THE IMPACTASSETS HANDBOOK FOR INVESTORS

GENERATING SOCIAL AND ENVIRONMENTAL VALUE THROUGH CAPITAL INVESTING

Edited by
JED EMERSON

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The Measurement Challenge

Sara Olsen

Ah, impact measurement …

Perhaps no single topic in this book has this particular quality of being both essential and anathema at the same time. Hold onto your hats, because that combination of opposites means this is a potentially transcendent topic!

At the outset, many investors may doubt one can ever really *know* one's impact, let alone account for it to someone else. I often hear those who are not yet engaged in impact investing say something along these lines: "If it were measurable, wouldn't it already be integrated into conventional investment decision-making?" But as ample and growing evidence presented elsewhere (including in this book) demonstrates,[1] seeking out and including information about the environmental, social and governance (ESG)-related qualities of investments results in a more complete view of not only investments' impact on the world but also of their potential financial performance. In other words, it is increasingly clear that investors' fiduciary duty includes understanding the material ESG qualities of investments.

Although one may intuitively gauge the social or environmental value of one's own investments, intuition is both impossible to transmit to other decision makers up the capital supply chain without supplementary means of communication, and intuition can be wrong. For example, early equity investors in microfinance believed it to have almost miraculous poverty-alleviating benefits– so much so that some I know have felt that

This chapter has been published in 'The ImpactAssets Handbook for Investors' edited by Jed Emerson (Anthem Press, 2017)

asking microfinance operators to stop and measure their social performance would require an unethical diversion of resources away from direct beneficiaries who might otherwise be saved from dire poverty. Yet studies show mixed poverty alleviation results of microfinance across the board, and solid evidence that certain practices in microfinance are what drive more consistently positive impact. These measurement insights combined with volatility in microfinance driven by scandalous negative impact where insufficient attention was paid to social and governance issues are all proof that, despite the surface appearance of obvious and sometimes even miraculous social benefits from impact investments, in order to *have* positive impact, systematically *measuring* impact is important.

What is impact, metrics and reporting in impact investing? How do you do it especially given the fact that privately held companies do not have to disclose their environmental and social performance, and currently there are no publicly available databases of information on the environmental and social impact of alternative investments?[2] Answers are obscured by the current state of practice in impact investing: most of what environmental and social impact data exist are proprietary, often based upon substantially qualitative and custom methods, and frequently not associated systematically with financial performance. Only recently have efforts to standardize definitions and define norms for impact management in impact investing been undertaken[3]; and functional, specialized information technology (IT) systems to support tracking, analysis and reporting of social outcomes relative to investment finally exist on the market today but their adoption is still nascent and these systems tend not to relate social outcomes directly with financial results. Despite all the good work of recent years, today impact information about investments isn't handed to anyone on a silver platter.

In sum, this is not a time in the evolution of the market when you can easily bluff your understanding of what it takes to measure social and environmental impact; therefore, it's important to know the basics. This overview will help you understand what it takes to gauge "impact," how various types of investors are using different approaches and where to go next.

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What Is Metrics and Reporting Within Impact Investing?

There are four basic applications for impact assessment within impact investing:[4]

1. When determining your objectives, as you consider what qualities and results of your investments matter to you
2. When deciding whether to make an investment as part of your due diligence process, to check "fit" and potential performance
3. Over the life of the investment relationship in ongoing performance monitoring and reporting, to improve performance
4. At key milestones and/or after exiting the investment, to evaluate results and demonstrate accountability

In other words, impact investing is infused with impact management and vice versa.

Impact Measurement That's Fit for Purpose

At a high level, the kind of impact measurement you will do is based upon the type of investing you will be doing. If you are focused upon public markets and engaging in shareholder advocacy, then the type of measures you're tracking will most likely be based upon already existing, publicly available information, and very likely this will have already been aggregated and even interpreted by a third party; if you're assessing the impact of more targeted, direct investments in the private equity, debt or grants space, then the metrics will likely be a combination of somewhat uniform metrics that consider the investee's social responsibility in general and may already have been produced by others, and more flexible metrics that are both tailored to the particular effects a given investment has on the world, and may be customized to inform your particular objectives and personal goals (and may require you to help pay for if not also do the measurement). For the purposes of this chapter, I will be focusing more on the issue of measurement in the private equity, debt and grants context.[5]

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The first application for impact measurement, "when determining your objectives," is highly personal. The next three applications for impact measurement all involve estimating impact. We must approach impact measurement with an eye toward projections and estimates since (unless we have a time machine!) we can never actually *see* both what happened and what would have happened if the investment hadn't occurred.

Impact Measurement for Investors: A Three-legged Stool

There are three fundamental impact issues to understand in investing:

1. The effect your investments have on yourself
2. The particular effects they have on the wider world
3. The degree to which the investments are living up to the social contract

These make up the three-legged impact measurement stool for investors.

Once you've decided you're interested in knowing what environmental or social impact your investing has, the next step is to reflect upon what is most important to you about the impact you seek to have with your capital.

Determining Your Objectives: What Is the Personal Impact You Seek to Create?

The first leg of the stool is definitely whatever impact you want to have … on yourself.

Often people answer this by the impact they intend to have on their wallet. Your advisor, if you have one, will be interested in knowing if you aim to preserve your capital, grow it, or even spend it down. Other folks begin by articulating their objectives around impact– what will provide you with the sense of meaning you seek. Generally these personal objectives include one or more of the following:

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- Having social or environmental performance that's better than the status quo across the board
- Benefiting a certain place or group
- Reducing a certain kind of change, or promoting another kind of change
- Reducing risk to your portfolio's financial returns

Questions to ask to clarify what your personal objectives are include:

1. What kind of result are you primarily interested in: risk reduction, enhancing financial performance, or achieving a certain type of impact? You may have a combination in mind but it's important to define these clearly and understand which is the priority.
2. Is there a certain population or place you are interested in benefiting, or an environmental issue you want to affect? If so, see the next question; if not, you might be more interested in a review of an organization's across-the-board performance in terms of ESG issues (see "Measuring the Social Contract," below)
3. Have you talked with the beneficiaries you're interested in regarding what they care about, and how it relates to the investment? If not, it is important to do this, and/or talk to others who are well versed in the issue(s).

It is useful to have an idea regarding what your priorities for financial and social/environmental value creation are, or how they will work in concert, and to document this, but it is also important to recognize that you will very likely wish to revise these priorities as you gain greater experience. You might consider the first pass at your personal objectives "version 1.0," and periodically (such as annually) revisit and update them.

And then there's your feelings …

Beyond your intentions regarding your financial returns and intentions for changing the world comes something even more personal: what *other* benefits you are going to get back personally when you make a contribution to changing the world in a certain way; that is, how do you hope to *feel* because of your investments? Do you want to feel:

- reinvigorated by a new challenge?
- powerful?

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- relieved of guilt?
- a sense of meaning?
- a sense of community?
- closer to your concept of god?
- confident that your legacy will be one your family is proud of?
- less worried that your kids or future generations at large are "in for it"?

I highlight the personal impact component because (besides having lived in northern California for 18 years . . .) all too often these personal motives operate unconsciously but dictate whether investors follow through on the impact part of their strategies. Many folks have gotten their "feels," and their financial returns, and then frankly forgotten to check whether the investment actually did any good out in the world relative to the stated impact objectives. This suggests that what mattered at the end was how the investor *felt*, not what impact was generated for people out there in a particular community much less the larger world. When this happens, these investments are not true impact investments.

But by explicitly distinguishing between (1) your own internal objectives, (2) your own external objectives, and (3) the actual social or environmental results your investments attain, you become able to distinguish these from one another. Your intentions and how the investments make you feel are not the same thing as what actually happens for the people or systems you set out to affect. It is crucial to recognize this, and then to verify what is in fact happening out in the world compared with what you intend and what's happening for you.

Indeed this is a central purpose of impact investing.

Once you have clarity regarding both the personal and financial benefits you seek from your investments, the remaining task is to align both with your actual results so that all three work together. This is the core, thrilling challenge of impact investing!

Pay attention to these questions about your internal and external objectives as you invest, and gradually you may notice how you feel when you support a certain kind of investment or when you get certain information back regarding what is and isn't working.

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That will help you reach answers about how you are hoping to benefit.

Now let's turn to the steps to measuring impact.

How to Measure Impact

While it is a bit of a mouthful to say, we need to begin with the understanding that reality consists of the complex, multisensory, physical, emotional, aesthetic, spiritual and economic experience of people, as well as the state of the natural environment. How can we gauge what is changing for each of these as a result of investment?

There are two answers: the theoretically ideal answer and the realistic answer.

Immediately upon setting out to understand the impact of a given investment opportunity you will be confronted with the issue of what resources are reasonable to put into knowing the true impact of an investment. This issue is called "proportionality"—meaning the amount of resources required to assess impact should be in measured proportion to the amount of the investment itself. As you read about the theoretically ideal way to measure impact, you will probably agree that proportionality in impact measurement is a needed principle.

Impact Defined

First let's define the term "impact." There is a general consensus in the impact investing world about what the term "impact" means for impact investment purposes. The G8's Social Investment Task Force's Impact Management Working Group in 2014 defined impact as follows:

> The reflection of social [and environmental] outcomes as measurements, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement), and for effects declining over time (drop-off).[6]

The diagram below offers a simple way to understand this definition of impact. Note that impact is not only what changes (the outcome) but the difference between the change and what would have happened anyway (in the absence of the entity's activities), or in other words, the additional change caused by the investment (Figure 8.1).

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Figure 8.1 Basic Impact Map or Logic Model.

Inputs	Activities	Outputs	Outcomes	Impacts
What resources are used in delivery of the intervention	What is being done with those resources (the intervention)	Products and byproducts of the activities; a summary of the activities in numbers	The changes arising in the lives of beneficiaries and others	The extent to which that change arises from the intervention

Note: GECES Sub-group on Impact Measurement, June 2014. *Proposed Approaches to Social Impact Measurement in European Commission Legislation and in Practice Relating to EuSEFs and the EaSI.*

Source: Author, Social Value International and GECES.

That said, the term "impact" is often used slightly differently by impact investors in practice. In particular the quality of "additionality" is seen by researchers as a defining characteristic of impact but has been treated with some ambivalence by investors, perhaps because it's more difficult both to measure and deliver than outputs or outcomes.[7]

How to Measure Impact in an Ideal World

In the ideal world we wave a magic wand and the answer to what our impact is appears … and then since I'm out of a job I wave it a second time and I become a world-class tango dancer for my next career!

However, the answer to what is ideal from a traditional, methodological perspective goes something like this:

First, before we even finalize our business plan (if we are the investee) or investment thesis (if we are the investor), we develop a picture of how implementation of our still-in-progress investment thesis will cause intended and unintended change. This is done by engaging in preliminary discussions with our stakeholders that help us learn what is changing for them that matters to them, as well as who and what else may be affected. We decide what impact we hope to have, which then informs both the design of the investment and our measures of change through discussions with these stakeholders and with experts in the areas we affect (such as public health, education or environment).

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Second, we use these measures to regularly gather information about the state of each distinct stakeholder group and each aspect of the environment that is changing in a significant way, beginning prior to the investment and recurring periodically until we have exited the investment. Ideally we also continue to track what has changed after we exit, for as long as the outcomes we care about take to manifest, so we truly understand whether what we did was effective. We also seek to understand any other outcomes due to the investment, whether positive or negative, that are important to our key stakeholders. This yields valuable information to inform both the ongoing management of the investment and how we will invest going forward. We compare the changes in those outcomes as time goes by to their state when we first invested, and compare them to a very similar group and/or physical setting that didn't experience the investment, to understand the contribution our investment made to the change.

Third, with primary and secondary data in hand, we analyze the information—take into account previous trends, other factors and relevant existing research that might explain the differences we see and help us draw conclusions about the significance of the changes. We do this for all our investments and make meaning of the whole using our skills in comparison and aggregation of different types of investments and their diverse impacts.

Fourth, we create individual reports and roll-ups that summarize and distill insights about our impact for all stakeholders and environmental aspects globally. We regularly present this information in reporting we make available online and offline in versions with levels of detail tailored to our different audiences and their purposes.

Finally, both the investor and the investee make regular use of this information to inform investment, venture management and other decisions.

As you can imagine, this kind of robust data collection, analysis and information management requires diverse skills, and if it is feasible at all it is most likely possible only for entities who do not need to balance the resources spent on impact tracking and reporting with their financial return on investment; that is, governmental entities or foundations whose purpose is to advance

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the public good. It is therefore no wonder measuring impact, let alone managing impact, is seen as a daunting if not impossible feat by many investors!

Which brings us to the *practical* answer to impact measurement in the context of private investors doing it for their own reasons, not because of a regulatory or funder requirement.

How to Measure Impact in Most Investors' Practical Reality

The practical answer to how to measure impact for investors in the private sector context is to take the previously outlined "ideal" methodology and merge it with what is possible and necessary given five other considerations:

- will
- time
- money
- technology

For the sake of simplicity we will set aside the additional considerations of access and privacy.

While it is tempting to streamline impact measurement efforts to the greatest degree possible, if we do that we risk losing what matters. As the axiom goes, you can't manage what you don't measure, and if we don't measure certain things we not only can't design effective solutions we can't even stay in business. What information about impact is critical to measure?

Simplify but Don't Oversimplify

The metrics that *must* be measured are context-dependent and, in this unregulated arena, ultimately an individual judgment, but some things are relevant for impact investors to measure in general.

What is relevant to measure in impact investing begs the question, "Relevant for whom?" There are three distinct answers to this question that inform the three legs of the impact measurement stool we discussed earlier. One is the impact that is relevant or "important for me": something that either I, the investor, may

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Figure 8.2 Two Ways of Thinking About Relevance of Social and Environmental Impacts.

care about quite strongly. Another, which is related to the first in terms of how it is measured, is the impact that is "important for those affected" by the investment, that is, the people other than the investor who are affected by an investment's activities and outputs. The last is the impact that is "important for society generally," that is to say, the social or environmental quality or performance of an investment as seen through the eyes of society at large, or in other words the investment's performance relative to the "social contract" in a given place, day and age (Figure 8.2).

What you do to measure the relevant issues at one of these poles is quite different than what you do to measure the relevant stuff at the other pole.

The Other Two Legs of the Impact Measurement Stool

These two poles have yielded two fundamentally distinct ways of going about measuring impact. The two ways may be thought of as "rules-based" and "principles-based" ways of gauging impact.

Measuring the Social Contract: Rules-based Approaches to Estimating Impact

The third leg of the impact measurement stool is the impact on society at large, or in other words, the investment's "social responsibility." This generally consists of how an investment such as a company treats people and the environment. The best way to gauge this is via a prescribed set of indicators that a sizeable number of society's wisest members have agreed are the right ones over a series of coordinated sessions to gather their input; otherwise

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the task of gauging it would be unfeasible. Approaches that dictate the metrics and hold them constant across organizations can be considered rules-based approaches. Examples include:[8]

- B Lab B Impact Assessment for B Corp Certification
- B Lab Global Impact Investment Rating System (GIIRS)
- Global Reporting Initiative (GRI) G4 Framework
- Sustainability Accounting Standards Board (SASB) Standards

Impact measurement and reporting approaches that have prescribed metrics most often focus on factors that may be easily compared between different organizations, that is to say, policies, activities and outputs, rather than actual changes experienced by stakeholders or systems (outcomes or impacts). See for example these metrics from one of SASB's 79 reporting standards (Figure 8.3).

Major benefits of prescribed metrics are that no particular skill is required to apply them, and it is relatively easy to compare one organization to another organization using identical metrics. Down sides of this method are that the absolute impact on any given stakeholder or issue area caused by the entity is generally missing from the analysis, and the unique social and environmental differentiators of a given enterprise are buffed out.

The level of effort required to generate an assessment of an organization's impact using one of these standards varies substantially. Generally speaking, B Corp certification is designed for use by privately held, small and medium-sized enterprises, while the methodologies of GRI and SASB are designed for larger publicly traded companies, although these divisions are not rigid (e.g., privately held companies can use the SASB standards, and in late 2014 Natura became the first publicly listed company to become a certified B Corporation).[9] For a very small company it may take about a day or less to fill in the B Corp B Impact Assessment if all your papers are on hand; for a large company to create a highly comprehensive report using the G4 Framework, the time required may be a year or more (at which point the process is similar to painting the Golden Gate Bridge—after one finishes, it is time to begin again!).

Figure 8.3 SASB Commercial Banks Sustainability Accounting Standard, Table 1 (excerpt).

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Financial Inclusion & Capacity Building	Percentage of new accounts held by first-time account holders	Quantitative	Percentage (%)	FN0101-01
	Percentage of total domestic loans for underserved and underbanked business segments	Quantitative	Percentage (%) in U.S. dollars ($)	FN0101-02
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers[7]	Quantitative	Number (#)	FN0101-03
	Loan-to-deposit ratio for: (1) Overall domestic lending (2) Underserved and underbanked business segments	Quantitative	Ratio in U.S. dollars($)	FN0101-04
	Loan default rates for: (1) Overall domestic lending (2) Underserved and underbanked business segments	Quantitative	Rate in U.S. dollars($)	FN0101-05
Customer Privacy & Data Security	Number of data security breaches and percentage involving customers' personally identifiable information[8]	Quantitative	Number (#), percentage (%)	FN0101-06
	Discussion of management approach to identifying and addressing vulnerabilities and threats to data security	Discussion and Analysis	n/a	FN0101-07

Measuring Specific Changes: Principles-based Approaches to Measuring Impact

The second leg of the impact measurement stool is the particular impact out in the world that is created by an investment. While it might be theoretically possible to create a huge list of every conceivable impact on the natural environment, out of which one could ask people to go through and pick the relevant metrics for a given investment, for most investors it is simply not possible to create a prescribed set of indicators to gauge every possible social and/or environmental impact in every context. Something new is always coming along. So a better approach for this situation is to actually engage in research via a process wherein you make a set of judgments along the way that are guided by principles; this methodology is then referred to as a principles-based approach to estimating impact.

Principles-based approaches to measuring and/or reporting impact include:[10]

- International Integrated Reporting Council (IIRC): Integrated Reporting Framework (<IR>)
- Natural Capital Coalition (NCC): Protocol (the "Protocol")
- Social Value International (SVI): Social Value Principles and Social Return on Investment (SROI) Methodology
- Acumen Fund: Lean Data Initiative
- Randomized Control Trials[11]

Principles that tend to be common across different approaches include:

- Clearly articulating the scope and purpose of the analysis
- Identifying and involving stakeholders in the analysis
- Understanding what is changing for stakeholders and/or the environment
- Including the material issues (and not others)
- Transparent reporting

Typically the steps in implementing these approaches involve:

- Determining the purpose of the analysis
- Engaging stakeholders

- Understanding and documenting changes and their importance or value
- Considering what else has contributed to the change
- Reporting all of this in a transparent and useful manner

The benefit of principles-based approaches is that they enable organizations to determine what their unique impacts are that help them define their specific value propositions. However, a down side is that they require skill and generally cost more to implement (especially in a comprehensive way) than prescriptive approaches. For example, it would be unlikely to see Unilever consider developing a Social Return on Investment assessment of every part of its global activities, but it might do so for a specific initiative in a particular region. It's interesting to note that Unilever has considered becoming a certified B Corp that would entail completing an impact/performance survey that applies to all its global operations.[12]

To understand what is changing for stakeholders it is best to ask them. In principles-based approaches, this can be done in various ways ranging from observation of the setting people are in and their behavior, to informal conversations with stakeholders, formal interviews, focus groups and surveys. The recent advance of mobile technology means this type of research may be conducted at both small and large scale for much lower cost than in the past. Provided one has the phone number or location of one's stakeholders, impact assessment that investigates changes for groups of remote stakeholders can be done for as little as a couple of thousand dollars total.

Streamlined Stakeholder Research

Many organizations have used a streamlined, principles-based approach to assessing changes experienced by stakeholders using SMS- and mobile device-based surveying to obtain both social impact information and more conventional customer feedback. Acumen Fund refers to this as Lean Data, and Root Capital executes a similar approach called Client-Centric Mobile Measurement.[13] Both have used SMS and mobile technology to survey intended beneficiaries of their investments in remote regions of countries in the global south to obtain insights both into whether their intended outcomes such as around poverty alleviation have occurred, and to gain customer feedback that helps them understand better what their beneficiaries value about what is changing, which informs the types of investments they offer.

These practical versions of impact assessment are less strict with regard to establishing specific attribution. As both Acumen Fund and Root Capital state in their report on Lean Data:

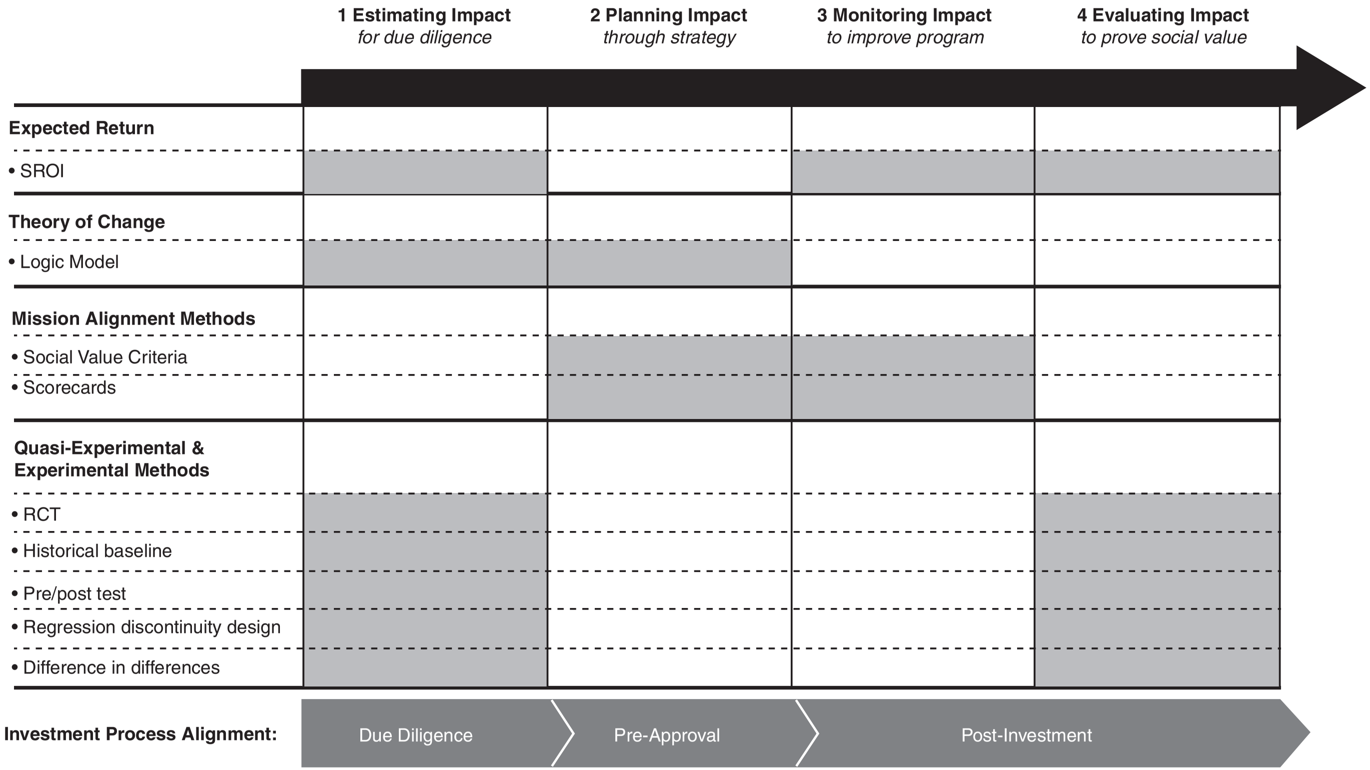
> Our principle objective is not to know with certainty that impact can be attributed to a particular action or intervention. Our objective is to collect data with an appropriate degree of rigor that gives voice to our customers, including a more objective window into their experiences of a given product or service, and helps the businesses we invest in use this data to keep an eye on their social metrics and manage toward ever improving levels of social performance.
>
> To avoid confusion in this report, we use the term social performance measurement rather than impact measurement as a more accurate description [than "impact"] of the data we collect and use to assess the social change we believe both we and our respective investees make.[14]

Newer versions of principles-based frameworks such as the NCC Protocol referenced above provide for discretion on the user's part as to the level of effort that is appropriate to gauge what factors are changing. They enable managers to make informed choices regarding what the appropriate impact measurement will consist of in a given situation; and analysts reading the resulting reports to understand what choices were made when the impact was measured and reported, so that both can obtain a fair and true picture of what is truly changing.

Up the Learning Curve

While 10 years ago many doubted it was realistic to expect investors to learn how to measure social impact overall, the level of effort and skill they employ in this task and expect of their investees is rising, as evidenced not only by the willingness of the publisher to publish this book but by the approaches used by impact investors known for their commitment to impact measurement and established practices diagrammed by So and Staskevicius (Figure 8.4).

Figure 8.4 Map of Measurement Methodologies to Measurement Objectives.



Source: So and Staskevicius, "Measuring the 'Impact' in Impact Investing," 2015.

Hybrid Approaches

While rules-based and principles-based approaches differ fundamentally, in practice their combination is becoming more common. Some of the reporting frameworks that began as prescribed lists of indicators such as GRI in more recent iterations are migrating toward versions that permit users to determine what is most important to include,[15] and thus to exercise skilled judgment in their application; this then has evolved into a hybrid approach.

B Corp too has supplemented its fixed assessments and relatively static summaries with its B Impact Analytics platform, which permits users to unpack the details and highlight aspects they deem most important in their own analysis. Impact Reporting and Investing Standards (IRIS), begun as a taxonomy of indicators on the premise that investors could simply pick from among its list and thus have an easier time communicating with each other and in aggregate about impact, is proving to be used most often in combination with custom metrics its users define for themselves. My own firm, SVT Group, both tracks our own customized measures of our impact on customers and relative to our mission, and completes the B Impact Assessment to maintain our B Corp certification. The International Integrated Reporting Framework even provides guidance to publicly traded and other companies on how present their environmental, social and financial performance information in a single annual financial report; after all it's all value that is of interest to investors.

The Will to Measure: Impact Measurement Behaviors and Beliefs

Although there are efforts being made by investors to understand their impact and overall ESG performance, what a given group of investors consider essential to measure in practice is constantly being defined by the market and actors within it. Today, good practices I see among practitioners and in the literature include the following:

- Be aware of which stakeholders are affected in a way that is important to them, especially including those with the least voice

- Involve stakeholders in efforts to determine what to measure and then in measuring it (think: customer research)
- Gauge whatever is the most important intended impact of the investment
- Measure and reduce material environmental impacts
- Measure what it cost to produce the analysis of impact
- Track how these insights are turned into value by the investor, and what that value is
- Measure the financial performance of the investment relative to expectations
- Assess and monitor "impact risk," that is, the risk that impact will be different than expected
- Align overall measurement practices with the UN Sustainable Development Goals

What is considered appropriate relates not only to what makes sense to actually gauge impact, but also to what is seen as appropriate within a given audience's culture (the "will" issue I mentioned earlier). Some (though not all) newcomers to the space whose peer group have traditionally seen their investments as unrelated to social or environmental impact are being asked if they have social impact investment opportunities by asset owners. These newcomers in turn approach the problem with this question: "What is the least I can do that will qualify to my investor as 'impact'?" This is likely because they believe impact investing is a fad and irrelevant to their core purpose as investors.

Others believe combining attention to impacts on people and the planet with financial performance management is not only socially but commercially constructive. These actors seek to do what they can to demonstrate their impact in a credible fashion within a cost structure they can justify (such as a few basis points that they expect to pay for through enhanced sales). Others may leave their old firms behind and form a new firm specifically devoted to addressing a certain issue, and will formulate more involved approaches to measuring impact.

Some impact investors actively disagree with each others' approaches. For example, there is a group of investors only tracking performance metrics that may simultaneously serve as operational performance indicators. In this case, a lender

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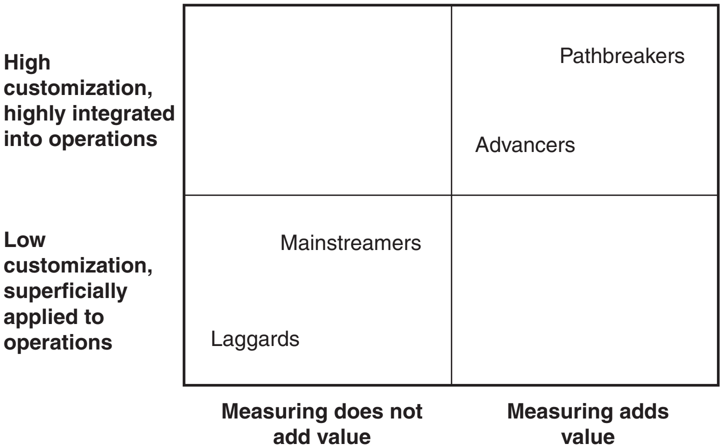
Figure 8.5 The Metrics Beliefs Matrix: Investor Impact Measurement Beliefs and Behaviors.



who intends to reduce poverty may track the number of loans made within a target community, that is, percentage of loans in default. This approach may be viewed as a best practice by some investors, while others point out that tracking only those metrics related to management of the venture leaves open the door that unintended, material *negative* impacts may be occurring (such as over-indebtedness of borrowers that then mires them in poverty—but improves the venture's "impact" performance by increasing the number of clients). I've illustrated the cultural beliefs and behaviors among investors today regarding impact measurement practices in a "Metrics Beliefs Matrix" (Figure 8.5).

Some metrics may be relevant for cohorts of investors, in which case they may all agree to track the same performance indicators. This is the case for the Aspen Network of Development Entrepreneurs (ANDE) who have worked to arrive at a focused number of metrics that are coded using the IRIS system that most of their members already track. Other metrics will be of interest to specific funds, such as the percentage of investees from a certain region, whether the employees of those companies are making living wages, whether more girls are gaining access to quality education and so on. IRIS contains clusters of indicators that have been found to be useful among certain fields of practice and certain well-reputed funds.

This diversity of beliefs will likely remain, although it would be helpful if everyone's social and environmental performance could be understood and aggregated. The UN's Sustainable Development Goals may help: they are a prescribed set of global impact goals with which many investors are looking to align both their individualized and standardized measures and reporting.

The Emerging Profession of Impact Managers and Impact Analysts

While many investors may generate their own impact assessments, there are some who will use impact reporting generated by others to make their decisions. In recent years this has begun to take two distinct roles related to metrics and reporting in impact investing. One is that of the party doing the measurement and reporting, the "Manager." The other is that of the party using this information to make decisions, the "Analyst." Sometimes they overlap in one person or office, but increasingly we're seeing an important distinction between these two roles.

The Impact Manager

The Impact Manager is charged with measuring and managing impact. This role involves producing an estimate of impact, whether by doing it oneself or by commissioning others to do so. As we have been discussing, the process involves defining the scope of the thing to be studied, determining measures, collecting and analyzing data, and reporting information. Measurement fits within the larger role of the Impact Manager, which is to define intended impact, establish measures and performance targets as well as information management systems to track and analyze data, and use data to inform decisions.

A growing number of entities offer training in impact measurement and management for the impact investing context, from businesses to impact investing networks such as the Global Impact Investing Network (GIIN) and TONIIC, to professional associations such as SVI and AEA (American Evaluation Association), and a growing number of academic institutions. (A list of resources and associations supporting impact measurement and metrics will be found at the end of this chapter.)

The Impact Analyst

Often the person deploying capital reads impact reporting produced by others in order to understand the impact itself. Katherine Ruff points out that for every impact report producer, there are likely 100 readers, and reading critically requires an understanding of what issues can cloud or warp the picture of impact. Kate first proposed the idea that, much the way doctors help us laypeople figure out what those medical tests mean or financial analysts help us know which stocks to buy or dump, skilled "impact analysts" who can interpret impact through disparate reporting methods are crucial to enabling investors to make sense of which investments are a good match for their personal objectives. We have elaborated elsewhere on how their skills, along with metrics that are flexible within certain bounds, combine to enable informed capital allocation decisions and grow a well-functioning social capital marketplace.[16]

Qualities of Good Reporting About Impact

Informed by the fields of evaluation and impact measurement, sociology, accounting and economics, SVI (of which Kate and I are members) has distilled a preliminary set of the qualities of good reporting about impact that are summarized in Figure 8.6.

Each of the issues fleshed out in the framework affects whether the impact analyst can understand the true impact underlying what is reported. Social Value US and Canada have also developed this framework into a training seminar in skilled impact analysis, and a professional certificate conferred by SVI, to support the development of this new analyst role.

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Figure 8.6 Qualities of Impact Reporting.

Overarching analytical questions: Can we see the impact clearly? Can the impact assessment methods and results be compared to other entities (and their methods and results)?

		Define & measure outputs	Define & measure outcomes	Estimate impact*	Value the impact*
Framing	Purpose and audience	What is the purpose of the report? Who is the audience for the report?			
Framing	Boundary and scope	What is the boundary of the entity/program being assessed? Which elements of the value chain are included/excluded? Are indirect effects included or just direct effects?			
Framing	Materiality	Are all material outcomes included?			
Measurement and Analysis	Validity	Are measures used good reflections of the underlying reality they are trying to measure?			
Measurement and Analysis	Reliability	Are data used consistent over time and place?			
Measurement and Analysis	Causality	Is the reporting clear on how the organization or program creates impact? Does it try to account for what would have happened without the organization?			
Measurement and Analysis	Valuation	Does the report use appropriate methods for valuing, rather than just measuring or reporting, social impacts?			
Presentation	Clarity	Is the report clear and comprehensible to relevant stakeholders? Is information presented in a way that facilitates understanding?			
Presentation	Transparency	Is the reporting transparent in how data was collected and analyzed? Can the process be replicated from the information provided?			
Presentation	Uncertainty	Does the analysis account for and describe uncertainty in the reporting and analyses?			
Presentation	Neutrality	Is the reporting impartial in how it presents the data and findings?			
Presentation	Judgment	Are any evaluative judgments justifiable and based on the data and findings?			
Presentation	Comparability	Can the results be compared to those of other organizations or programs?			
Cross-cutting	Engagement	Were the right stakeholders involved in appropriate aspects of assessing and reporting social impact/value?			
Cross-cutting	Proportionality	Were the resources used to assess and report social impact proportional to the size and importance of the impact?			

Source: Social Value US and Social Value Canada, 2017.

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Conclusion

It is not new to think that work done with the intent of creating a positive social or environmental outcome ought to be measured systematically to assess if it was successful, but it *is* relatively new to see the private sector deliberately and voluntarily engage in systematic measurement of these extrafinancial outcomes as a way to both enhance profits and create a healthier and more sustainably prosperous world.

You may know—you may even be!—one of the early mission-driven innovators who has become jaded about impact metrics, and views impact measurement as either a power play imposed by impact investors on those already lacking power in the finance equation, or an unfortunate oversimplification that reduces things that are quintessentially valuable to soulless and often wrong numbers on a page that are then used to justify dubious decisions. It is true that getting the metrics wrong is not just a waste of resources; it potentially creates real-world harm.

But a growing number of practitioners and investors are arriving at the conclusion that impact measurement—ubiquitous, high-quality impact measurement—is a crucial navigation aid in the world of impact investing; and that, in fact, it is necessary to enable us to solve the world's problems.

That group is becoming a new profession that will change the face of capital markets worldwide.

Metrics, Reporting Networks and Resources

The following are information and resource networks and information sources that will assist you in your continued process of learning how to understand and best apply performance metrics and reporting in the course of your own impact investing.

Networks and Professional Associations

Quotes below are from the organizations' websites.

- The American Evaluation Association (AEA) "is a professional association of evaluators devoted to the application and exploration of program evaluation, personnel evaluation, technology, and many other forms of evaluation. Evaluation involves assessing the strengths and weaknesses of programs, policies, personnel, products, and organizations to improve their effectiveness. AEA has approximately 7100 members representing all 50 states in the United States as well as over 60 foreign countries." (http://www.eval.org/)

- The Aspen Network of Development Entrepreneurs (ANDE) is "a global network of organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to *small and growing businesses (SGBs)* based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, we believe that SGBs can help lift countries out of poverty." Among other things, ANDE's Metrics & Research Learning Lab organizes webinars for members, and there are regional metrics Learning Labs in Brazil, East Africa, and South Africa that organize in-person meetings. (www.andeglobal.org/)
- B Lab "is a nonprofit organization that serves a global movement of people using business as a force for good™" B Lab is: "1) Building a global community of **Certified B CorporationsTM** who meet the highest standards of verified, overall social and environmental performance, public transparency, and legal accountability; 2) Promoting **Mission Alignment** using innovative corporate structures like the benefit corporation to align the interests of business with those of society and to help high-impact businesses be built to last; 3) Helping tens of thousands of businesses, investors, and institutions **Measure What Matters**, by using the B Impact Assessment and B Analytics to manage their impact—and the impact of the businesses with whom they work—with as much rigor as their profits; 4) Inspiring millions to join the movement through story-telling by B the Change Media." (https://www.bcorporation.net)
- The Chartered Financial Analysts (CFA) Institute has a mission "to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society." It "seeks to set professional standards for investment management practitioners and

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broadly engage other finance professionals through their interest and interactions with the investment management industry. Improving outcomes for investors advances our social mission and benefits members through greater demand for educated and ethical investment management professionals." Recently the CFA Institute has begun exploring environmental, social and governance issues. (https://www.cfainstitute.org/)

- The European Evaluation Society (EES) has a mandate "to stimulate, guide and promote the theory, practice and utilization of evaluation in Europe and beyond. Our vision is a world where evaluation contributes to human welfare through social learning. Specifically EES seeks to advance evaluation knowledge and to encourage adoption of good practices by fostering evaluation excellence, independence and partnerships. EES activities aim to support improved enabling environments for evaluation, stronger communities of practice, relevant evaluation research and enhanced evaluation methods." EES has over 550 members from 74 countries. (https://www.europeanevaluation.org/)
- The Global Impact Investing Network (GIIN) "drives thought leadership on a variety of key topics and themes within the impact investing industry. Recent campaigns have served to direct attention to the complexities of a growing industry, as well as the role of impact investing in achieving the UN Sustainable Development Goals (SDGs)." The Global Impact Investing Network (GIIN) also has "an investor-focused membership to support one portion of this growing ecosystem in service of the GIIN's mission to increase the scale and effectiveness of impact investing … Organizations of all types that make—or plan to make—impact investments are invited to apply. Organizations providing—or seeking to provide—services to impact investors, such as law firms, investment advisors, ratings agencies, and placement agents, are also invited to apply to join the community." Many early members are institutional investors. (https://thegiin.org/)
- The Natural Capital Coalition (NCC) "is a unique global multistakeholder collaboration that brings together leading global initiatives and organizations to harmonize approaches to natural capital." NCC facilitated development of the Natural

Capital Protocol, "a framework designed to help generate trusted, credible, and actionable information for business managers to inform decisions." (http://naturalcapitalcoalition.org/)

- The Social Performance Taskforce (SPTF) "is a non-profit membership organization with more than 3,000 members from all over the world. Our members come from every stakeholder group in inclusive finance. SPTF engages with these stakeholders to develop and promote standards and good practices for social performance management (SPM), in an effort to make financial services safer and more beneficial for clients." (https://sptf.info/)
- Social Value International (SVI) is a membership organization whose "members share a common goal: to change the way society accounts for value. Our pioneering community contains members from over 45 countries, drawn from a huge range of different sectors and disciplines. We work with our members to embed core principles for social value measurement and analysis, to refine and share practice, and to build a powerful movement of like-minded people to influence policy." SVI has roughly 1000 members, 20 country-specific networks that organize trainings and meetings, and hosts an annual global conference. (http://socialvalueint.org/)
- Toniic serves "individuals, family offices, foundations and funds. We increase the velocity of money and services into impact investing to address global challenges. Our members commit to discover, evaluate, nurture and invest in financial products—in all asset classes—that promote a just and sustainable economy. Through the 100%IMPACT members of Toniic, we share portfolios and learn, together, how to best align financial assets with personal values." (http://www.toniic.com/)

Databases of Impact (and Outcome, Output and Activity) Indicators

- IRIS is a free catalog of performance metrics for tracking social and environmental impact of investments. *It* is managed by the Global Impact Investing Network (GIIN). (https://iris.thegiin.org/)

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- Global Value Exchange is a free, crowdsourced database of Values, Outcomes, Indicators and Stakeholders. It provides a free platform for information to be shared enabling greater consistency and transparency in measuring social & environmental values. (http://www.globalvalueexchange.org/)

Reports, Books and Articles of Interest

Ruff, K., and Olsen, S. (2015) “The Next Frontier in Impact Measurement Isn’t Measurement at All,” *Stanford Social Innovation Review.* https://ssir.org/articles/entry/the_next_frontier_in_social_impact_measurement_isnt_measurement_at_all.

Hehenberger, L., Harling, A., and Scholten, P. (2015). *A practical guide to measuring and managing impact.* http://evpa.eu.com/publication/guide-measuring-and-managing-impact-2015/.

Nicholls, J., Lawlor, E., Neitzert, E., and Goodspeed, T. (2012). *A guide to social return on investment.* The definitive guide on how to do social return on investment analysis. http://www.socialvalueuk.org/resources/sroi-guide/

Olsen, S., Kemp, C., and Betancourt, A. (2017) *The pulse of impact management,* SVT Group and the Middlebury Institute at Monterey Center for Social Impact Learning. A “cliff’s notes” on impact due diligence, ongoing monitoring and reporting practices among impact investors with a link to 250+ supporting papers and resources. http://miis.edu/academics/researchcenters/social-impact/research.

So, I., & Staskevicius, A. (2015). *Measuring the “impact” in impact investing.* A guide to the combination of measurement approaches seen among impact investing firms known for their commitment to measuring impact. http://www.hbs.edu/socialenterprise/Documents/MeasuringImpact.pdf.

Social Impact Investment Taskforce of the G8. (2014). *Allocating for impact: subject paper of the Asset Allocation Working Group.* A landmark report on impact investing. http://www.socialimpactinvestment.org/reports/Asset Allocation WG paper FINAL.pdf.

Social Impact Investment Taskforce of the G8. (2014). *Measuring impact: subject paper of the Impact Measurement Working Group.*

A landmark report on good impact measurement practices within investing. http://www.socialimpactinvestment.org/reports/Measuring Impact WG paper FINAL.pdf.

Toniic Institute. (2012). *Toniic e-guide to impact measurement.* A practical guide for impact investors and their advisors, with information about use of IRIS and GIIRS. http://www.toniic.com/wp-content/uploads/2011/12/Toniic-E-Guide-to-Impact-Measurement.pdf.

The Impact Management Project (2017): various publications and a glossary that seek to define the emerging conventions governing terms and practices in impact investing and impact measurement within it. http://www.impactmanagementproject.com/.

Twitter Feeds Worth Following

- @meansandrew founder of data analysts for social good, the impact lab. Observer and shaper of trends in data science for impact, impact management and accountability
- @ImpactAlpha news on the industry
- @trisml comments on tech, data & evidence "tools for transformation, but we need collective action to make them work." Director of Innovation & Development at NPC in United Kingdom
- @svtgroup news and insights about the impact management industry and wider ecosystem

I would like to acknowledge GRI, SVI, B lab, IRIS and their progenitors and champions for helping turning some lights on in a previously pretty dark room, and Kate Ruff, David Pritchard, Michael Harnar, SVT Group, AEA and SVI for the early version of the skilled impact analysts' framework described here.

Notes

1 For example, Mozaffar Khan, George Serafeim and Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality," *The Accounting Review*, Vol. 91, No. 6, (2016), pp. 1697–1724, http://aaajournals.org/doi/abs/10.2308/accr-51383?code=aaan-site; "Sustainable Investing and Bond Returns. Research

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Study into the Impact of ESG on Credit Portfolio Performance," (Barclays Bank, October 30, 2016) https://www.investmentbank.barclays.com/our-insights/esg-sustainable-investing-and-bond-returns.html; "Measuring the Impact of Economic Short-Termism," (McKinsey Global Institute, February 15, 2017), http://www.shiftto.org/download/309056/measuringtheeconomicimpactofshortermismmckinsey2017.pdf.

2 B Lab currently has the closest thing to this with a database of about 1,800 (as of Q1 2017) verified company scores, which it makes freely available, but the associated financial performance data is confidential.

3 For example, in 2017 The Impact Management Project facilitated the documenting of a series of current norms and a glossary of commonly misunderstood terms in impact investing, and in 2008 Impact Reporting and Investing Standards (IRIS) was launched to provide standard definitions for ESG indicators frequently seen in impact investing. See impactmanagementproject.com and https://iris.thegiin.org/.

4 For more details on how impact is considered within the three latter of these stages see Sara Olsen, Aislinn Betancourt, and Courtney Kemp **"The Pulse of Impact Management: Current Uses of and Trends in Social and Environmental Impact Measurement in Investing," (SVT Group and the Middlebury Institute Center for Social Impact Learning, 2017)** and Ivy So and Alina Staskevicious, "Measuring the Impact in Impact Investing" (Harvard Business School, 2015).

5 It is possible to do impact measurement and reporting that is integrated across both alternative investments and public equities. The International Integrated Reporting Framework provides guidance as to what this looks like as far as company-facing reporting goes. One clue is that the impact map discussed in this chapter is also at the center of Integrated Reporting. See https://integratedreporting.org/.

6 Social Impact Investment Taskforce of the G8, *Measuring Impact: Subject Paper of the Impact Measurement Working Group. A Landmark Report on Good Impact Measurement Practices Within Investing,* 2014. For more relevant definitions see also the Impact Management Glossary, http://www.impactmanagementproject.com/glossaries/.

7 Although the G8's Social Investment Task Force glosses over additionality in its diagram of impact, referring instead to impact as a long-term, sustained outcome regardless of whether it was caused by the investment activities in question, the elements of additionality are included in the definition of impact in the report's glossary. See *Measuring Impact,* 6, 27.

8 B Lab B Impact Assessment for B Corp Certification, http://bimpactassessment.net/; B Lab Global Impact Investment Rating System (GIIRS), http://b-analytics.net/giirs-funds; Global Reporting Initiative (GRI) G4 Framework, https://www.globalreporting.org/information/g4/Pages/default.aspx; Sustainability Accounting Standards Board (SASB) Standards, https://www.sasb.org/.

9 Fast Company, "A Public Company Has Finally Become a B Corp," December 23, 2014. https://www.fastcompany.com/3040158/a-public-company-has-finally-become-a-b-corp

10 See: International Integrated Reporting Council (IIRC) integratedreporting.org/, Natural Capital Coalition (NCC) naturalcapitalcoalition.org/, Social Value International (SVI) socialvalueint.org, Acumen Fund: Lean Data Initiative http://acumen.org/ideas/lean-data/.

11 The randomized control trial (RCT), often referred to as the gold standard for impact assessment, is a type of experimental design study in which "an intervention is investigated by comparing one group of people who receive the intervention with a control group who do not. The control group receives the usual or no treatment, and their outcome, or the change in measure from the starting point or baseline, is compared with that of the intervention group." Individuals are randomly assigned to either the treatment or control group. In those cases where individuals are not randomly assigned the same structure is called "quasi-experimental design." RCTs are one expression of the scientific research method, also known as experimental method, where there is both a subject and a control group, and you look to see what happens to both in order to assess how the intervention worked.

12 The Guardian. "Will Unilever Become the World's Largest Publicly Traded B Corp?" Published January 23, 2015, Accessed July 12, 2017. https://www.theguardian.com/sustainable-business/2015/jan/23/benefit-corporations-bcorps-business-social-responsibility.

13 For example Good World Solutions and Mobile Metrix are organizations devoted to using mobile and SMS technology to collect information about stakeholder experiences. See goodworldsolutions.org/ and www.mobilemetrix.org/.

14 Acumen Fund and Root Capital, "Innovations in Impact Measurement: Lessons using mobile technology from Acumen's Lean Data Initiative and Root Capital's Client-Centric Mobile Measurement," Published 2015, http://acumen.org/wp-content/uploads/2015/11/Innovations-in-Impact-Measurement-Report.pdf

15 What to include is decided using the principle of "materiality," generally defined in the impact measurement context as change that is considered important by any key stakeholders, not just shareholders.

16 Kate Ruff, "The Role of Intermediaries in Social Accounting: Insights from effective transparency systems" in *Accounting for Social Value*, edited by Laurie Mook. (University of Toronto Press, 2013). And Kate Ruff and Sara Olsen, "The Next Frontier in Impact Measurement Isn't Measurement at All," *Stanford Social Innovation Review*, 2015. https://ssir.org/articles/entry/the_next_frontier_in_social_impact_measurement_isnt_measurement_at_all.

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