Impact Measurement:
Saving Impact Investment from Investment Folly

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*There are many approaches to measuring impact. The Social Impact Analysts Association **www.siaassociation.org** has played a significant role in bringing together social impact analysts. They have free online resource signposting current information about the measurement, analysis, assessment and evaluation of social impact and social value worldwide. See the next article for a list of some of the approaches to impact measurement. The author, Rohan Martyres, works for CAN Invest, a social investment intermediary. The also provide impact analysis and reporting services.*

We all know of individuals who amass surplus capital through skill, persistence or luck, and then squander it on folly, be it temporary pleasure with little enduring meaning, or the eponymous building that serves no tangible purpose.

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This risk also applies to impact investment. How do philanthropists know if they have entered the fool's paradise of believing they are making a real difference when they are simply frittering away their hard earned cash? The answer is simple: impact measurement.

Social impact measurement is the discipline of understanding and reporting on the social, environmental and other changes effected by organisations for their stakeholders. But before outlining what good impact measurement involves, it's worth considering the wider context for impact investors.

What Drives Impact Investment?

At the most basic level, impact investment acknowledges that investors have non-financial interests and they live by a set of values that are traditionally left out of investment decisions.

The first issue, then, is to identify the investment opportunities that best align with each investor's values and interests. It may be that she or he is interested in a particular social issue or impact area (health, education, employment, crime, the arts, and so on), or in supporting particular groups of individuals (youth, elderly, families, ethnic minorities, and so on), or even a particular geographic area. Whatever the case, being clear on where the investor's passions lie is a critical first step before more detailed looking at specific organisations, impact interventions, business models, and funding requirements.

This process of clarifying objectives is analogous to how 'finance only' investors sieve through the almost bewildering universe of potential investments by first clarifying their financial objectives, time horizons, and investment strategy.

But there's one point at which the processes for impact investors and finance investors diverge. Whereas the financial investor typically seeks a return on one metric, risk-adjusted return, the impact investor introduces an additional requirement: social return. This is where impact measurement comes in.

The Role of Impact Measurement

CAN, is a charity trading as a social enterprise and a leading UK impact advisor. We regularly receive requests from both impact investors and prospective investees for support. Investees typically want independent impact audits to help them secure investment, and more importantly to improve their impact performance. Investors, meanwhile, seek frameworks to help them with impact due diligence and spotting good impact investments, and also to understand and enhance their own impact as investors.

So what makes for good impact measurement? When considering an organisation's social return, good impact measurement will assess the major changes (or 'outcomes') it achieves from multiple perspectives. Unfortunately, this isn't often done, so to help you get ahead of the curve, the table below provides some of the key factors that impact investors should consider. These aren't only relevant to investees – the truly enlightened impact investors will apply these points to themselves as well!

Impact Measurement in Investment Practice

So much for the theory. How is impact measurement applied in practice? Impact investment is a frontier market, so there is little systematised understanding of how it operates in practice, and the role played by impact measurement. But that is changing. For instance, the Social Impact Analysts Association (SIAA), a leading global association for organisations and individuals interested in the theory and practice of impact measurement, has commissioned two

Table 1. Some key dimensions to good impact measurement.

CONSIDERATION	KEY QUESTIONS	GOOD PRACTICE IN IMPACT MEASUREMENT
INTENTIONALITY	Which end-outcome(s) is the organisation ultimately seeking to achieve? Are planned outcomes accompanied by any unintended consequences?	Identify and measure unintended and negative outcomes
STAKEHOLDERS	Beyond end users and funders, who either affects or is affected by the organisation? For each stakeholder group, how do the organisation's outcomes rank in order of importance or value?	Identify the most important sub-categories of end users that explain variances in impact (e.g. grouping by age, gender, income, family situation, duration of intervention, or something else)
CAUSALITY	How exactly do the organisation's activities deliver the end-outcomes? What are the interim outcomes that need to occur as part of these 'casual chains'?	Identify which interim outcomes are most required for different end-user sub-groupings
SUSTAINABILITY	In what specific ways does the organisation leave a legacy by embedding outcomes that will persist long after the organisation has exited? And in what ways does it create a culture of dependency?	Identify how long it takes for key outcomes to subside or 'drop off' after activity ceases
CONTEXT OF CHANGE	What else needs to happen in society or from other organisations for outcomes to be achieved? Can the organisation take full credit for outcomes, or must it be partly attributed to others?	Identify the extent to which key outcomes 'would have happened anyway,' by comparing impact for the user group with that of a comparator or control group

evaluation experts based at UCLA to research how impact measurement is used in the context of impact investment (disclosure: I co-convened the SIAA working group that commissioned the research).

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Our findings are not due out until later this year, but the interim insights are interesting. The UCLA team (Professor Christie and Dr Vo) have found distinct differences between processes used in different countries, and have identified several, interacting factors that affect how impact measurement is used in investment practice. These factors include:

1. The primary reason for measuring impact (e.g. to maintain accountability, improve effectiveness, inform change management, or justify/secure investment)
2. The way impact is measured (including different types of valuation, experimental methods, interpretive inquiry and/or descriptive analysis)
3. The standards used to demonstrate credibility of measurement (technical, stakeholder, policy, and/or market)
5. The users of measurement information (e.g. investors, investees, beneficiaries, policy makers)
6. How measurement information is used (including different types of reporting and different types of decisions), and not least
7. The context in which the investment occurs (the investment deals, programs, policies and environmental/social needs being addressed)

SIAA and our UCLA team will be disseminating the full findings of our research, including case studies of the use of impact measurement, once the project is completed later this Winter. But if there's one key insight to take away at the moment, it's that impact measurement can be used in a wide variety of ways to ensure that impact investment is truly impactful.

A Key Outstanding Issue: Comparability

I mentioned that one of the benefits of clarifying an investment strategy is that it can help shrink the universe of investment choices available to the impact investor. But strategy does not by itself make investment decisions. For example, if the impact investor has narrowed their area of interest to, say, pre-school education initiatives for children from families below the poverty line in Detroit, there are a lot of interventions out there and different sorts of outcomes possible. This means that decisions are still necessary, and this raises the issue of opportunity cost, and why one should invest in a particular intervention, organisation or set of outcomes over others.

The standard approach would be to compare the different investment options against a fixed set of metrics. In impact investment, this would require a standardised set of metrics to assess and compare the outcomes that different organisations and interventions can achieve. This is no easy thing, as revealed by Sir Ronald Cohen's G8 Taskforce on social impact investment. Some members of the relevant taskforce sub-committee initially had ambitions to create a standardised set of impact metrics to allow for direct comparisons. However, after months of deliberation and input from a range of experts worldwide, the group is instead proposing a common set of 'principles' that define not the outcome to be measured but the process of impact measurement. This is no mean achievement, but the broader issue of comparability of outcomes and interventions remains.

Several organisations including CAN are developing frameworks that can help investors address the 'apples and oranges' question, and compare different outcomes across different metrics rather than against a single, common metric. But investors will likely need to stay tuned for a little longer before practical solutions are offered to this and other challenges currently facing impact measurement.

There is enough dynamism and progress being made that I can confidently predict that impact measurement will soon be mainstream, and operating not just in impact investment but all forms of investment. But in the meantime, philanthropists who are ahead of their times are already using impact measurement – as preventative medication to inoculate themselves from investment folly and help give them the foresight to make truly impact-led investments.

Tips for becoming a truly impact-led investor:

1. Identify the specific issues you are interested in, and educate yourself on how organisations currently measure efforts to address them.
2. Consult with prospective investees on how impact measurement can best be used within the impact investment process.
3. Minimise the amount of data and information you demand from prospective investees if it does not directly help them enhance their impact.
4. Invest in organisations' ability to track impact performance, and use the resultant information to help them (and others) experiment and improve their interventions.