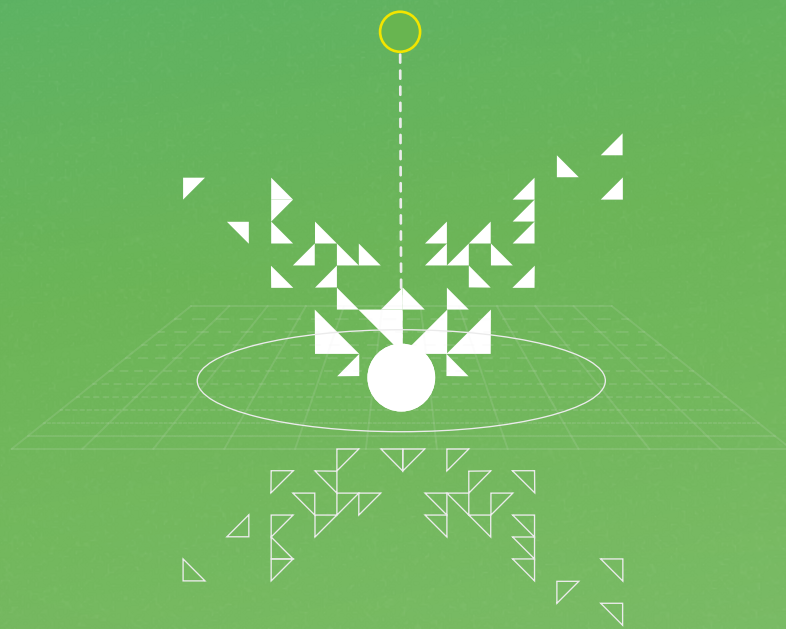
**ALLIANCE FOR IMPACT  
INVESTMENT AND IMPACT  
BUSINESS AND PIPE.SOCIAL  
TEAMS**





## II

# RESEARCH METHOD



During the research period (April to August 2019) we applied different techniques to listen to people involved with topics related to entrepreneurship and investment concerned with socio-environmental transformation. We held structured conversations divided into stages, seeking diverse profiles and points of view.

This resulted in more than 280 perceptions being collected in the following stages:

1

**DESK RESEARCH ON INTERNATIONAL REFERENCES IN THE CONCEPT OF IMPACT BUSINESS**  
- 13 countries analyzed;

2

**DESK RESEARCH ON REFERENCES IN THE CONCEPT OF IMPACT BUSINESS IN BRAZIL**  
- communication analyzed from 49 organizations;

3

**IN-DEPTH INTERVIEWS WITH SPECIALISTS**  
*(academic, business and technical perspectives)*  
- 4 specialists;

4

**ONLINE SURVEY WITH NETWORK REPRESENTATIVES AND ACADEMICS CONNECTED TO BRAZIL'S IMPACT ECOSYSTEM**  
- 14 responses;

5

**ONLINE SURVEY WITH INITIATIVES SIMILAR TO THE ALLIANCE FOR IMPACT INVESTMENT AND IMPACT BUSINESS,**  
*connected to the Global Steering Group for Impact Investment* - 5 countries;

6

**DISCUSSION GROUPS WITH DIFFERENT SECTORS ALONG THE SOCIAL IMPACT SPECTRUM**  
- 4 1. groups with 5 people each (20 people / organizations represented);

7

**ONLINE PUBLIC CONSULTATION REGARDING THE ECOSYSTEM**  
174 1. answers, consisting of the profiles below:

● <b>Impact Businesses</b>	26%
● <b>Academy</b> (teaching and research)	16%
● <b>Intermediary / supporting organizations in the impact investment &amp; impact business sector</b>	14%
● <b>Businesses</b> (small, medium & large, which do not define themselves as impact businesses)	11%
● <b>Incubators &amp; accelerators</b>	9%
● <b>Civil society organizations</b> (which do not define themselves as impact businesses)	7%
● <b>Institutes &amp; Foundations</b>	6%
● <b>Investment funds</b>	5%
● <b>Public-sector bodies</b>	3%
● <b>Press/media</b>	2%



**PRIOR KNOWLEDGE OF THE CHARTER OF PRINCIPLES LAUNCHED IN 2015?**

Yes **63%**  
No **37%**



**PRIOR USE OF THE CHARTER OF PRINCIPLES LAUNCHED IN 2015?**

Yes **70%**  
No **30%**

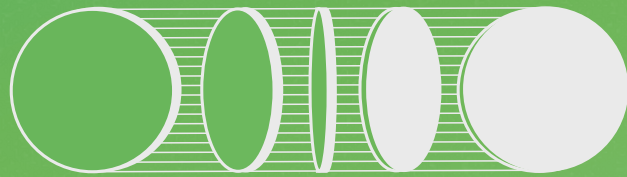
8

**VALIDATION OF THE FINAL DOCUMENT**  
8 reviewers





## BACKGROUND



*"As has been true for the past several years, the lack of 'appropriate capital across the risk/return spectrum' was the most commonly cited challenge facing the growth of the impact investing industry (42%). Another 40% of respondents cited the lack of common understanding of the definitions and segments of the market as a significant challenge."*

*Source: GIIN Annual Impact Investor Survey 2018, page 11*

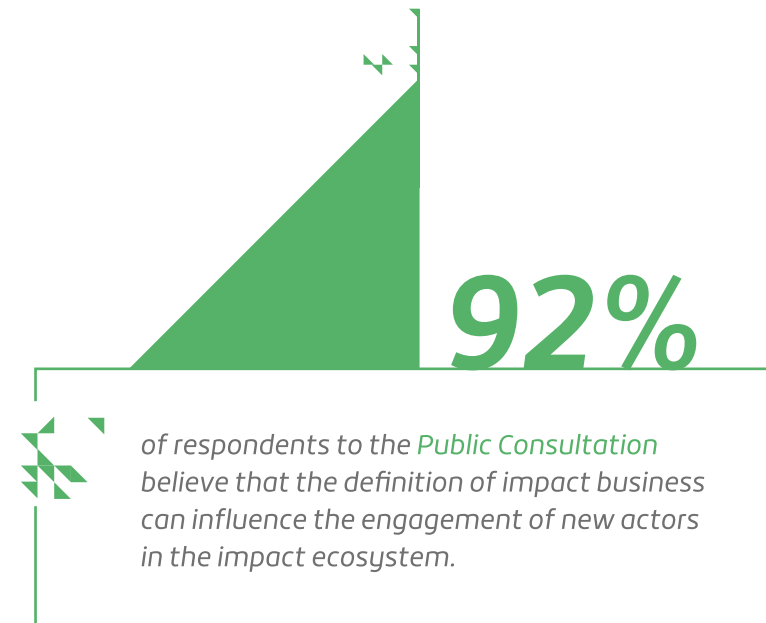
The current scenario creates urgency - not only in Brazil, but in other countries around the world - to discuss the characteristics that define impact businesses. Three issues have increased the pressure on the discussion: the proximity of other ecosystems that test the limits of what defines impact businesses; the need for standards that help investors in deciding where to allocate financial resources; and the need for policy-makers to recognize impact businesses in order to connect them to public policy.

Specifically in Brazil, despite a lack of consensus in the ecosystem about the need for the discussion, there is an expectation among entrepreneurs. In particular, they are the ones who want answers about their ventures. Whether at the start, when structuring their business model, or at the moment in which they begin to recognize themselves as impact businesses.



*"This is the moment to disseminate concepts clearly and objectively to stimulate the engagement of new players."*

*Public consultation respondent*



### III

### B

## INTERNATIONAL SCENARIO

We analyzed international benchmarks to identify common patterns or attributes in defining the concept of impact business. We validated our initial assumption that there is no prevailing definition of impact business that can be considered a standard. Definitions are influenced by several regional factors, including:



However, evaluating 12 countries (USA, UK, Italy, South Korea, Malaysia, India, South Africa, Chile, New Zealand, France, Australia, Israel) we noticed that, despite varying depths of understanding of impact business, they all consider two variables:



#### INTENTIONALITY OF IMPACT

*the explicit intention of the entrepreneur/organization to solve or mitigate a social and/or environmental problem;*



#### IMPACT GENERATED

*the actual impact that the organization generates on society and/or the environment.*

How can this intentionality be identified? How can we measure whether there is - or will be - real social and/or environmental impact? Furthermore, if there is no formal, audited impact measurement process, how is it possible to know if the impact really exists?

In some of the countries that we studied, the entrepreneur/organization simply stating the intentionality of the impact fulfils this requirement. It does not matter how or where this intention is declared, it is enough that explicit intention exists. Within a culture of trust, the intentionality of the impact does not need to be written down in the organization's statutes, mission or legal documentation.

WITH REGARDS TO EVALUATION OF THE IMPACT GENERATED, REQUIREMENTS CAN VARY ACCORDING TO THE DEVELOPMENT STAGE OF THE ORGANIZATION:

### IN THE INITIAL STAGES

measurement is directed towards expected (potential) impact;

### MEASURES BECOME MORE SOPHISTICATED AS THE ORGANIZATION MATURES AND GROWS;

Measurements that also assess the difference between the solution's impact and the negative externalities resulting from its operations and growth.

## III C BRAZILIAN SCENARIO

To understand the Brazilian impact business market we analysed the institutional positioning of 49 organizations that identify as supporters of impact businesses or that, in their majority, declare themselves to be impact-driven. We observed that they analyze impact businesses according to 11 characteristics:

- 
1. INTENTIONALITY OF IMPACT;
  2. CORE BUSINESS;
  3. PROFILE(S) OF CUSTOMER(S) / BENEFICIARIE(S);
  4. PROFIT AND DISTRIBUTION OF DIVIDENDS;
  5. ENTREPRENEUR PROFILE;
  6. USE OF TECHNOLOGY;
  7. SCALABILITY;
  8. CULTURE AND GOVERNANCE;
  9. EMPLOYEE MANAGEMENT;
  10. VALUE CHAIN MANAGEMENT;
  11. MANAGEMENT OF EXTERNALITIES.

However, there are also many points of disagreement regarding what can be considered an impact business.

### SOME EXAMPLES THAT HAVE CAUSED DEBATE:



Enterprises that consider themselves impact businesses because they run social responsibility and community development initiatives;



Enterprises that base their self-concept on their thematic area of work ("I offer a solution in health, so I have an impact business");



And those that refer to the social or demographic profile of the entrepreneur, or to the fact that they offer solutions that serve low-income and/or vulnerable populations.



*In the examples above, there is no standard that sets parameters for the group as a whole.*



## ADVANTAGES AND RISKS IN SEARCHING FOR CRITERIA FOR THE SECTOR

In searching for references we analysed observations and reflections documented by other countries in defining impact business. We found out that they also discussed the benefits and risks associated with this exercise. In the same way we opened this debate when listening to actors in the field, and recorded several points of view.

# ADVANTAGES OF HAVING SET CRITERIA TO IDENTIFY IMPACT BUSINESSES:

- ✓ Avoids greenwashing or misappropriation of the term for advertising and marketing, or trivialization of the concept;
- ✓ Fosters an educational process for the ecosystem and its various actors, including entrepreneurs;
- ✓ Establishes clearer references for entrepreneurs and investors who want to work with positive impact;
- ✓ Provides an opportunity for organizations to reflect on their positive and negative impacts;
- ✓ Is more specific about the business models that we consider important for the future of the country and that we would like to promote;
- ✓ Identify impact businesses as a group, strengthening them through unity;

- ✓ Promotes communication efforts that encourage organizations with impact business characteristics to get closer to the ecosystem, where investors and accelerators are available to support them;
- ✓ Organizes and creates useful information for academic, policy and legal purposes;
- ✓ Instigates and facilitates discussion about regulation of the sector;

- ✓ Create group identification to facilitate access to funding and creation of public policy;
- ✓ Guides large companies interested in supporting, promoting and hiring impact business solutions.



## RISKS OF HAVING SET CRITERIA TO IDENTIFY IMPACT BUSINESSES:


- ✗ PUSHES AWAY ENTREPRENEURS WHO DO NOT IDENTIFY WITH THE CONCEPT OR DO NOT WANT TO BE LABELED AS IMPACT BUSINESSES;
- ✗ MAKES IT MORE DIFFICULT TO BRING TOGETHER ENTREPRENEURS, INVESTORS AND ORGANIZATIONS WITH A VOCATION OR INTEREST IN THE IMPACT AGENDA;
- ✗ INHIBITS DEVELOPMENT OF A FLUID CONCEPT MORE SUITED TO THE COMPLEXITY OF THE FIELD;
- ✗ MAKES IT DIFFICULT FOR ORGANIZATIONS TO USE THE BEST DEFINITION ACCORDING TO THEIR STAGE AND CONTEXT;
- ✗ CREATES A STERILE DISCUSSION, WASTING TIME AND ENERGY IN THE ECOSYSTEM.

*"The advantage is creating a conceptual magnet, a big mountain, I think it's bad to create a barrier between us and them. Each individual takes responsibility to graduate, to climb the mountain."*

*Discussion group participant*

*"Guiding entrepreneurs in this reflection, of observing themselves in terms of their 'impact relationship', is more inclusive, more transformative and more impactful than the opposite, trying to find a conceptual definition that forces people to make an unnatural effort."*

*Open consultation respondent*



*"Having a definition is important, so that it's clearer who fits into the ecosystem. This can facilitate access to investors and to government procurement. However, the concept cannot be so broad that it becomes trivial or so restrictive as be impossible for entrepreneurs to fit in."*


*Open consultation respondent*

*"I agree that it is necessary to have a clear identity that orients businesses. That is a way of engaging. I agree that there is risk. However, it is necessary to do it, let the field operationalize this definition, discover its possibilities and difficulties, and propose, in the future, a return to the discussion."*

*Open consultation respondent*

*"I think the definition is of little interest to those on the front line, interested in solving real problems. The definition only matters when there are changes to legislation or something more practical, such as access to finance or a better relationship with banks, for example."*

*Open consultation respondent*



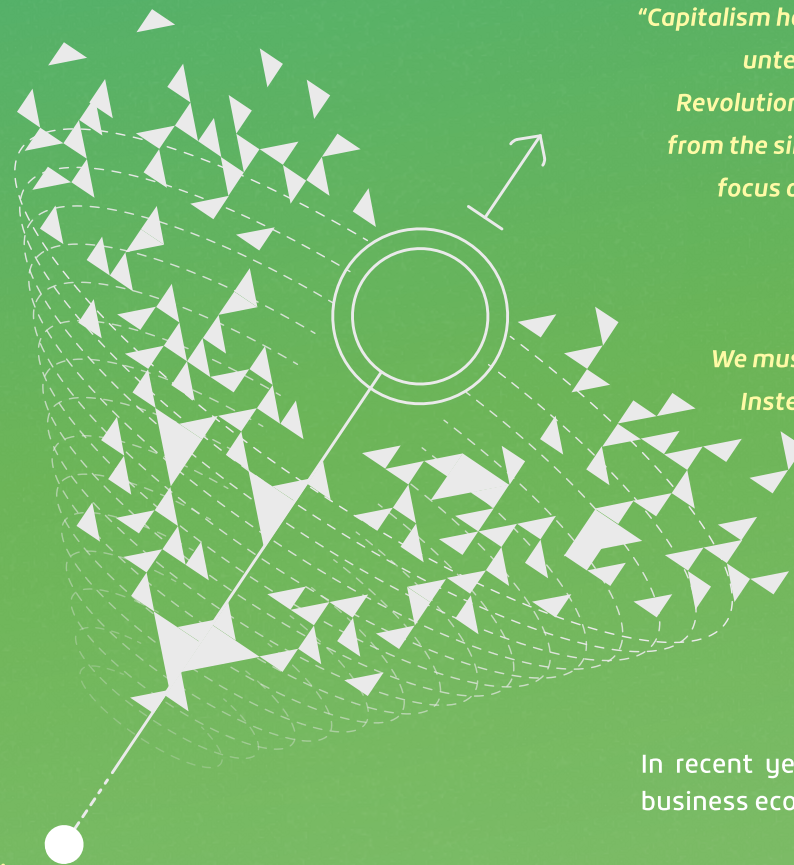
Through this listening exercise, and weighing up the pros and cons, we concluded that naming organizations as impact businesses is important to provide references and encourage the emergence of new impact businesses. We realize that there are characteristics which, in combination, make impact businesses a response to the call for more solutions that can contribute to overcoming social and environmental challenges and to improving the quality of life of the most vulnerable populations.

We therefore chose to face the risk of shining a light on the opinions of different actors in this ecosystem and in some way trying to consolidate them.

# IV AN ECONOMY GEARED TOWARDS POSITIVE IMPACT

*"We need to change our lifestyle, our relations as human beings and our relationship with nature. We need to move from an extractive, anthropocentric system that is destroying ecosystems and extinguishing thousands of species, to a circular, biocentric and regenerative one. We need to move from a competitive system to a collaborative one. We need to change the concept of success from an egocentric vision, where success is based on power and capital accumulation, to a vision where success is based on personal development, contribution to the community and the quality and quantity of our human relations. We need to move from political and economic power to citizen and community power."*

*Diego La Moneda, founder of the Global Forum on New Economy and Social Innovation (NESI)*



*"Capitalism has served us well over the last 250 years, but it has become untenable in its present form. It needs radical change. The Tech Revolution is being followed by the Impact Revolution, which springs from the simple idea that we can overturn capitalism's single-minded focus on profit to deliver profit and social impact simultaneously, redirecting vast flows of money to improve the world."*

*(...) This moment calls for nothing short of a revolution. We must actively shift impact to the centre of our consciousness. Instead of relying solely on governments and philanthropies to achieve social improvement, we must usher in a third force to accelerate the pace of change: the private sector."*

*Sir Ronald Cohen, On Impact  
A Guide to the Impact Revolution.*

In recent years we have seen rapid transformation in the impact business ecosystem, in Brazil and globally.

Several models and initiatives have emerged committed to solving social and environmental problems, directly or indirectly. Together they favour local activities and relationships, valuing the culture and the capacity of communities to build a world with more social justice, equal opportunities and respect for nature.

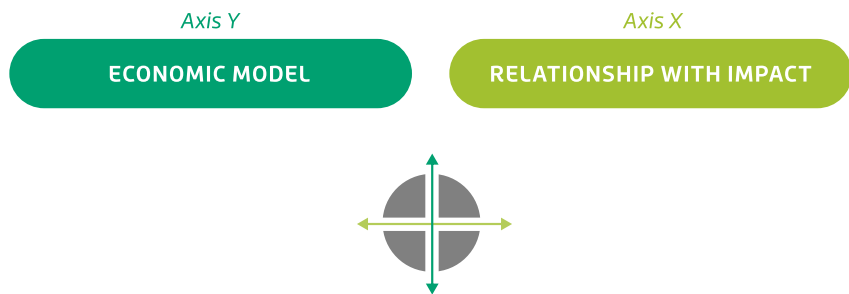
This new paradigm is based on a systemic view of socio-environmental problems, on more sustainable, collaborative, democratic economic models in service of increased opportunities for all, of reduced inequality, of human well-being and of the planet.

It is formed by organizations that seek to prioritize people and the environment by using production, commercial, financial and consumption strategies that are alternatives to the prevailing economic logic.

We have witnessed the emergence and proliferation of businesses, organizations and movements that seek to build a new social and solidarity economy. Initiatives that, although still peripheral to the dominant economic system, are fundamental because together they have influenced the global debate defending the idea that to change the world we have to change the economy.

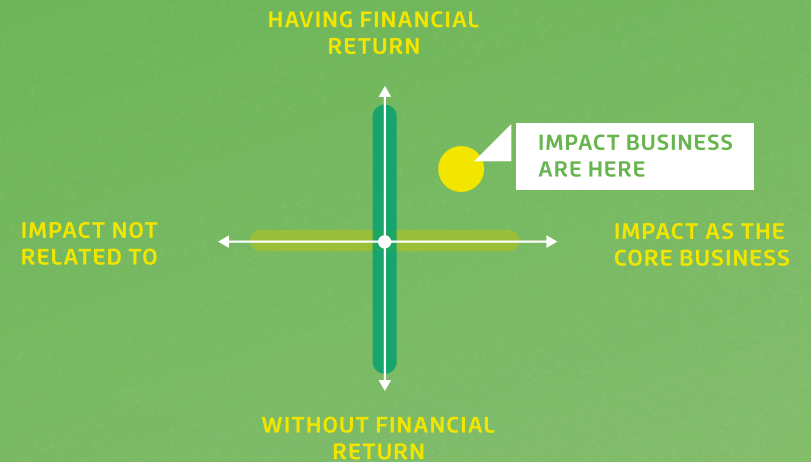
Impact businesses are a cog in this economy, representing only ONE segment within this new ecosystem, in which several other actors can be cited.

It is essential to understand that all enterprises with some level of impact orientation have an important role and value, as together they give voice, body and strength to this new model, which can be structured along two main axes:



## VENTURES THAT GENERATE POSITIVE SOCIAL IMPACT

SOCIAL ENTERPRISES	SUSTAINABLE BUSINESSES	B CORPS
BUSINESSES WITH PURPOSE	<b>IMPACT BUSINESSES</b>	CREATIVE ECONOMY
CONSCIOUS BUSINESSES	SOCIAL VENTURES	INCLUSIVE BUSINESSES
		ETC.



○ Axis X  
**IMPACT**  
Refers to the centrality and intentionality of impact in the strategy and operations of the enterprise.

○ Axis y  
**ECONOMIC MODEL**  
Refers to the model of financial sustainability of the enterprise and its ability to generate financial returns;

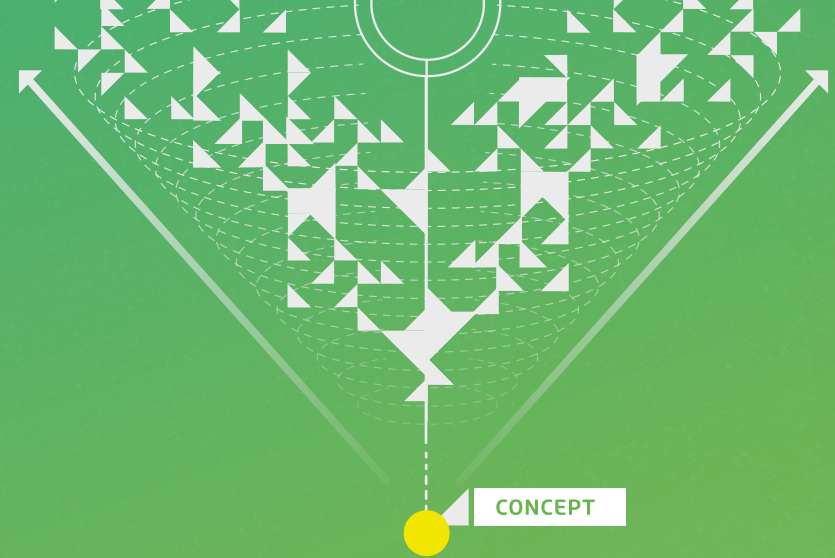


## IMPACT BUSINESSES IN THIS NEW PARADIGM



Impact Businesses represent one category among a variety of types of enterprise that create positive socio-environmental impact. They combine specific characteristics that, together, bring a new way of being an entrepreneur and tackling socio-environmental problems.

Categorization as an impact business only recognizes the set of characteristics present in a venture at any given time, and is not sufficient to differentiate it from other labels and definitions such as inclusive business, sustainable business, conscious business, creative business, B corp, etc. An organization may simultaneously recognize itself as an impact business and as one of the other categories mentioned. It may also recognize itself in one of the categories above and not be an impact business.



**IMPACT BUSINESSES** ARE ENTERPRISES THAT HAVE A CLEAR INTENTION TO ADDRESS A SOCIO-ENVIRONMENTAL PROBLEM THROUGH THEIR CORE ACTIVITY (PRODUCT/SERVICE AND/OR OPERATIONS). THEY OPERATE ACCORDING TO MARKET FORCES, WITH A BUSINESS MODEL THAT SEEKS FINANCIAL RETURNS, AND COMMIT TO MEASURING THE IMPACT THAT THEY GENERATE.

# CHARACTERISTICS THAT DEFINE IMPACT BUSINESSES

## MINIMUM FILTER

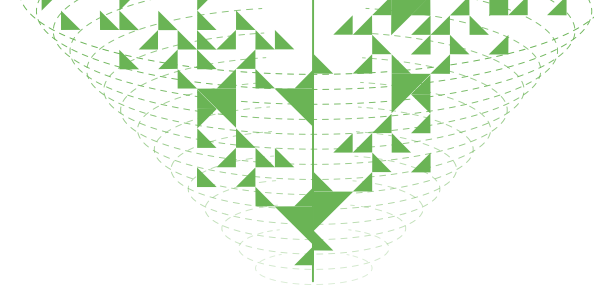
During the listening phase we identified that there is no one single characteristic that defines whether an enterprise is an impact business. It was possible, however, to arrive at a set of characteristics that proved to be sufficient, although there is a wide diversity among the impact businesses that meet these characteristics.

We are referring to a set of four criteria that form the minimum requirements for an impact business. These criteria do not apply in isolation, that is, they need to be met simultaneously, constituting a single filter through which enterprises need to pass to be considered impact businesses.



DO YOU AGREE WITH THE PROPOSED MINIMUM FILTER WITH FOUR CRITERIA THAT DETERMINE WHAT IS AN IMPACT BUSINESS?

Agree **80%**  
Disagree **20%**

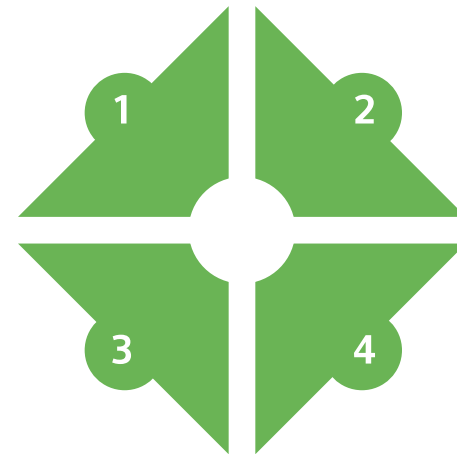


### CRITERION 1:

Intentionality to solve a social and/or environmental problem

### CRITERION 2:

Impact solution is the main business activity



### CRITERION 3:

Seeking of financial return, operating through market logic

### CRITERION 4:

Commitment to monitoring generated impact



### CRITERION 1:

**An impact business clearly expresses its intention (mission / purpose) to solve (at least partly) a social and / or environmental problem.**

Do the company and its entrepreneurs clearly state their intention to cause through their internal and external communication?

*"It's essential to always listen to the entrepreneur's intention, not just analyze the website. Governance and transparency are qualitative elements of the intention."*

*Discussion group participant*

*"Everything can have an impact, but the intention is fundamental."*

*Specialist*



### CRITERION 3:

**The business operates via market mechanisms, seeking financial returns. It generates its own revenue through the sale of products and / or services, regardless of its legal structure. It does not depend on subsidies, although it may receive them occasionally at certain stages of its development journey.**

Does the Impact Business - regardless of its legal structure and approach to distributing dividends - operate according to market forces? Does it have a business model that aims to generate revenue through the sale of products and / or services?

*"It cannot be dependent (on donations), as it needs to have a financially sustainable business model with revenue generated by its operations, but it may occasionally receive philanthropic resources."*

*Discussion group participant*



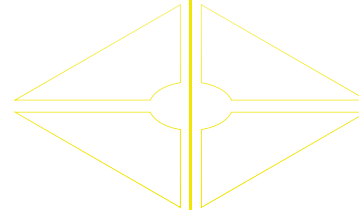
### CRITERION 2:

**The core activity of the business offers a solution to a real socio-environmental problem, and this solution is the main reason for it to exist.** (It is not an occasional social and / or environmental responsibility initiative).

Does the business exist / operate daily to solve a socio-environmental problem? Is its core business (product / service and / or the way it operates) a solution that actually solves a real socio-environmental problem?

*"An impact business solves a social and / or environmental problem at the core of its business."*

*Discussion group participant*



### CRITERION 4:

**The business is committed to monitoring the socio-environmental impact it generates in society.**

Is the business clear about the transformation it intends to create? Does it have indicators that help to monitor / measure its impact?

*"There has to be governance, managers must be committed to measuring and reporting the impact generated."*

*Discussion group participant*





V

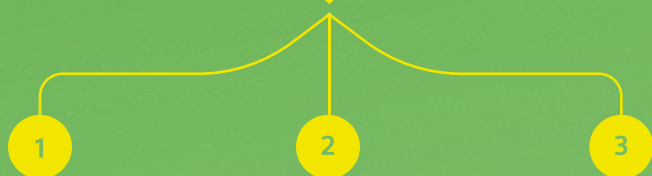
VI

# DEVELOPMENT CYCLE OF IMPACT BUSINESSES



If a business meets the four criteria of the MINIMUM FILTER, it is already considered an impact business in Brazil, according to an absolute majority of organizations consulted in this study.

However, the development of the **MINIMAL FILTER** also brought us three important conclusions:



**1**

An enterprise that has met the four criteria can be considered an impact business, but this does not say anything about the efficiency of the business model or effectiveness of the solution in creating positive impact;

**2**

There are several other characteristics to which impact businesses, and their entrepreneurs, could commit, to make their business model and solution more significant;

**3**

These additional characteristics are unlikely to be found in impact businesses in the early growth stages. However, as they develop further, especially if they aim to raise funds and find partners, they will also need to show these additional characteristics.

We dedicated a section of this study to showing these additional characteristics that can improve the business model and increase the impact. This content has two functions:

FOR ENTREPRENEURS	FOR INVESTORS
<i>it can educate and guide, proposing that they reflect on the stage of their journey and how they have structured their businesses;</i>	<i>it is expected that they can make explicit what they look for in impact businesses at each stage of their development cycle.</i>



*the respondents to the Public Consultation agree that there are different levels of commitment that a business should take on as the organisation matures and advances in the entrepreneurial journey.*

## HOW DOES THIS CYCLE FUNCTION?

We identified four desirable commitments that entrepreneurs can follow at every stage of their journey within the development cycle of their impact business.

Our intention here is to explore the nuanced demands placed on businesses at different levels of maturity by different organizations in the field. It is an invitation for each organization to go deeper into the cycle and its proposed dimensions, allowing entrepreneurs to get to know the expectations for impact businesses.

### COMMITMENT 1

COMMITMENT  
TO UNDERSTANDING  
THE PROBLEM  
AND THE SOLUTION

### COMMITMENT 2

COMMITMENT  
TO AN EFFECTIVE  
BUSINESS MODEL

### COMMITMENT 3

COMMITMENT  
TO CREATING  
EFFECTIVE IMPACT

### COMMITMENT 4

COMMITMENT  
TO EFFECTIVE  
GOVERNANCE

COMMITMENT 1

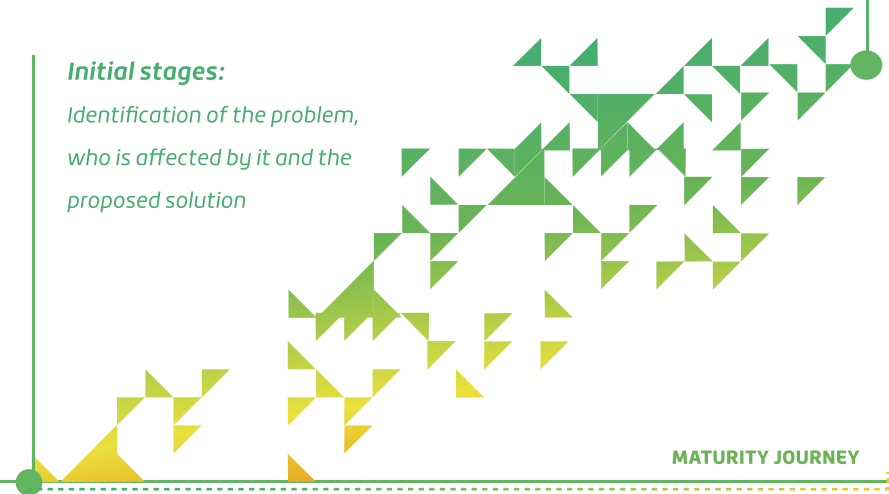
## COMMITMENT TO UNDERSTANDING THE PROBLEM AND SOLUTION:

**Clarity about the socio-environmental problem that the business intends to solve / work on and the relevance of the solution in addressing it.**

An impact business addresses a real socio-environmental problem. In its early stages it identifies a problem, who is affected by it, and how it can feasibly be tackled. The more the impact business progresses on its journey, the more it understands and seeks out evidence about the problem (through research, listening to customers / users, academic references, etc.). As a result, the solution to the socio-environmental challenge becomes more relevant, effective and durable.

**Advanced stages:**  
Better understanding of the problem and improvements in the solution

**Initial stages:**  
Identification of the problem, who is affected by it and the proposed solution



MATURITY JOURNEY



**DO YOU AGREE WITH THESE DIFFERENT LEVELS OF MATURITY REGARDING COMMITMENT TO UNDERSTANDING THE PROBLEM AND SOLUTION?**

Agree **96%**  
Disagree **4%**

COMMITMENT 2

## COMMITMENT TO AN EFFECTIVE BUSINESS MODEL:

**Refinement of the solution provided to seek profitability and growth.**

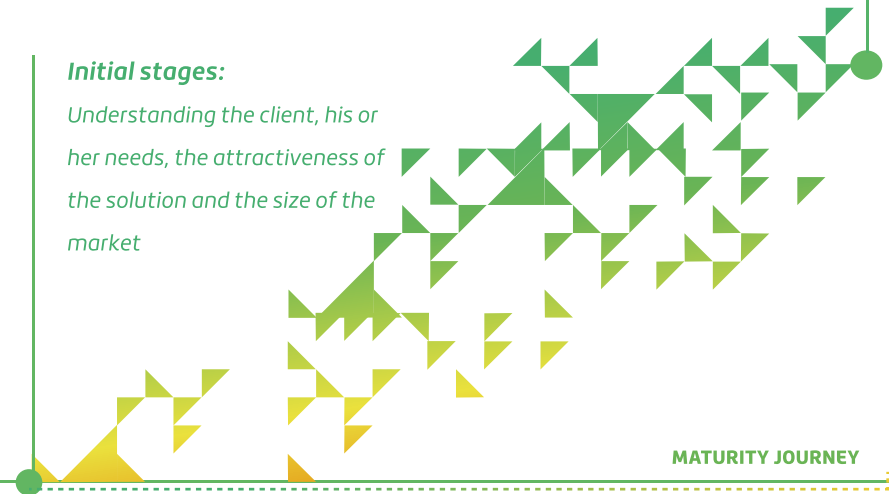
An impact business develops a product and / or service to meet a specific socio-environmental need while generating its own revenue. To do so, initially, it must ensure that there is real market demand - understand who the customer is, what the needs are, if the client would pay for the solution and if the market is big enough for the business to be profitable and / or grow. The more the business matures, the more it uncovers evidence of its potential financial return, gaining clarity on pricing, profitability and other financial analyses.

**Initial stages:**

*Understanding the client, his or her needs, the attractiveness of the solution and the size of the market*

**Advanced stages:**

*Better understanding of growth potential and ideas for structuring the business*



**DO YOU AGREE WITH THESE DIFFERENT LEVELS OF MATURITY REGARDING COMMITMENT TO DEVELOPING THE BUSINESS MODULE?**

Agree **92%**  
Disagree **8%**

COMMITMENT 3

## COMMITMENT TO CREATING EFFECTIVE IMPACT:

**Measurement to adjust the internal strategy and search for scalability of impact.**

An impact business improves its work as it gains more clarity on how its solution impacts the socio-environmental problem to be solved. Even if the entrepreneur is expected to have indicators to monitor / measure the impact at the outset, the more he or she identifies, monitors, analyzes and communicates these indicators, the better the decisions that are made. There is a greater guarantee that the mission and purpose are being put into practice and the solution becomes more relevant. When scaling up, it is also necessary to map potential negative externalities and ways to mitigate them, in order to increase positive impact.

**Initial stages:**

Clarity about intended impact;  
indicators established

**Advanced stages:**

Monitoring/measuring  
the impact created and mapping  
negative externalities



**DO YOU AGREE WITH THESE DIFFERENT LEVELS OF MATURITY REGARDING COMMITMENT TO THE EFFECTIVENESS OF THE IMPACT GENERATED?**

Agree **94%**  
Disagree **6%**



**COMMITMENT 4**

# COMMITMENT TO EFFECTIVE GOVERNANCE:

**Consistency in management practices and relationships with stakeholders.**

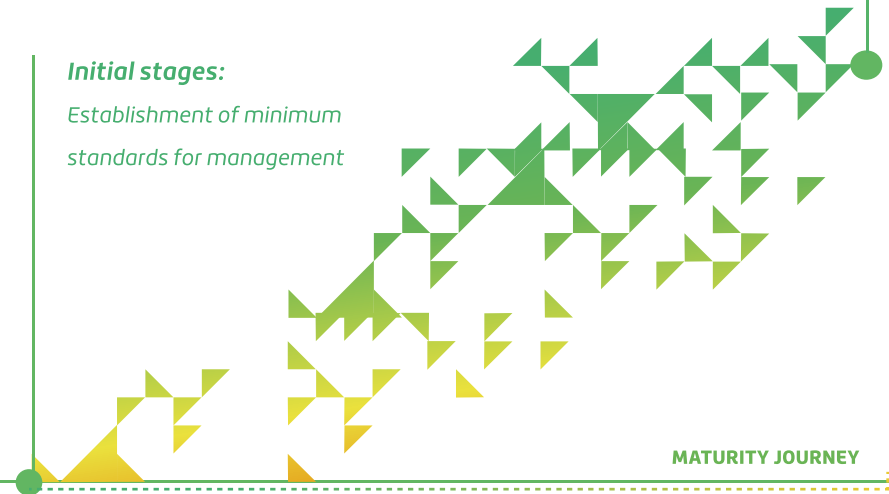
An impact business should ask itself not only why it exists and what it does, but also how and for whom it operates. Therefore, as the business matures, it should expand its vision to its various stakeholders (customers, employees, community, suppliers, investors and other partners) in order to include their points of view, have a transparent relationship with all and be consistent with their values through their management practices and decision making.

**Initial stages:**

*Establishment of minimum standards for management*

**Advanced stages:**

*More mature management practices, and decision-making that considers all stakeholders*





## VII

# CHARACTERISTICS THAT DO NOT DEFINE IMPACT BUSINESSES



We used the listening and discussion process to test whether some other characteristics of enterprises would be sufficient to identify them as impact businesses. It is important to record these findings:



When in doubt, the suggestion is to always go back to the **MINIMUM FILTER** and analyse the enterprise in light of the four criteria.



**THE SECTOR IN WHICH AN ENTERPRISE OPERATES IS NOT SUFFICIENT TO DEFINE WHETHER IT IS AN IMPACT BUSINESS OR NOT.**

*It is not true that every enterprise in the creative economy, education or health is an impact business, although it may be. Likewise, it is not true that an enterprise in sectors such as cosmetics or agriculture cannot be an impact business.*



**THE ENTREPRENEUR'S SOCIODEMOGRAPHIC PROFILE IS NOT SUFFICIENT TO DEFINE WHETHER AN ENTERPRISE IS AN IMPACT BUSINESS**

*It is not true that any enterprise led by entrepreneurs from more vulnerable or peripheral regions is an impact business, although it may be.*



**THE DIRECT CUSTOMER / BENEFICIARY IS NOT SUFFICIENT TO DEFINE WHETHER AN ENTERPRISE IS AN IMPACT BUSINESS.**

*It is not true that every enterprise whose direct beneficiaries or customers are vulnerable or lower-income populations is an impact business, although it may be. Likewise, it is not true that an enterprise selling to a large company cannot be an impact businesses.*



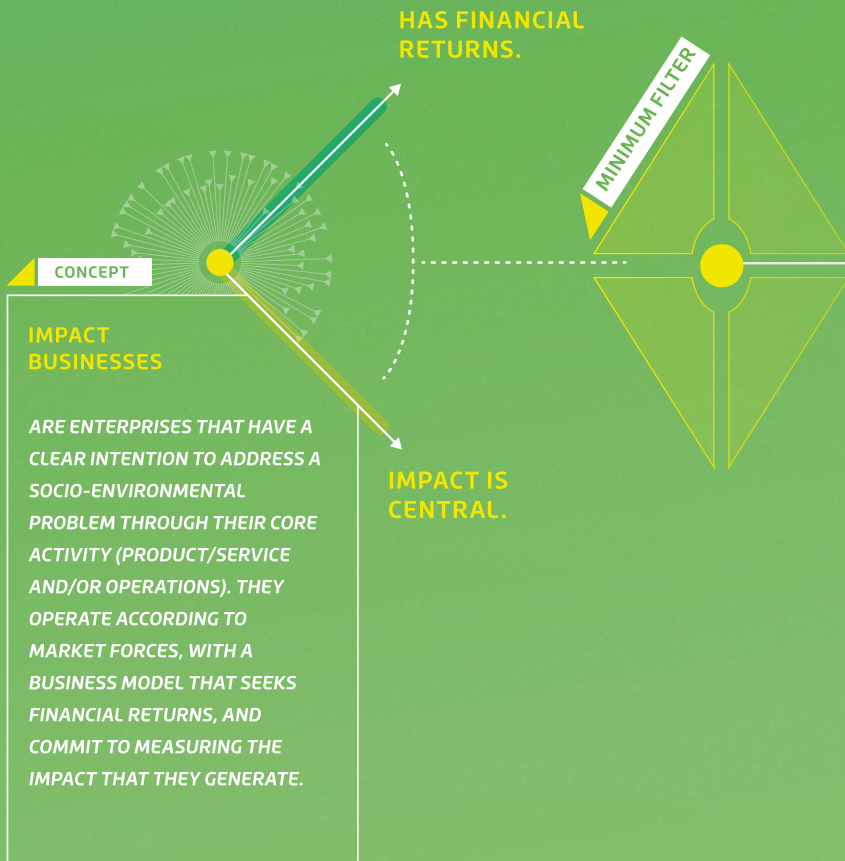
**THE SIZE OF AN ENTERPRISE IS NOT SUFFICIENT TO DEFINE WHETHER IT IS AN IMPACT BUSINESS.**

*Small, medium and large enterprises can be impact businesses, provided that they meet the criteria in the **MINIMUM FILTER**.*

# VIII

## WHAT ARE IMPACT BUSINESSES

HOW TO IDENTIFY IMPACT BUSINESSES.



CRITERION 1:  
INTENTION TO SOLVE A SOCIAL PROBLEM

CRITERION 2:  
SOLUTION THAT CREATES IMPACT IS THE CORE BUSINESS

CRITERION 3:  
DRIVEN FOR FINANCIAL RETURN THROUGH THE MARKET RULES

CRITERION 4:  
COMMITMENT TO MONITORING THE IMPACT GENERATED.

COMMITMENT 1  
COMMITMENT TO UNDERSTANDING THE PROBLEM AND SOLUTION

COMMITMENT 2  
COMMITMENT TO AN EFFECTIVE BUSINESS MODEL

COMMITMENT 3  
COMMITMENT TO CREATING EFFECTIVE IMPACT

COMMITMENT 4  
COMMITMENT TO EFFECTIVE GOVERNANCE

DEVELOPMENT CYCLE OF AN IMPACT BUSINESS

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