



UCL

THE WAY FORWARD IN IMPACT INVESTING: WEIGHING SOLUTIONS TO PLAY OFF SOCIAL IMPACT MEASUREMENT AND MANAGEMENT

UCL
SCHOOL OF
MANAGEMENT

AUTHORS
Paolo Taticchi
Chiara Andreoli

DECEMBER 2022

CONTEXT

The impact investing market struggles are real, but they are not insurmountable. This white paper considers the challenges related to social impact measurement and management in impact investing and seeks to identify and weigh possible solutions for the way forward.

The impact investing market has dramatically expanded, but not without any challenges: risk of contamination by the traditional form of investments, the proliferation of non-standardised and integrated standards and tools, and confusion about how to manage the social impact by considering a multitude of actors.

The main challenges that remain to be solved include: confusion about which factors should be considered when measuring and managing social impact, difficulties in generating and collecting high-quality social impact data useful for decision-making, lack of alignment among stakeholders on the optimal timeline for measuring and managing social impact, social impact not being prioritised by many organisations, and a high risk of “impact washing”.

Clearly, hard and soft law is needed to improve the measurement and management of social impact when moving beyond the “one-SIZE-fits-all” approach, which considers a single stakeholder perspective, to consider a multitude of stakeholders when designing and assessing impact initiatives.

PREFACE

This white paper is the second of a series published by UCL School of Management to advance research and practice in the field of impact investing, specifically around social impact measurement and management. This research initiative (IMmPACT) is led by Professor Paolo Taticchi, OMRI and sponsored by the John Ryder Memorial Trust. Ms Chiara Andreoli is the co-investigator. The IMmPACT research has led to the creation of a “Social Impact Practice Group” comprised of 30+ organisations (see the full list of members in the Acknowledgments section) with different roles in the social impact and impact investing ecosystem. These organisations have shared experiences and views with the research group with the goal of advancing research around social impact measurement and management.

This white paper integrates the insights from the first two workshops the authors carried out with the Practice Group. In particular, the first white paper outlines the main obstacles in social impact measurement and management. In this edition, directions to overcome the challenges are presented.

The focus of this initiative is on impact investing; however, some learnings also apply to other types of sustainable investing.



INTRODUCTION

All is not well, but all is not lost, either”, is the underlining message presented in the [Human Development Index \(HDI\) report 2021-2022](#). People need new and improved solutions to navigate the uncertainties of today’s world. Adding to the challenges of the past century, new layers of uncertainties are creating an increasingly unequal and fragmented society: dangerous planetary change, societal transformations on par with the Industrial Revolution, and gradually polarising societies (UNDP HDI, 2022). Policies that focus on investments, insurance and innovation can make a significant impact.

Due to existing limited financial and non-financial resources, national and supranational organisations from the public to the private sector are intensifying new investing practices. Impact investing is one of the most promising options for generating “positive, measurable, social and environmental impact alongside a financial return” (Global Impact investing Network, GIIN, 2021).

From January 2021, various organisations in the impact investing ecosystem, from OECD and UN to small and big banks, such as Santander UK and Banca Etica; large multinationals such as GSK, Bayer, and ENEL; financial intermediaries like BlueMark and Sustainalytics; and international academic institutions worked together in the IMmPACT project. This paper follows on from the first white paper, titled “Social Impact Measurement and Management in impact investing: the jungle we must steer through”. Five key challenges related to the measurement and management of social impact in the impact investing arena were highlighted:

- Confusion about which factors should be considered when measuring and managing social impact
- Difficulties in generating and collecting high-quality social impact data useful for decision-making
- Lack of alignment among stakeholders on the timeline for measuring and managing social impact
- Social impact not being prioritised by many organisations
- High risk of “impact washing”

In this context, it is key to underline the importance of moving toward a more inclusive measurement and management process. As is highlighted in the first article, measuring the social impact on only one group of stakeholders is paradoxical in the impact investing context given that one of its goals is to solve specific societal challenges. Additionally, when all the relevant actors in the decision-making process of investment projects, counting the final beneficiaries is key to “depolarise” the measurement and management process.

HOW TO PROGRESS AGAINST THE MAIN CHALLENGES IN MEASURING AND MANAGING SOCIAL IMPACT IN IMPACT INVESTING?

As a nascent field, impact investing still needs improvements. The presence of several stakeholders in the impact ecosystem creates many obstacles: different definitions, divergent scopes and timelines, multiple methodologies, unmatched skills, and limited resources. Taking a page from the “all is not well, but all is not lost, either” idea, this paper presents some solutions to progress against the key challenges.

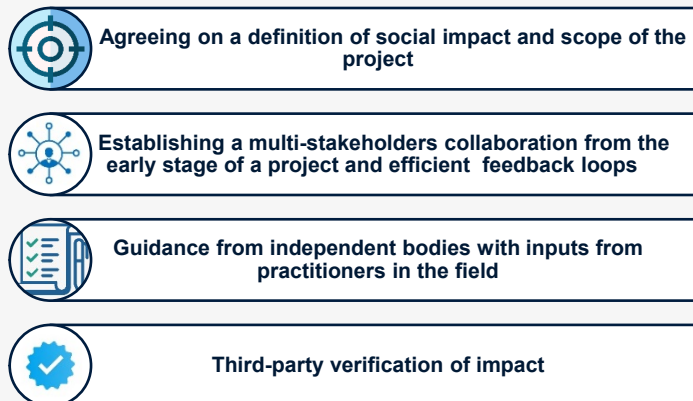


Figure 1. Identified solutions to challenges in social impact measurement and management in impact investing (Source: Authors' elaboration based on workshops and interviews with the Practice Group)

AGREEING ON A DEFINITION AND SCOPE

This is the first step to bring clarity to the social impact measurement and management process. Without this alignment, every stakeholder can have a different perspective on what should be included in the measurement and how to carry out the process at a project level and beyond. Realistically, it is clear that different definitions and measurement systems will continue to exist, as extensively discussed in the first white paper.

By combining the different definitions collected during the research, social impact shows up as a positive change to people in regard to accessing needs (i.e., primary or ancillary), fulfilling their potential and aspirations, and increasing their long-term income with no detriment to the local and global environment. Thus, it is key to demonstrate a tangible positive difference to society (e.g., at the community, national, or international level) as the consequence of investments that redirect capital to economic and non-economic activities that are sustainable. For this reason, impact metrics should measure not only the non-monetary but also monetary (if relevant) medium and long-term outcomes.

Some decisions should take place at the very beginning of every impact investment process, including:

- What are the social needs to address?
- What is the purpose or the impact thesis? Who will your project impact?
- What are the deliverables and actions of each group of stakeholders at every stage of the project?
- Is the project financially viable?
- What are the ESG and impact data needed for decision-making and controlling, based on the country and industrial perspectives?
- What are the core and optional data and information needed?
- What are the risks?
- What are the trade-offs between the social needs to address and the interlinked environmental and governance factors?

Answering all these questions is not an easy task. The continuous dialogue among stakeholders, however, in combination with some industry and academic frameworks, greatly eases the process (e.g., IRIS+, EVPA principles, SROI, IMP 5 dimensions).



ESTABLISHING A
MULTI-STAKEHOLDER
COLLABORATION
FROM THE EARLY
STAGE OF A PROJECT

Dialogue and trust are essential to building a solid and long-term collaboration among stakeholders

This remains an essential element to overcome the main barriers. Even if better collaboration has started to occur within the impact investing ecosystem, some actors are still far away from implementing a viable cooperation system.

“If we are really going to understand whether a project was successful or not, we need the views and perspectives of stakeholders – particularly those stakeholders most affected by the project.”

Oliver Kempton, Social Value UK, and Partner at Envoy Partnership

Collaboration must be based on agreeing on a shared idea of materiality, securing efficient and continuous data collection and monitoring, and sharing roles and responsibilities. In this context, it is pivotal to establish efficient feedback loops between each phase of investment projects, from the assessment through to the monitoring phase after the project ends.

“Given the non-linear nature of impact management, iteration between phases represents an opportunity to review what you have been doing and adjust to new organisational circumstances.”

Lawrence Bate, Director of Strategy and Impact at the British Heart Foundation

Including the investees and final beneficiaries in the loop is crucial for ensuring the right strategic directions of the project and for successfully delivering the outcomes to the intended recipients of impact.

“A public benefit lawyer’s practical perspective on impact investment certainly suggests that real and meaningful public value is derived from close engagement with actual community need and local socio-economic dynamics. The multi-sector, multi-stakeholder community partnership, based on collaboration between providers, public authorities and social investors, in such close engagement, is an optimal model. There is a risk of impact investment decisions being made principally via traditional commercial methodologies insufficiently informed by the critical social dimension.”

Julian Blake, Partner Stone King LLP

Indeed, complexities amplify in the medium and long-term, and the impact planned and created can deviate substantially.

“To ensure that the strategy continues to fit the purpose, deliberate and emerging strategies should be carefully developed when monitoring the impact.”

Paolo Taticchi, Professor in Strategy and Sustainability at UCL School of Management

The reviewing process throughout an investment lifecycle should take into consideration both internal and external (industry) factors.

“I would also recommend that industry best practices guide the reviewing process, whether it is done internally or externally by third parties, to ensure a suitable level of consistency across projects.”

Michael Susan, Associate in Impact Reporting at Sustainalytics

“Working in policy, I’m used to doing a huge amount of landscaping before starting a project. So, it’s a good idea to look at what else is around, what others are doing, and which stakeholders you need to interact with - and then adjust your plan accordingly.”

Nick Greenwood, Policy Manager (Charity Environment) at the British Heart Foundation

Nevertheless, establishing a dialogue among stakeholders is often a tough and costly task.

“Based on my experience, I recommend collaborating with local NGOs and charities. This usually facilitates the dialogue among multiple stakeholders, especially in the case of big corporations. NGO’s and charities are established with the goal to solve social issues, and therefore are the best actors to really know the local territory and to engage.”

Andrea Abbate, Impact models and socio-environmental evaluator at Banca Etica



Picture 1 Impact Investment of Nordic Impact Funds, Kenya (Source: Nordic Impact Funds, 2022)

GUIDANCE FROM INDEPENDENT BODIES WITH INPUTS FROM PRACTITIONERS IN THE FIELD

This is another proposed solution to achieve consistency and overcome uncertainty across different social impact target. The upcoming European social taxonomy, in conjunction with SFDR (Sustainability-Related Financial Disclosure Regulation) and CSRD (Corporate Sustainability Reporting Directive) can give a common trajectory on social impact targets concerning a broader set of stakeholders. However, there is a clear need for global taxonomies and globally integrated indicators to lessen the burden of comparing companies across multiple regions, especially on data collection rules.

Clear guidance turned out to be fundamental to measure the additionality of impact and negative externalities. For example, how does an organisation claim and attribute impact across so many different asset classes and actors? A clear methodology to overcome this issue would help in reducing the impact washing risk.

“I recommend considering a couple of challenges in different asset classes, whether it is project finance, or loan finance, or even the best example of investing in a company that may be one or two steps removed from a company that is measuring impact.

Tristan Hackett, Director at BlueMark

Undoubtedly, declaring the additionality, as well as materiality, goes hand in hand with the mapping of stakeholders and a clear understanding of the perspective from which impact is measured and managed and for whom.

“One key solution is to be able to have better guidance on how we claim and attribute our impact across different asset classes and consider multiple stakeholders.”

THE BENEFITS OF HAVING THIRD- PARTY VERIFICATION OF IMPACT

If a firm broadly claims it is contributing to several SDGs, auditors check how investors classify their contribution to SDGs and how accurate and authentic the classification system is to help bring more credibility and accountability to the results achieved.

Moreover, having a third-party verification of impact perspective on investors' impact actions, practices, and performance would increase the trust and accountability of social impact in the impact investing market, similar to independent assurance and third-party ratings in traditional financial markets. In the context of regulations development, given concerns about the integrity of impact investing and impact information gap, the demand for independent impact verification of impact is rising.

“Companies and funds usually have strong incentives to show as much positive impact as possible: independent impact auditors should at least validate the data.”

Lisbeth Zacho, Founder and Managing Partner at Nordic Impact Funds

Third-party evaluation of impact, such as BlueMark, aims to improve the system and strategy of clients for enhancing the education level in the market.

Although impact verification companies and traditional financial auditors differ in some ways, they also share many similarities. For instance, all verification companies share the objective of ensuring accuracy of information reported and credibility, whether it is financial or impact audit. They share the type of process of fact-checking numbers to ensure that there are no misrepresentations. The two figures start to differ when describing the type of financial and impact information audited. When verifying impact, auditors should collect several context-related information that are often much more complex than financial information.

Furthermore, if there is an agreement upon frameworks in the financial reporting world, to understand how results look, and how performance can be interpreted, performance reporting of impact is a lot more challenging to gauge. Thus, for an impact verification company, this means adding many more layers of contextual information into verification.

Beyond financial auditing, there is a completeness of information required around impact. For instance, an impact verification company should look at the negative impacts in addition to positive impacts, of both quantitative and qualitative information, especially in terms of the context where impact is created and benchmarks are established.

The intentionality of an investor should also be analysed, differently from a financial perspective. Additionally, auditors in the traditional financial industry usually undertake a “check the box routine” exercise, whereas an impact verification company should go beyond that. A verification methodology also serves to educate and consult their clients, helping them understand how they stack up relative to their peers, as well as how they can improve.

In addition, a working group of selected practitioners are currently working on the SDG Impact Assurance Framework, led by Jeremy Nicholls (United Nations Development Program), that conforms with existing international assurance standards. This represents a learning opportunity for investors and investees to identify gaps in the performance and assess impact risks.

HIGHLIGHTS

MAIN CHALLENGES

MAIN SOLUTIONS

What factors should be considered in the social impact measurement and management?

Definitional clarity; trade-offs between standard metrics and individuality of a project degree of subjectivity in defining the social impact and metrics

What data is needed before and throughout an investment life cycle?

Issues in collecting quantitative and qualitative high-quality data; lack of standardisation intra and across industries; reporting of negative impact too; link of social impact to financial performance.

How to agree on a timeline together with the relevant stakeholders in a project?

Issues given by the different perceptions that stakeholders have on time ("Impact" refers to long-term outcomes and not short-term outputs)

How to incentivise companies and employees to buy in?

Social impact is not often a priority in the organisation; limited financial and human resources at what the appropriate level within the organisation where social impact should be bought in.

Are the claims made by investors matching the results?

Risk of impact-washing; limited engagement with third-party verification of impact.

Agreeing on a definition and scope among relevant stakeholders in a project

What are the social needs to address? Who will your project impact? What are the deliverables and actions of each group of stakeholders at every stage of the project? What are the ESG and Impact data needed for decision-making and controlling? What are the risks? Potential trade-offs between the social needs and the environmental and governance factors?

Creating efficient feedback loops among stakeholders between each phase of investment projects

Iteration between phases allows an opportunity to review given the non-linear nature of impact assessment; monitor strategy alignment between investors and companies to deliver the level of impact targeted; deliberate vs emergent strategies.

Collaboration among key stakeholders and guidance from independent bodies

Dialogue and trust are essential to build a solid and long-term collaboration among stakeholders; global taxonomies to decrease the burden of comparing companies across multiple regions (e.g. data collection rules).

Having a third-party verification of impact

Perspectives on investors' impact actions, practices and performance, can increase accountability in the impact investing market. Such as independent assurance and third-party ratings in traditional financial markets.

Source: Authors' elaboration based on data collected during workshops and interviews with the Practice Group

BUY-IN AND PRIORITISE YOUR SOCIAL IMPACT

It comes without a doubt that all the solutions proposed work only if each company prioritises social impact and implements the necessary actions to create the appropriate cultural mindset. More financial and human resources are needed to develop and grow the skills that are needed to measure and manage social impact.

“The incentives for the participants and decision-makers within organisations to ‘think beyond the money’ and engage in social impact are complex. People follow a combination of extrinsic economic/financial and intrinsic psychological/emotional motivations. Thus, from an extrinsic economic viewpoint, organisations need to measure, monitor, motivate, and educate their staff. But at a deeper, intrinsic long-term level, social impact is all about shifting mindsets and cultures, so that social impact becomes an automatic ‘way of life’.”

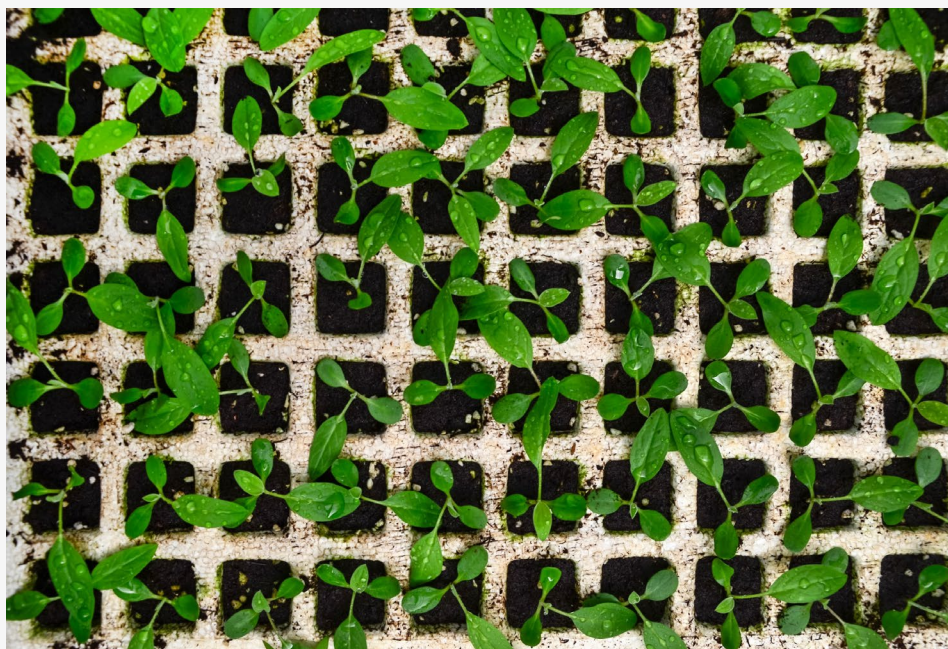
Richard Fairchild, Professor at the Center for Business and Society at the University of Bath

Nevertheless, if some managers buy-in, there are still others that do not believe in buy-in at all.

“While companies may buy into the general concept of promoting positive social change, we will only see a positive impact from this if such goodwill is supported by strong legislation which requires companies to report concrete outcome-based metrics on these initiatives.”

Daniel Ung, Head of Quantitative Research and Analysis/Strategy at State Street Global Advisors

Hard law is crucial to increase companies’ willingness to measure impact, report good data, and create law-regulated industry benchmarks. If this opinion seems tough and extreme, it is based on historical events.



Many companies started to implement ESG-compliance strategies only when EU taxonomy became binding. And even then, greenwashing is still prevalent. Will history repeat itself for impact investing?

CONCLUSION

Without impact investing, millions would not have the chance to receive resources and support to face increasing societal uncertainties. Testing and proving social impact rigorously, however, remains essential to protect the market for impact investing, ensure the delivery of financial and non-financial assets to investees and final beneficiaries, and decrease the “risk of contamination”. Without any doubt, there has been a clear progression in efforts to address the key challenges in measuring and managing social impact. In addition, although progress has been made, some advancements are still needed. The improvement process should entail agreeing on a definition and scope among relevant stakeholders in an investment, creating efficient feedback loops between each phase of a project, collaboration among key stakeholders and guidance from independent bodies, and having a third-party verification of impact.

ACKNOWLEDGEMENTS

The authors gratefully acknowledge the following individuals and organisations for their valuable contribution to this research.

- Tjeerd Krumpelman, ABN AMRO
- Andrea Abbate, Banca Etica
- Tommaso Rondinella, Banca Etica
- Prof. Dr. Richard Fairchild, University of Bath
- Jonathan Woad, Baringa
- Jana op den Winkel, Bayer
- Tristan Hackett, BlueMark
- Nicholas Greenwood, British Heart Foundation (BHF)
- Lawrence Bate, British Heart Foundation
- Prof. Dr. Andreas Rasche, Copenhagen Business School
- Giulia Genuardi, Enel S.p.A
- Dr. Daniel Klier, ESG Book
- Arnau Picon, European Venture Philanthropy Association (EVPA)
- Gianluca Gaggiotti, European Venture Philanthropy Association (EVPA)
- Raffaella De Felice, Global Steering Group (GSG)
- Gila Norich, Global Steering Group (GSG)
- Dr. Taryn Marella, GSK
- Nancy Mancilla, ISOS Group
- Dr. Jan Dauman, John Ryder Memorial Trust
- Louisa Bullard, Mercato Metropolitano
- Gianluca Pediconi, MOMentum Alternative Investments
- Lisbeth Zacho, Nordic Impact Funds
- Dr. Davide Stronati, Nuclear Decommissioning Authority
- Dr. Priscilla Boiardi, OECD
- Rasmus Juhl Pedersen, PBU
- Thomas Steiner, Phineo
- Andrea Cairati, RaiWay S.p.A.
- Benedetta Gava, RaiWay S.p.A.
- Elisa Moscolin, SAGE
- Fermin Martinez de Hurtado Yela, Santander UK
- Oliver Kempton, Social Value UK and Envoy Partnership
- Daniel Ung, SPDR Exchange Traded Funds (ETFs)
- Julian Blake, Stone King LLP
- Michael Susan, Sustainalytics
- Simon Vacklen, Sustainalytics
- Diana Copper, The Commonwealth
- Federica Rampinini, United Nations PRI
- Meredith Sanna, United Nations (UNOPS)

REFERENCES

Council of the EU. (2022). *Council gives final green light to corporate sustainability reporting directive*. Council of the EU Press release. Retrieved from <https://www.consilium.europa.eu/en/press/press-releases/2022/11/28/council-gives-final-green-light-to-corporate-sustainability-reporting-directive/>

European Union. (2022). *Lex - 32019R2088 - en - EUR-lex*. European Union. Retrieved November 24, 2022, from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

Global Impact Investing Network. (2022). *GIINsight: Sizing the Impact Investing Market 2022*. The GIIN. Retrieved November 24, 2022, from <https://thegiin.org/>

United Nations. (2022). *Human development report 2021-22*. Human Development Reports. Retrieved November 24, 2022, from <https://hdr.undp.org/content/human-development-report-2021-22>

AUTHORS

PAOLO TATICCHI PROFESSOR

Biography

Paolo Taticchi is Professor in Strategy and Sustainability & School Deputy Director (MBA, Global Engagement, Executive Education) at UCL School of Management. Highly active in executive education, Paolo has trained thousands of managers and executives of Fortune Global 500 companies; and is a sought-after speaker regularly invited to give keynote talks at world-class academic, governmental and industry events. Paolo's research on corporate sustainability and performance measurement is internationally recognised. Paolo's last book is titled "Corporate Sustainability in Practice" and was published in January 2021.

Outside of the academy, Paolo has significant consultancy experience in the fields of strategy, education, and sustainability. He has worked in this capacity for firms of various sizes, and in a range of different industries. Today, he advises (or serves in the advisory board) influential organisations and is one of the scientific advisors of the Ministry for the Ecological Transition in Italy. He has received numerous awards for the impact of his work. His projects, quotes and opinions have been featured over 350 times in international media outlets. In 2021, Paolo was indicated by Italian's leading business daily Sole 24 Ore as the most influential Italian under the age of 40.

Contact

E: p.taticchi@ucl.ac.uk

CHIARA ANDREOLI PHD CANDIDATE

Chiara is a Ph.D. Candidate in Strategy & Sustainability at Copenhagen Business School and honorary research fellow at UCL School of Management. She is the co-investigator of the IMmPACT project. She does research about corporate sustainability and impact investing, with a focus on social impact measurement and management.

Contact

E: c.andreoli@ucl.ac.uk