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# Measuring impact and non-financial returns in impact investing

A critical overview of concepts and practice

Summary research paper

Neil Reeder and Andrea Colantonio

LSE Cities  
London School of Economics and Political Science

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*This paper is one of series of working papers written as part of the three year study (2013-2015) entitled **Measuring impact beyond financial returns** funded by the European Investment Bank Institute.*

## Abstract

Impact Investing is a form of investment that has risen to prominence in recent years. Compared to other forms of socially responsible investment, the most prominent feature of impact investing is its focus on measuring the social and environmental return that it generates. In response, much effort has been undertaken to develop effective measurement systems, but confusion remains around the notions of ‘non-financial return’ and ‘impact’, and their assessment in practice. Thus this paper provides a preliminary overview of those underlying concepts, drawing especially on the perspective of impact investing literature. Further, it begins to cast a critical eye on the roles and responsibilities within measurement, making more explicit the subjective interpretation of social and environmental return (SER) by investors, and the clash of concepts taken from other older measurement traditions. In doing so, the paper investigates some of the tensions around breadth of coverage; participation and objectivity; attribution of impact; rigour and flexibility, and the very concept of ‘a return’ itself. Within this context, the paper shows that the sector does not yet appear to have found a pragmatic, participative, systematic way forward, and concludes with the identification of key research areas that need to be addressed to advance knowledge. Further empirical data collection and analysis will be undertaken for papers to be published in a subsequent series.

## Introduction

Impact investing is a theme that has received much attention in recent years. Compared to other forms of socially responsible investment, its most prominent feature is a focus on measuring the social and environmental return that it facilitates, both before as well as after investment. This raises the prospect of a broader group of investors being brought in to the sector, attracted by greater clarity on how ‘better social and environmental outcomes for society’ are fulfilled by their investment actions.

Much effort has gone in to developing effective measurement in this emerging field of research and practice. However, despite useful guidance from the likes of Hehenberger et al (2013) and Olsen and Galimidi (2008), progress in this field is far from satisfactory (Saltuk et al 2013). This is because there are few signs of wide consensus on assessment methods and metric systems, or even what the terms ‘impact’ and ‘non-financial return’ actually mean.

The aims of this summary paper are therefore to:

- Explore what the terms ‘impact’ and ‘non-financial return’ refer to in impact investing, and investigate whether the overall set of concepts

to measure impact investing forms a coherent framework;

- Analyse the strengths and weaknesses of the main tools, techniques and roles adopted in measuring;
- Assess barriers to effective measurement – tensions on breadth of coverage; the extent to which attribution is and can be assessed; trade-offs between rigour and flexibility; and
- Provide an overview of the scope for improved practice in measurement.

This summary paper is the first in a series of working papers to be written as part of the three year study (2013-2015) entitled ‘Measuring impact beyond financial returns’ funded by the European Investment Bank Institute. This publication is also a summary paper of a longer paper, which explores the issues discussed here in greater depth and more comprehensively.

## Concepts of ‘impact’ and ‘social and environmental returns’

The notions of impact and ‘social and environmental returns’ are central to impact investing. From a social science perspective, the International Association for Impact Assessment (IAIA) defines *impact* as the difference between what would happen

with a given action and what would happen without it (IAIA, 2009). Impact can manifest itself in many ways - Vanclay (2003) outlines the importance of considering such features as culture, community, environment, health, wellbeing and aspirations.

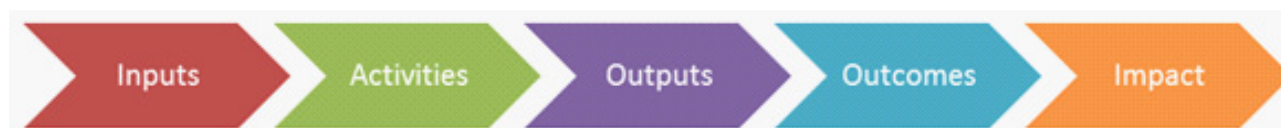
However, to some extent, a comprehensive definition or shared understanding of impact, and impact areas, seems to be lacking in current impact investing literature. Recent impact investing work such as Hehenberger et al (2013) and Puttick and Ludlow (2012), as well as analysis from the business project evaluation literature, are beginning to fill this important conceptual void. For example the concept of an ‘impact value chain’ (see Figure 1) is advocated to determine impact where ‘impact’ is seen as the measurable and identifiable change to key outcomes.

Many issues, however, remain unresolved. For example it is worth highlighting that changes in outcomes happen over differing timescales, and impact investors seek and react differently to these changes over the short-run, medium-term and long-run. It should also be noted that there is an alternative use of the term ‘impact’, which relates to long-term effects only.

In addition, despite the elegance of the concept, establishing a causal link of impact is often difficult. Key problems are: establishing what would have happened anyway (‘deadweight’); the potential existence of conflicting impacts; difficulties in distinguishing a specific impact from the actions of others (‘attribution’); effects which compound or detract from others (‘aggregation’); the potential for weakening results over time (‘drop off’); the possibility of shifting problems elsewhere (‘displacement’); and the need to consider different effects happening to different groups (‘equity’, ‘social justice’).

Nonetheless, broadly speaking, applied to impact investing, impact can be viewed as the ‘net effect’ or ‘change’ (social, environmental, political etc.) yielded by activities funded by an investment amongst individuals, communities or in a defined geographical area, with the aim of generating value that mutually benefits external stakeholders and the investor. As such, impact can be either positive or negative; can be identified through goals set in either a top-down or bottom-up fashion; and can be generated through processes (such as building up social capital) as well as through changes to ultimate goals.

**Figure 1 Impact Value chain**



Resources (buildings, staff)	Concrete actions	Tangible products and services from the activities	Changes resulting from the outputs	The combination activities, outputs and outcomes, adjusted for what would have happened anyway, actions of others, and for unintended consequences
£50,000 capital invested, 5 people working on the project, then 1 teacher and £15,000 per annum	Land bought, school designed and built	New school built with 32 places and courses for 24 run by 1 teacher	24 students gaining better numeracy and literacy skills	New school in the area and a number of students gaining better education

Source: Adapted from Hehenberger et al (2013)

Another recurrent term used in the measurement of impact investing is **social and environmental return (SER)**, although there is currently no authoritative interpretation of this notion. This paper, therefore, represents a first step toward a better understanding and conceptualisation of SER, and its relation to impact as understood by the impact investing community.

Identifying financial returns from an investment portfolio is generally a straight-forward process. This can be done by assessing the gain or loss on an investment over a specified period of time, expressed as a percentage increase over the initial investment cost. This process includes the examination of such elements as the amount of money invested in a given asset, the date when the investment was made, the date when the asset matures if applicable (such as fixed term company loan), and its current or estimated market value.

By contrast, identifying and measuring SER is often problematic. This is because the list of ‘non-financial outcomes’ linked to an investment, initiative or project, whose primary purpose is to ‘do good’ for society or the environment is potentially vast.

For example, investment in a chain of clinics in India, is likely to generate multidimensional effects in the local area. These include for instance

the promotion of improved health among under-treated ethnic groups; new training opportunities for staff entering the jobs market; and an improved local environment by funding a new machine to improve the disposal of medical waste.

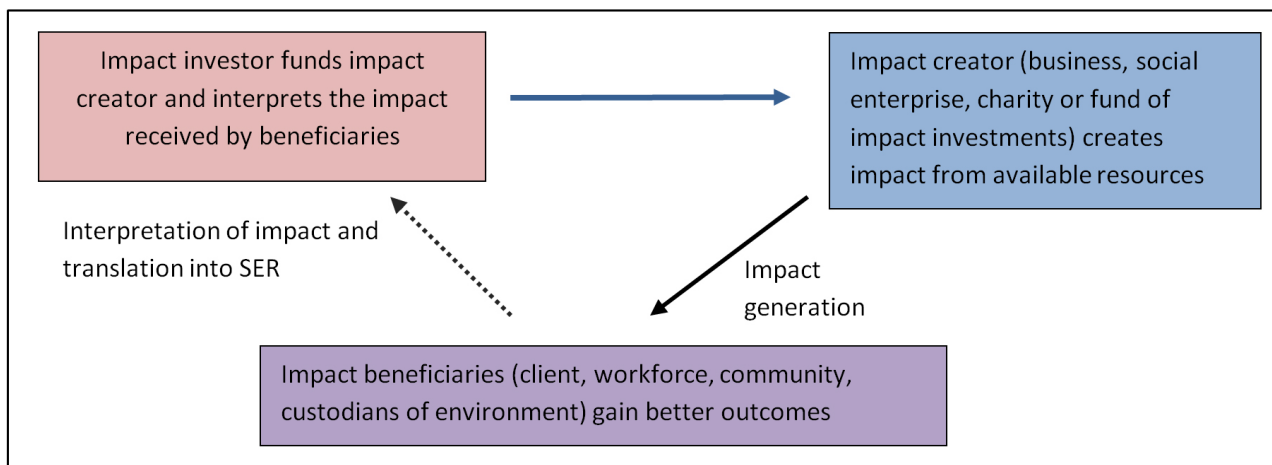
Our interpretation of social and environmental returns (SER) builds on our view of the term ‘impact’. A starting point is that SER connotes the philanthropic, vicarious ‘value’ of achieved impact. SER is created insofar as impact creators change social and environmental outcomes for impact beneficiaries (who may well have no direct connection to the impact investors).

Figure 2 shows the logical sequence by which impact is generated, accrued to a wide range of stakeholders – but not directly to the impact investor, and then quantified to some extent into SER by impact investors, or investees when reporting to the latter.

There are therefore three roles in the process of generating SER in impact investing: the Impact Creator (such as a company); the Impact Beneficiaries (such as clients); and the Impact Investor, who facilitates the process by investing in the Impact Creator.

The distinction between Impact and SER is therefore crucial because it is important to highlight that impact is perceived by investment recipients and then distilled into non-financial returns by impact investors.

**Figure 2 Three main roles within impact investing**



*Impact can be viewed as the 'net effect' or 'change' (social, environmental, political etc.) yielded by activities funded by an investment amongst individuals, communities or in a defined geographical area, with the aim of generating value that mutually benefits external stakeholders and the investor. Social and environmental return is a perception of the value of the impact by the investor.*

It is, however, far from clear that a compelling way to present SER information has been found. Fiestas et al (2010) reports frustration among fund managers that efforts to incorporate wider values seemed to be ignored by potential clients – so highlighting an important agenda for further research. Monetary valuation is not necessarily a feature of SER. Indeed, only as late as 2011 did the PUMA sports company become the first enterprise in the world to publish a monetary estimate of the social cost of the water use, gas emission and other environmental effects of itself and its supply chain (PUMA 2011).

Even when a deep interest is taken, investors' perceptions of achievements do not always correlate well with what really has been achieved, and this has potential consequences for impact investment measurement. For example impact is likely to start the moment there is speculation – even a rumour that something might happen (Vanclay, 2013). Ironically, even the act of conducting a social or environmental impact assessment can create social impacts. In addition, impact may not accrue to intended beneficiaries because the well-connected among the population (who need a new service the least) may be quickest to take it up. The same issue applies to the companies that are invested in – for example, those who are good at marketing themselves are not necessarily the ones that could achieve the most beneficial social impact.

Investors' perceptions of achievements do not always correlate well with what really has been achieved, and this carries consequences for impact investment. There is often a 'positive bias' within reported results in the impact investment field. By contrast, analyses of social and environmental performance which draw on the CSR tradition (such as SAM 2012) are often biased to the opposite – tending to focus on losses, such as health and safety accidents, and downplaying pos-

itive benefits such as support for local unemployed teenagers into training and employment.

Nor do beneficiaries' views of what is important always correlate well to reported results. Unless care is taken, they may have a limited ability to have a say in terms of assessment domains, methods and criteria, and limited say in determining agendas and issues to be addressed locally.

Such deficiencies raise the following important considerations for SER assessment:

- What should be measured;
- By whom and at what stage of the investment phase; and
- How this should be measured.

### **Clashes of concepts in measuring social and environmental returns**

SER measurement takes inspiration from a number of different methodologies and perspectives – including Social Return on Investment (SROI), Corporate Social Responsibility, logic frameworks, theory of change and cost-benefit analysis. This can lead to a clash of concepts in several ways.

The appropriate breadth of coverage is still contentious. Those appraising companies' CSR performance often look broadly – examining clients, workforce, supply chain, communities, and the environment (OECD 2011).

By contrast, impact creators – especially social enterprises and charities – often only track key outcomes. Zelon (2010) cites one head teacher in Harlem: “The only benchmark of success is college graduation. That's the only one: How many kids you got in college, how many kids you got out.” Impact investors appear to lie somewhere between these two: the Big Society Capital outcomes framework, for example, looks at a matrix of varied outcomes, while Bridges Ventures (2010) outlines an approach of assessing a small set of key outcomes on major themes such as health and education.

Considerations of influence as to which outcomes ‘matter most’ are also contentious. The choice of metrics can influence and be influenced by power structures. ‘Logic framework’ assessments start with top-down pre-set goals and then work out how best to achieve them. By contrast, SROI makes few assumptions on goals. Nor do past or comparator assessments take precedence: SROI aims for the subjective assessment that is right for a given broad-based set of stakeholders (Nicholls 2013).

A wide spectrum of views on attribution is also apparent. The Abdul Latif Jameel Poverty Action Lab at the Massachusetts Institute of Technology looks to randomized control (RCT) evaluations to assess options rigorously. By contrast, the SROI approach takes a discursive and participatory approach from stakeholders, and some practitioners have no quantitative evaluations of attribution at all, but rather seek to identify the theory of change and whether that agenda was followed by impact creators or not.

Tensions in respect of rigour and flexibility are also often apparent. A search for statistical rigour is apparent in checklists such as the Maryland scale of evidence (which rates RCT as the ‘gold standard’ for evidence) and the 3IE overview of processes to follow to achieve a ‘fully robust’ meta-analysis. Yet the results of such assessments can be misleading. Seligman (2011) makes a distinction between ‘internal’ and ‘external’ coherence. The statistics may add up for the data in a given dataset, but if that dataset draws on a limited set of situations, then the findings may lack flexibility when applied to different circumstances.

## Application of impact measurement in practice

The measurement of impact and its translation into non-financial return for investors is crucial. It can be influenced by such factors as the stage in which the assessment is carried out; the measurement culture or mind-set of the assessors; and choice of tools and techniques.

*There is often a ‘positive bias’ within reported results in the impact investment field. By contrast, analyses of social and environmental performance which draw on the CSR tradition (such as SAM 2012) are often biased to the opposite – tending to focus on losses.*

## Differences in assessments at the pre- and post-investment stages

In considering whether to invest, impact investors use enterprises data and other information such as interviews with company executives. The focus of what is evaluated varies considerably: some impact investors look at whether the main outcomes of the enterprise match their preferences; others take into account effects for broader issues such as the supply chain, staff, communities and the environment.

Much of the emphasis of impact investing relates to investments (such as working capital for payment by results contracts) where there is an identifiable core outcome that is intrinsic to what the impact creator does. However, a further investment agenda relates to entities that ‘do good’ in ways that are above and beyond core outcomes. These two cases - see Figure 3 below - require different forms of measurement.

**Figure 3 Different scenarios for different types of outcomes**

	‘Core outcome’ required by those paying for goods and services	Not a ‘core outcome’ required by those paying for goods and services
<b>Intrinsic to what the enterprise does</b>	Impact - Government pays social enterprise for reducing reoffending in ex-prisoners	Impact - Social enterprise running a bakery provides job opportunity to ex-prisoners
<b>Add-on activity for the enterprise</b>		Law firm makes a charitable donation to a local free advisory service

Impact investors are increasingly able to draw on more broadly based and better quality data, in processes supported by a variety of would-be measurement standard setters. Amongst them, the influential Global Reporting Initiative (GRI), formed in 1997, advocates a balanced scorecard approach, and sets sustainability reporting guidelines for voluntary use by organizations; while the Climate Disclosure Standards Board, a consortium of business and environmental organizations set up in 2007, seeks to integrate climate change information into mainstream financial reporting.

Once an investment has been made, the information requirements and roles shift. At one end, impact investors may simply wish to ensure that SER goals are on track, or view it as a supplement to financial data on whether corporate performance is on track. Some see it as a source of information to inform shareholder advocacy (Domini and Kinder 1986); whilst others still see it as supporting benchmarking (an aspiration of the Impact Reporting Investment Standards (IRIS) network formed in 2008).

On receiving investment, impact creators are given instructions as to what should be measured - which they enact with varying degrees of enthusiasm. Investees have to decide what other forms of information to assess, how to analyse it; and (if not specified) whether to have their assessment scrutinised by others. An influential guide of what information to provide, at least for larger entities, is the Interna-

tional Integrated Reporting Council. A global coalition of regulators, investors, companies, standard setters, accountants and NGOs, it sets out the principles of Integrated Reporting (IIRC 2013).

One role that is relatively unfulfilled, but which could rise in prominence is that of Social Auditors, who independently assess the social and environmental data produced by investees. However, social audit practice has faced criticism for being 'weak', 'not transparent' and 'not accountable' (Pruett 2005). Such criticisms have not proven easy to overcome, as there are no recognised 'badges of quality' that can be enforced by institutions. Some steps have, however, been taken; the Social Impact Analysts Association (SIAA), for instance, has worked hard to promote knowledge sharing since establishment in 2011.

### Measurement culture and mind-set

Following Wilson's (1998) definition of public sector organizational culture, it could be argued that the culture of measurement practice consists of persistent, patterned ways of thinking about (a) the goals of measurement in impact investing; and (b) suitable forms of human relationships to achieve those goals.

There is, unfortunately, no (valid) methodology to measure SER that can be instigated by simply pressing a button and waiting for a result to appear. The application of techniques requires human assessors, with human mind-sets, working in human contexts. Our assessment is that there

**Figure 4 Two different forms of measurement practice culture**

	Central task	Forms of human relationships
<b>System builders</b>	Produce a system that is as objective, robust, and quantified as possible	Expert to expert interactions designed to build up a body of knowledge Expert to audience communications designed to disseminate knowledge
<b>Case by case</b>	Produce an assessment that informs stakeholders of the full social value	Facilitator role played to draw out stakeholder views on key outcomes Focus is on the 'here and now', not on what other assessors have done in the past

is a spectrum of measurement culture, with two distinct ‘archetypes’ - System builders and Case by case advocates, as illustrated in Figure 4 above.

System builders are more likely to use Benefit Cost Analysis and regression, where technical expertise is predominant. Rating agencies have taken a strong lead in ‘system building’, with a systematic coverage of environmental and social issues. There is also a strand of academia strongly attached to boosting standards of assessment to rigorous levels, advocating the use of randomised control and meta-analysis.

By contrast, the ‘Case by case’ approach is much more predominant among charities and social enterprises. Exponents tend to enter into the measurement field from a service delivery perspective, and are more likely to be found deploying qualitative methodologies such as logic maps of activities and outcomes. A range of surveys and interviews with practitioners (Clifford et al 2013, Ogain et al 2011) suggest that they much prefer indicators that are tailored to their priorities. Hehenberger et al (2013),

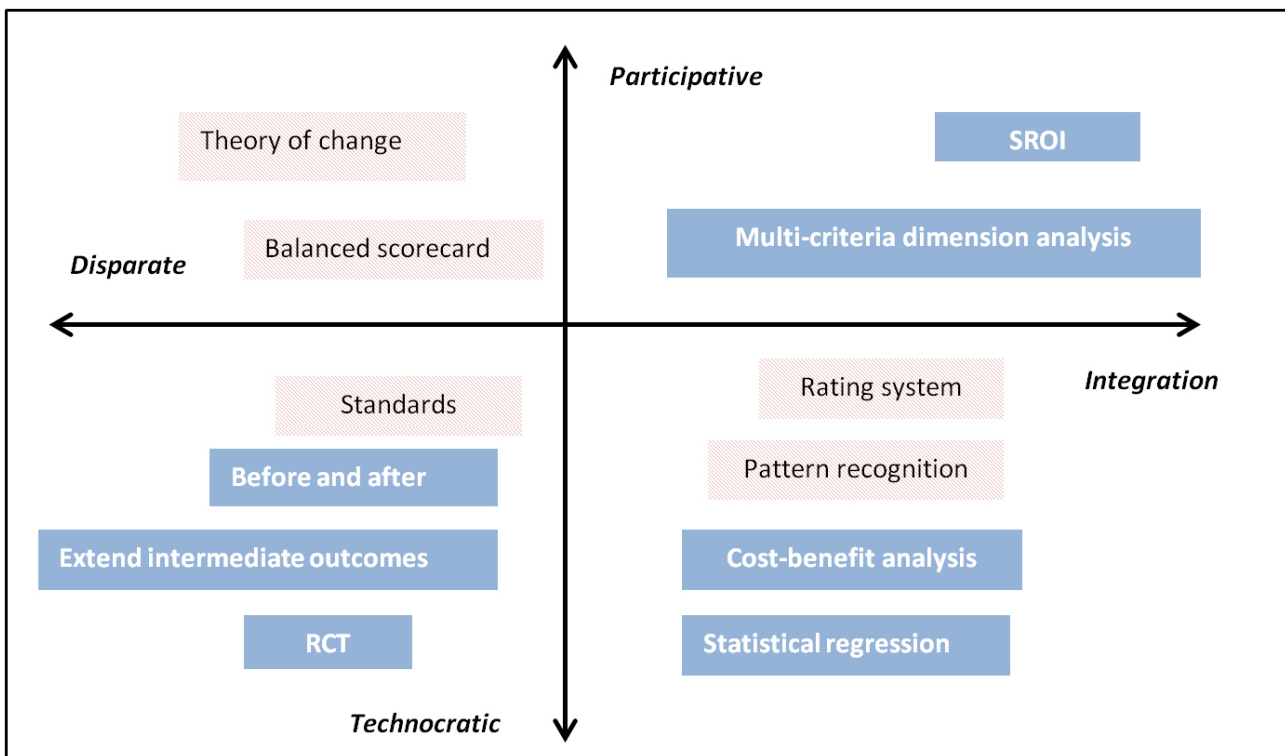
for example, sets out an approach based on stakeholder views on the extent of created social value.

The two mind-sets perhaps inevitably lead to a clash of views as to whether a more standardised and formalised impact investing sector is feasible and desirable. While this would match the modus operandi of investment banks, Scott (2013) provides a reminder that many in ‘social, environmental and economic justice circles’ have concerns about precisely such institutions. Bridging the two cultures is not easy, but attempts have been made. One example is Grabenwarter and Liechestein (2011). This considers how to assess fund manager performance on wider social values, and recommends using subjectively chosen quantified targets that have been subjected to a challenge process. Performance is then measured against these targets, using an index approach.

**Tools and techniques for measuring impact**

There are many tools and techniques that have been developed to measure impact, although the

**Figure 5 Characteristics of selected techniques for measuring impact**



Key: No adjustment for changes in outcomes Assess changes in outcomes



impact investing literature suggests that a set of around five clusters of techniques are particularly influential. These techniques have a variety of distinguishing features, though five factors appear particularly relevant:

- The extent to which they adjust for changes in outcomes. Many impact creators and impact investors are discouraged from assessing impact due to the technical difficulties;
- The degree of integration or synthesis of social and environmental returns. Some assessments aim to synthesise a single indicator, or amalgamate them into a small number; others argue that this can lead to meaningless or misleading results;
- Whether an attempt is made to move to a monetary value;
- The extent to which the technique is participative. Some approaches aim to introduce a 'participative' element of consultation and discussion; others are more technocratic;
- Consistency of parameters of variables. Some techniques draw on an accepted set of parameters, such as the value of travel time for a commuter in public transport analyses.

Perhaps the simplest approach to adjusting for outcomes is taken by Rating systems and Standards. Their approach is simply to look for good outcomes and not be concerned about the starting position or counterfactual. Yet dissatisfaction with this approach means that many use alternative approaches.

Theory of change and pattern recognition is the least quantitative of the five clusters. 'Theory of change' aims to identify, in a participatory way with stakeholders, the main outcomes and a narrative of how they are achieved. The insights gained can be effective in supporting decisions when combined with pattern recognition of key success factors, but the approach is less effective at post-investment assessment.

A highly participative approach, Social Return on Investment (SROI) is a prominent analysis that aims to (1) identify key stakeholders (clients, government organizations, civic society etc); (2) assess the change in outcomes attributable to the impact creator; and (3) estimate financial values of those

outcomes based on the stakeholders own judgements. However, this approach has faced critiques that implementation in full can be hard - and the resulting ratios not always convincing.

Cost benefit analysis, statistical regression and randomized control trials form the standard 'tool-kit' of system builders. Such approaches tend to aim for objectivity, involve relatively little stakeholder participation and rely heavily on modelling and statistics. Such methods can yield important findings, yet this perspective can be resented by impact creators. For instance, interviews with practitioners (Clifford et al 2013, Ogain et al 2011) suggest that they much prefer indicators that are tailored to their priorities.

Intermediate outcomes plus extrapolation from research is a response to the difficulties of impact creators in tracking effects over time. McNeil et al (2012), for example, outlines a methodology for assessing the efficacy of youth work by considering short and medium-term changes in soft-skills, and academic research linking soft-skills to long-term personal and social outcomes such as employment.

### **Extent of use of tools and techniques in practice**

Among impact investors, there appears to be a clear preference for the use of rating systems, standards and outcome measures. Castillejos and Grabenwarter (2010) reports that, out of 96 impact investors, 64% used key performance indicators; 21% used independent rating systems (such as Oekem and SustainAbility); 14% used adherence to standards; and 2% used balanced scorecards.

A more recent survey, reported in Saltuk et al (2013), found a more extensive use of rating systems by the sector. Of a set of investors accessed through the Global Impact Investing Network (which works closely with IRIS) and JP Morgan, 52% stated they aligned their work to IRIS standards, 30% stated they aligned their work to other standards, and 28% said that they did not align to any external standards .

By contrast, impact creators are more likely to attempt the hard task of assessing their impact.

Clearly So (Gregory et al 2012: 33) found that some 65% of charities and voluntary organisations receiving social investment could measure their social impact. And a recent survey by NPC (Ógáin et al 2012) suggests that more than 50% of charities undertake basic assessments of changes to their main outcome(s). However SROI looks to be less used than its publicity suggests, and then more often as a marketing tool (Arvidson et al 2010).

### **Gaps in the dimensions covered by measurement of social and environmental returns**

Desk research undertaken for this paper has considered the question of whether in practice some dimensions of social and environmental returns are not well covered by existing measurement systems. An assessment was made of themes covered by four influential systems: (a) Big Society Capital (b) Bridges Ventures; (c) The UK-based National Health Service (NHS) Social Value Foundation; and (d) SD-KPI, a minimum reporting standard for sustainability information in Germany. Publicly available documents on measurement practice from these four organisations were examined against a range of social and environmental themes raised by the literature.

Agendas that appeared to be covered relatively weakly were mental health; social and emotional skills; wellbeing; and biodiversity. Although the assessment is only illustrative, the findings concur with (i) Ganju et al (2011), which raises concerns about the lack of recognition of the importance of the mental health agenda per se; (ii) McNeil et al (2012), which reports a lack of interest in policymakers around the role that social and emotional skills have in influencing social outcomes; and (iii) Bishop and Evison (2010), which reports that ‘most companies report on their links to biodiversity and the ecosystem in a superficial manner, if at all’.

Cross-cutting themes also appear to be weakly covered in impact investing measurement. For example, Malhotra et al (2002) argues that empowerment has proven relatively difficult to capture in a suitable form in metrics, and the theme has received relatively little attention in microfinance

compared to financial metrics, despite its central role in theory of change narratives (Fenton 2012). Another under-reported theme is assessing the impact on places – particularly for community investing, a key challenge is how to capture whether the ‘feel’ and ‘character’ of a place and the citizens within have substantially changed or not after activity by the impact creator.

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### **Advancing knowledge in the field and future research challenges**

Our literature review and series of interviews conducted as part of the study have yielded a number of propositions on conceptual debates as well as practical barriers for further consideration.

**Impact, non-financial return and wider value definitions.** Among the conceptual debates, one prominent issue is that the definitions of what should be measured as ‘impact’, ‘non-financial return’ or ‘wider value’ are unclear. Partly this reflects a lack of thinking through what it means to measure value that is vicarious to the investor; partly this reflects divergences of opinion on what the aim of social investment should be – for instance, Kinder and Domini’s 1998 challenge to include concepts of social justice within social investment assessment frameworks has met with a mixed response at best.

**Single metric.** The conceptual case for creating a single metric of SER is also highly contested. Some commentators, such as Mulgan (2010), argue against the very rationale for producing a single metric of performance. By contrast, SROI creates a single index using the subjective valuations that are acceptable to the stakeholders being consulted. Proponents of SROI recognise that this causes difficulties in comparisons between enterprises, but for them it is the internal learning that is paramount.

**Impact Risk.** A further conceptual debate is that many frameworks have often downplayed the cat-

egory of risk. Impact risk is far less studied than financial risk (though Puttick and Ludlow 2012 is an important starting point for redressing the balance). Although the two are correlated, it is easy to envisage circumstances where a short-term focus on financial returns leads to lowering of service quality; and cases where a focus on getting wider outcomes means that financial returns suffer. Research could potentially address better ways to measure volatility in outcomes.

**Subjective and objective indicators.** The extent to which ‘subjective’ data and analysis is useful is also much debated. There is a spectrum between those indicator frameworks that draw on ‘objective’ indicators, such as IRIS, and those that are open to subjective opinions, such as SROI practitioners. The key issues that arise are whether an impact assessment that includes subjective measures can ‘ring true’, and whether rigour can be brought into benchmarking and metrics that are at least partially underpinned by subjective viewpoints.

**Standardised Framework?** Moving to the challenges of implementation in practice, a notable agenda relates to tensions between impact creators wishing to tailor metrics to their situation, and the constraints of a standardised framework. A preference for a bespoke approach is particularly clear among impact creators that are relatively small and which are aiming to innovate (Reeder et al 2012). Large-scale investors take a very different view. 70% of respondents to a JP Morgan survey (Saltuk et al 2013) feel that standardized impact metrics are “important” or “very important” to the development of the industry.

Certainly, more standardised metrics would facilitate meta-analyses, an under-used but powerful methodology for determining impact. It would also facilitate the ability to draw on research findings to extrapolate from intermediate outcomes, rather than attempting the complex process of assessing effects over a long time-scale.

Greater standardisation and greater use of rigour in techniques (for example through randomized control trials) should not be seen as a panacea for overcoming difficulties in assessment, however.

Such techniques tend to look at tangible, directly controlled factors; the external conditions, and intangible details of operations can be equally important, but harder to assess. For instance, an analysis looking purely at outcomes and changes in outcomes may miss the way that an impact creator relied upon a supportive local champion and the ability of a skilled team member to establish a rapport with clients.

## Conclusions

Measurement practice for impact investment draws on ideas from many fields – from Social Impact Assessment through to social innovation. That makes for a contested arena as to the right way of working, and the right way of thinking.

A well-functioning measurement system builds on what has been learnt to date, has certain key metrics in it, but at the same time has a degree of flexibility to allow individual stakeholders to assess the extent to which their goals are being met. But SER measurement for impact investing is not yet in that state. It has a diffuse set of terminology, tools and techniques, driven by very different mind-sets as to the purpose of SER measurement and its long-term goals.

In environmental issues, where there are market mechanisms operating (such as greenhouse gas emissions within Europe), there are strong incentives for investors and enterprises to come together to work to develop measurement standards and the means to monitor and enforce them. By contrast, there has been less attention paid to ‘social’ metrics, and Cheng et al (2011) has a strong rebuke for much impact investment practice, stating that ‘we need to see the people, not the profit’.

Nonetheless, over the past twenty years or more the groundwork for progress in SER measurement has been laid, with institutions such as GIIN and IRIS taking an active role. The pace of improvement has increased, with organizations such as the European Commission initiating legislation and regulation on social fund management.

The challenge will be to address a number of important measurement issues, among them finding practi-

cal ways for peers to share tools and techniques on how to assess impact; improving the level of independent audit in a way that is cost-effective for impact investors and impact creators; and developing approaches that are able to capture the essence of SER achievements in a way that is meaningful to high net worth individuals and those selecting impact investing funds.

The direction of future progress is likely to be a lively source of debate. Dialogue could yield valuable insights. Despite, or perhaps even because of clashing mind-sets and perceptions of impact and value, impact measurement has a crucial role to play in steering impact investment towards those agendas where they can achieve most social and environmental good.

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**LSE**Cities

LSE Cities  
London School of Economics  
Houghton Street  
London WC2A 2AE

+44 (0)20 7955 7706  
lse.cities@lse.ac.uk

[www.lsecities.net](http://www.lsecities.net)