20th Anniversary Essays
Prioritizing Impact Measurement in the Funding of Social Innovation
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Stanford Social Innovation Review
Spring 2023

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organizations, and the risk appetite and long view of philanthropy. This intersector collaboration not only helps us tackle our pressing social problems, it also demonstrates the competency of our organizations and institutions and helps restore citizens’ confidence and trust in them. While there are many other challenges we face as a society—such as combating racism and sexism, and reducing income and wealth inequality—rebuilding trust is one of those challenges, and a fundamental part of the process of creating the kind of society and world we want to live in.

Notes
1 A 2004 study showed that mRNA vaccines provided “modest but significant protection” against tuberculosis in mice. And a team from George Washington University reports they have developed two mRNA vaccine candidates for reducing malaria infection and transmission.
2 While some vaccine hesitancy was the result of manufactured distrust on the part of modern-day snake oil salesmen hoping to make a profit or opportunistic politicians hoping to make a name, some was the result either of religious concerns or—in the case of many Black Americans—the collective memory of unethical practices when it came to conducting clinical trials without the informed consent of the participants.
3 The Annie E. Casey Foundation has published data-rich annual reports on children’s health and well-being, called KidsCount. It is often cited by Congressional Offices as a source of authoritative knowledge.

DEVELOPING IMPACT ACCOUNTING AND SETTING NEW STANDARDS

While international accounting standards governing financial accounts dictate what the accounts should look like and how they should be audited, there aren’t yet equivalent standards surrounding impact. This creates the impression that impact is subjective, hinders benchmarking and the use of impact data as a basis for decision-making. The International Sustainability Standards Board represents one positive development on this front. Its nonfinancial reporting standards aim to provide investors and other capital-market actors with rigorous and homogeneous information on sustainability risks and opportunities, and thus enable more informed decision-making. The standards make sustainability issues financially material so that shareholders can assess the potential consequences of sustainability decisions on companies’ financial statements.

A parallel development is the Impact Economy Foundation’s impact-weighted accounts framework, which incorporates the concept of “double materiality.” The framework includes an integrated accounting system that considers both an organization’s financial materiality and its effect on its environment and stakeholders’ (essentially impact), and thus helps position finances and impact as integral components of management and corporate governance.

Meanwhile, the United Nations Development Programme has developed a set of internal decision-making standards that will include an assurance framework and a seal of approval. These Sustainable Development Goals (SDGs) Impact Standards aim to help enterprises, bond issuers and investors, and development finance institutions facilitate decision-making so that they can maximize their contributions toward the SDGs.

The field may also take guidance from Europe, which is promoting environmental sustainability through policies like the European Green Deal. Approved in 2019, this policy includes incentives to promote investment in companies and activities that move Europe toward zero emissions while leaving no one behind. It also includes a taxonomy that clas-

PRIORITIZING IMPACT MEASUREMENT IN THE FUNDING OF SOCIAL INNOVATION

BY LISA HEHENBERGER

A decade ago, I worked on impact-measurement guidelines for what was then called the venture philanthropy and social investment field in Europe. At the European Venture Philanthropy Association, we came up with five steps to measure impact for investors and support social enterprises. One of the things we learned through that work is that it’s more important to look at how an organization uses impact data in its management—for what purpose and for whom—than the specific data point that emerges from the analysis.

Since then, initiatives such as the Impact Management Project and the Operating Principles for Impact Management (OPIM) have successfully promoted the integration of data in impact-investing management processes so that investors can learn from it and make adjustments as needed. OPIM requires that investors provide independently verified disclosure statements, for example, to show that they are considering impact throughout the investment process, from deal screening through exit.

On the grantmaking side, from our work with foundations and discussions with people like Jeremy Nicholls, more foundations are acknowledging that positively impacting their target populations requires that they formalize processes for listening to beneficiaries, learning from mistakes, and implementing corrective actions.

While the field has become more sophisticated, it still has a long way to go in terms of transparency and accountability. Impact reporting still mainly displays aggregate output figures without explaining methodology or learnings. This contributes to a tension between the standardization of methodology, which enables the kind of benchmarking financial markets require, and generating opportunities for learning so that grant makers can take corrective actions. Both impact investors and grant makers have an opportunity to understand if they are channeling resources to organizations and projects that are tackling the most important problems and making a difference in the lives of beneficiaries. The two fields also stand to learn from each other.

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sifies activities as sustainable, as well as regulation on sustainability disclosure for companies (Corporate Sustainability Reporting Directive) and financial institutions (Sustainable Finance Disclosure Regulation, or SFDR).

European impact investors have welcomed the adoption of SFDR as a means of catalyzing further investment in funds and financial institutions that are working in sustainable ways. This regulation builds on the concept of double materiality, and takes into consideration how investors integrate sustainability risks in their operations and set sustainability objectives. One concern is that it currently focuses mostly on environmental factors, largely ignoring the social impact upon which pioneering European impact investors such as Phitrust and Oltre Venture built their investment theses. As the regulation evolves, it will be important to ensure that it enables the financing of impactful initiatives, not just those with the resources to comply.

Impact investors genuinely interested in creating a positive impact on society need to find the right balance between complying with standards to appear credible and supporting truly innovative companies that are addressing societal problems in a profitable and scalable way. One challenge is the inherent rigidity of impact funds. Investors buy into investment strategies that ideally are valid over the fund’s lifetime (around 10 years), but it’s difficult to incorporate learnings into such rigid structures, and few impact investors set overarching impact objectives for funds according to a theory of change.

As a result, most impact reports are still aggregations of output numbers (such as “jobs created”) or lists of which SDGs the investment strategies address, rather than clear reflections of how the investees generated positive or negative change for the target population. Organizations seldom discuss methodology in their assessments, with the regular excuse that they use a proprietary approach. As impact investors increasingly specialize in issue areas like sustainable agriculture, there’s more opportunity to incorporate learnings from previous funds and develop synergies between investee companies. Specialized funds can also better target specific impact objectives and measure success against them.

BUILDING TRANSPARENCY AND A CULTURE OF LEARNING

Grant makers are well-poised for experimentation, risk-taking, and learning to promote social innovation, but they often struggle to match their well-defined missions with solid data and a common understanding of what impact means throughout the organization. Many organizations that work closely with grantees intuitively believe they are changing the lives of their beneficiaries. Rather than burden grantees with lengthy reporting requirements, they may rely on stories about how beneficiaries’ lives have changed for feedback.

And while grant makers tend to be proud of the passion and trust that permeate their culture, board members from corporate backgrounds may feel that the focus on goodwill and collegiality could generate groupthink and get in the way of transparency.

Boards tend to ask more questions about how the organization manages financial assets than about the impact it is generating for core stakeholders, and there is an inherent tension between upward accountability (how management teams report to trustees and governors) and generating data that informs decisions about impact. If boards encourage management teams to focus on reporting how well they have spent financial assets, they’re less likely to share what didn’t work well. Ultimately, this inhibits organizations’ ability to learn from mistakes, and without risk, there’s no social innovation.

Grant makers are increasingly talking about learning as a part of monitoring and evaluation, but not necessarily incorporating it as a concrete activity with associated responsibilities. More of them need to invest in learning units that create a shared language around impact, develop scorecards and tools to track what works and what doesn’t work, and train staff to identify the kind of data they need to understand a program’s positive and negative impacts on beneficiaries. Good examples of organizations creating physical and temporal spaces for staff to do this kind of work include the King Baudouin Foundation in Belgium, which recently set up an internal learning group to facilitate knowledge sharing, and Laudes Foundation, which has an effectiveness and learning committee as part of its governance structure.

The importance of focusing impact work on accountability to beneficiaries is clear. But to do this effectively, grant makers need to create governance systems that do more to support learning.

FUNDING INNOVATION INTO THE FUTURE

In the coming years, it will be important for impact investors to evolve their impact-measurement processes. New standards are beginning to take shape that incorporate social and environmental factors into investment accounts so that they can measure them and subsequently make better-informed decisions. It’s encouraging to see investors rapidly adopting these emerging standards and complying with new regulations, thanks in part to increasingly digitalized measurement tools that facilitate implementation. But the field must work to ensure that the standards and associated tools that prevail aren’t necessarily the easiest to implement or the ones with the greatest financial backing. They must be the most equitable and just. They must ensure that investors are accountable to beneficiaries and take into consideration both positive and negative impacts.

Grant makers, meanwhile, need to take impact data more seriously. A lack of solid impact data often means spending vast amounts of resources on projects that have no real impact. To ensure that beneficiaries are at the center of measurement, accounting, and decision-making, more grant makers should consult them as experts and include them in committees and advisory boards. They should also make sure that impact data is at least as prominent as financial data in dashboards and scorecards that inform decision-making. These practices should inform impact standards and regulations for both impact investors and the wider financial markets.

Ultimately, all funders need to use data more effectively to understand which initiatives are generating impact and which aren’t. Impact investors speak the language of metrics and can take the lead in translating them into understandable and actionable terms. Grant makers can meanwhile lead the way in making space for experimentation and learning. And through greater collaboration, both groups can help develop standards and accounting systems with true accountability toward and inclusion of those they aim to help.

Notes
You good?

Reach out to a friend about their mental health.

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