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Putting the "Impact" in Impact Investing: The Rising Demand for Data and Evidence of Social Outcomes

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Looking Back at the Social Impact Sector, and the Rise of New Market Actors

Traditional social sector and international development organizations have prioritized measuring the impacts of their work for decades. Understanding the ways in which they are bringing about change or helping people and communities has long been part of the traditional social sector ethos. And, accountable to taxpayers, funders, and a diligent global community, these organizations have long felt the pressure for demonstrating tangible results. Consequently, most international development and social sector organizations—whether government agencies, philanthropic, multilateral, or non-governmental organizations—have embraced a practice of robust measurement and evaluation and invested in the processes, systems, tools, capacity building, and partnerships necessary for assessing the progress and outcomes of their work.

Beginning around 2007, the world began to witness the proliferation of new players into the social impact scene. The emergence of new actors dedicated to using market forces and capital markets for social good—such as impact investors, for example—has dramatically increased the pool of funding available to solve complex social problems. Current estimates of assets under management for impact investing range from US$ 114 billion dollars (Global Impact Investing Network, 2017) to upward of a trillion dollars (Paynter, 2017). The types of impact investments similarly vary—ranging from direct investments into social enterprises by fund managers representing high net worth individuals to socially responsible and sustainable investing by large institutional investors. The announcement of the Ford Foundation to invest one billion dollars in mission-related investments over the next decade represents the single largest investment to date. With a dual focus of generating good at the same time as financial returns, market actors, specifically impact investors, have fundamentally disrupted the old way of doing business.

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The Global Impact Investing Network (GIIN) was founded by The Rockefeller Foundation to support the maturation and professionalization of impact investing. The GIIN was uniquely mandated to help standardize practice, raise awareness about, and develop tools and resources for impact investing—in an effort to advance the industry. One of the GIIN's core contributions to the field has been the development and management of Impact Reporting and Investment Standards (IRIS), a catalog of performance metrics used by impact investors to measure and manage the social returns of their investments (IRIS, 2018). The establishment of IRIS marked an early advancement for impact investing; for the first time, it sought to provide investors with common metrics to document their desired impact and a mechanism for benchmarking and comparing impact across investments or portfolios.

The GIIN's (2016) most recent annual survey of their membership found that 65% of impact investors were applying IRIS to support measurement of their work. The uptake of these standards signals a promising trend within impact investing—that there is a real demand among investors to begin to understand and track the social performance of their portfolios (what is known in the evaluation field as "monitoring"). However, as the impact-investing community has grown and matured, the bar for what constitutes "impact" has likewise increased. While companies' and investors' approaches to measuring financial returns are generally seen as robust and systematic—treated as part and parcel of their core business—approaches for measuring and evaluating social outcomes and impacts have not kept pace.

A Surge in the Amount of Private Capital Available to Solve Social Problems Is Creating Demand for New, More Meaningful Kinds of Data and Evidence

In late 2016, during a high-profile interview with *New York Times* columnist Sorkin (2016), Paul David Hewson (Bono) famously stated that impact investing "has become a lot of bad deals done by good people." Impact investing, he argued, risks becoming yet another fad among Wall Street firms and philanthropists alike. While exciting during its earliest days, the problem today, 10 years later, is that investors are not equally focused on achieving both financial returns and social impact—often prioritizing the former, with little or no regard for the latter. To generate real impact through their investments, investors must first have a clear understanding of what the term means to them and put in place approaches for measuring it. Bono posited that "it has to be something that a third-party view would validate." This sentiment is something that resonates with researchers and evaluators alike, adhering to principles that impact measurement and evaluation approaches must be valid and reliable.

Bono's fear—like that of many committed to social impact—is that in the absence of evidence of social return, "impact investing" is a little more than traditional investing with a fancy public relations window dressing. This is a criticism commonly leveled against companies' corporate social responsibility work. McCreless (2017), a leader in the impact investing sphere and outspoken advocate for strong measurement practices reinforces this concern, stating that "in the absence of data [or more broadly, evidence] all we have is our deeply held personal convictions." He argues:

> The only way to know would be if you had data on impact and data on financial returns, and you put them together. To be sure, there have been several reports on the financial returns of various segments of impact investing, but these reports don't have any actual data about impact. And there has been a proliferation of reports about how impact investors are measuring their impact, but these reports generally don't have any actual data about impact either, and they certainly don't have data about financial returns. If there is research that integrates data on realized impact and financial returns of impact investments, I haven't seen it.

The pressure exerted on investors from influential people like Bono and McCreless has generated a notable demand for new thinking about measurement of social impact. A 2012 review of impact investing found that—where efforts to measure impact were being made—they were largely focused on activities and outputs—for example, number of people trained—rather than on true changes being brought about—for example, income gains and progress out of poverty (E.T. Jackson and Associates Ltd., 2012).

A few approaches and frameworks have dominated impact-investing measurement efforts to date. As aforementioned, IRIS, a catalog of hundreds of standardized social, environmental, and financial performance metrics, has been a popular option among investors. The greatest value and appeal of IRIS—its standardization—is perhaps also its greatest source of criticism. Standardization does not allow for the customization and contextualization necessary to capture real change in people's lives. Similarly, IRIS metrics focus heavily on quantity and reach as proxies for impact—an approach that may fall short of the standard for verifiable impact. Little attention is currently paid to *who* defines the desired impact—often at the exclusion of beneficiaries' voices.

Other popular approaches that are broadly regarded as state of the art include B Lab's Global Impact Investing Rating System and the Acumen Fund's Lean Data methodology. The former borrows from the IRIS metrics to assign companies a letter rating based on an aggregate of their social and financial performance. The latter involves directly connecting with end users to solicit their input on a set of standard questions, which can be used to determine how people experience a product or service from their own point of view.

While a promising starting point, a review of these and other current social impact measurement practices finds that most are more akin to monitoring than robust assessment of outcomes and impact (Reisman & Olazabal, 2016). This hints at the fact that though interest in more analytical, in-depth analysis has increased, the actual number of evaluations of the impacts of impact investments has been limited. McCreless supports this position, stating that "... there has been a proliferation of reports about how impact investors are measuring their impact, but these reports generally don't have any actual data about impact either, and they certainly don't have data about financial returns." This lack of evidence demonstrating that impact results can be achieved alongside profitability will continue to pose a serious barrier to scaling impact investments (McCreless, 2017).[1]

Although not yet consistent or widespread, at an increasing rate, portfolio managers of impact investments are being asked to produce evidence to prove that they are generating impact. Similarly, there is increasing expectation that these individuals use data to track progress toward expected change in order to manage the impact in their portfolios—an emerging practice commonly referred to as "impact management."[2] This trend has motivated some organizations to begin to change their measurement and evaluation practices. For example, Toniic, a network of impact investors from 26 countries, has advanced efforts for data and evidence sharing across impact investment portfolios through its *T100 project* (Reisman & Millet, 2018). T100 is a multiyear project aimed at documenting and analyzing a collection of impact investment portfolios. As part of this project, up to 100 Toniic members commit to collecting and reporting longitudinal data about their investments' impact and financial performance. These data are in turn aggregated and shared, with the purpose of helping to improve impact-investing practices across the network's membership.

Bringing Evaluative Thinking to Impact Investing

It is clear that impact investing has reached a tipping point. There is now widespread recognition that the current way of measuring impact is inadequate. Sensing the urgency in this area, throughout 2016, The Rockefeller Foundation hosted a number of conversations and meetings aimed at facilitating exchange and cross-pollinating ideas between investors and measurement and evaluation practitioners. These discussions confirmed the need for strengthened evidence of social impact.

Notably, they also helped to surface the complementary skills of investors and evaluators and identify opportunities for mutually beneficial support and collaboration. Former American Evaluation Association (AEA) President John Gargani (2016a, 2016b, 2017) has argued in evaluation and impact-investing conferences globally about the importance of the meeting of the traditional evaluation profession's standards to measurement, and reconciling this with accounting and financial practices in order to get a complete assessment of the performance of impact investments.

While impact investors and measurement and evaluation practitioners share many of the same overarching goals—namely to contribute to positive social change—collaboration across these two schools has been limited. *Streams of Social Impact Work: Building Bridges in a New Evaluation Era with Market-Oriented Players at the Table* (Reisman et al., 2015) documents the history of the evaluation and market-oriented social impact fields, noting how they've evolved alongside one another, with limited convergence. In a companion piece entitled *The 5th Wave: Social Impact Evaluation*, Picciotto (2015) argues that evaluation will need to adapt to the emergence of new market-based players. This, he posits, can be achieved by supplementing traditional evaluation approaches with "complexity-sensitive methods and tools" and through the professionalization of evaluation as a field (Piccioto, 2015). Satisfying these conditions will help situate evaluation for successful collaboration with impact investing.

Throughout 2015 and 2016, several convenings ranging from the AEA-sponsored Impact Convergence to discussions at Social Capital Markets to the World Economic Forum (WEF) brought leaders from across the two fields together to uncover and understand the obstacles currently preventing transdisciplinary cooperation and identify opportunities for greater engagement moving forward. Factors such as a lack of common language, inconsistent definitions, and misperceptions of each other's interests and abilities seem to be among the challenges that are presently inhibiting collaboration. In particular, evaluators expressed uncertainty around how to adapt their tools, practice, and language in a way that will resonate with private sector stakeholders. Conversely, impact investors have demonstrated trepidation around whether the professional evaluation community can appropriately evolve to the changing social impact landscape, adapting approaches that are sufficiently nimble, responsive, and cost-effective. And whereas there is generally consensus among traditional development evaluation practitioners about evaluation priorities—including a focus on equity and distributional benefits—there seems to be little agreement among investors about not only how but also *what* to evaluate.

It is the perspective of the authors of this article that the chasm that has characterized the divide between impact investing and evaluation is rooted in communications and branding challenges rather than an actual mismatch of interests and values. In fact, the palpable demand for evidence of social impact among investors aligns squarely with evaluators' interests and professional abilities. What stands in the way of widespread collaboration, then, is a lack of understanding about *how* to work together, and the absence of a clear understanding about one another's needs and expectations. While pronounced, this challenge is likely not unique to evaluation and impact investing—but rather typical of two unique schools of thought beginning to come together.

What Can Evaluation Bring to Bear?

Beyond their knack for inquiry and systematic investigation, evaluators bring with them a particular approach that lends itself well to measurement of complex market-based solutions. Internationally renowned evaluator Michael Patton argues that professional evaluators have "willingness to ask: 'how do we know what we think we know?'" (Patton, 2010). Evaluative *thinking* allows evaluators to play the role of critical friend and pose hard but important questions to those looking to affect social change. Ultimately, by asking about *what works*, *for who*, and *how*, the goal of evaluation is to shed light on effective approaches, highlight inequities and unintentional outcomes, and ultimately drive greater impact.

Investors looking for more than data to just "prove" their impact have much to learn from the field of evaluation as well. Evaluators are arguably well known for their ability to look retrospectively at a program or intervention and make an assessment about its effectiveness, value, and impact.[3] However, less well known perhaps is the adaptability and broad applicability of an evaluators' toolkit—complete with a range of fit-for-purpose, dynamic and even tech-enabled methodologies, methods, approaches, and tools for systematic inquiry and investigation. These can be applied to measure and assess anything from small-scale individual investments to large, complex portfolios. Today, there are an ever-increasing number of promising examples of how both conventional and innovative measurement and evaluation approaches are being used to track progress toward and manage and optimize the impact of investments. Likewise, there is growing recognition that evaluation should not be relegated to looking backward and can instead be applied across the life cycle of an investment.

Evaluation approaches such as—though not limited to—developmental evaluation have the potential to be adapted and applied to impact investments to support impact management practices. A few impact-investing efforts are already moving in this direction. Two examples are the Michigan Good Food Fund (2018) and Humanity United's (2017) investments in the supply chains in order to combat modern day slavery. Both of these initiatives have identified developmental evaluation as an approach to gathering and synthesizing data and learning along the way. In both cases, developmental evaluation was selected to provide critical ongoing data that can illuminate the impact in these investment strategies and how strategies can be adapted along the way.

The Impact Management Project, spearheaded by Bridges Ventures, harmonizes the viewpoints of distinctly different disciplines—including evaluation—to put forward a comprehensive framework comparable to those used for financial analyses of traditional investing decisions. The framework brings forward a disciplined approach that could be widely embraced as a convention for articulating and measuring impact. Five areas of inquiry comprise this framework: (1) what, (2) how much, (3) who, (4) contribution, and (5) risk (Impact Management Project, 2017). Numerous networks and individual investors have begun testing the application of this framework for managing the impact of their own portfolios.

Overall, evaluation practices and approaches coupled with evaluative thinking can bring newfound rigor and credibility to social impact measurement (Olazabal & Hoffman, 2017). Doing so promises to yield multiple benefits to investors and the social sector more broadly, including risk management, greater accountability, timely and relevant information for improving business practices, and increased incentive to deliver results.

Where Are We Headed: Signs for Optimism

There is a common saying within the evaluation and philanthropy communities: one measures what one values, and values what one measures. Barman (2016) argues that as meaning of "social value" continues to evolve, expectations for how it is measured will adapt in tandem. The choices that investors make about how to measure and evaluate their impact investments will ultimately reflect the extent to which they take seriously and are committed to the impact of their impact investments. As the resources available for impact investing continues to expand, so too should pressures for improved measurement practices.

Today, a number of substantial efforts to strengthen the evidence base for impact investing are underway. Global organizations such as the WEF, the Organization for Economic Cooperation and Development, Social Value International (2017), and United Nations Principles for Responsible Investment (n.d.) are leading the charge to improve evaluation and measurement and are making promising strides toward bridging the cooperation gap between investors and evaluators.[4] Ultimately, proving the value proposition of impact investments—that social impacts can be realized alongside financial returns, will require more cross-disciplinary cooperation from impact investors and evaluators alike.

Authors' Note

Having invested in building the architecture for impact investing—from incubating platforms and networks such as the GIIN to creating standards and impact measurements—The Rockefeller Foundation is committed to strengthening the evidence base for this field.

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Notes

1. The lack of data on impact and financial performance are similar symptoms of two distinct causes. In general, the lack of data on social impact is a result of limited efforts being made to collect such data. Conversely, the lack of data on financial returns is not a function of limited data availability—as investors typically collect and track this as part of their portfolio management—but rather a result of investors' lack of willingness to share financial data.
2. The practice of impact measurement grew out of the idea that timely, robust data (both financial and social/environmental)—if made available to decision makers and/or portfolio managers on a continuous basis—could enable improved tracking and decision-making throughout the lifecycle of an investment, ultimately resulting in greater impact. See http://impactmanagementproject.org for more information.
3. This is characteristic of traditional formative and summative evaluations.
4. At its 2017 meeting in Davos, the WEF launched Action Groups, which were tasked with developing better measurement tools for impact investing, generating robust case studies that "prove" social impact alongside financial returns and ensuring that beneficiary perspectives are represented in future impact measurement efforts. Similarly, the Organization for Economic Cooperation and Development (Wilson, Silva, & Richardson, 2015) has been leading a broad coalition of actors from the public and private sectors to identify where data can be collected, shared, and analyzed and, ultimately, leveraged across these two sectors. The intent of this project has been to enable improved benchmarking, comparison, and understanding about the effectiveness and efficiency of investments. Finally, United Nations Principles for Responsible Investment (n.d.) is using the UN Sustainable Development Goals as a unifying framework to help fund managers orient and guide their impact investments.

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