INTRODUCTION TO IMPACT MANAGEMENT & MEASUREMENT

Impact management and measurement (IMM) is fast becoming a key component of responsible investment practice, as the emphasis extends beyond process and policy to real world outcomes – positive and negative - being generated through investments.

Various impact management tools, standards and conventions have emerged which are useful to investors when developing their own frameworks, as well as for analysing the companies and assets they invest or are considering investing in.

In the financial sphere, impact management and measurement (IMM) has its roots in the field of impact investing, which is specifically defined by the setting of an intention to deliver positive social or environment impact alongside financial returns and the measurement of that impact.

However, other responsible investment approaches such as ESG integration and negative screening also involve assessing and managing impact. Combined with the heightening demand for investors to demonstrate their real-world impact, IMM is increasingly of relevance to most responsible investors.

What is impact management?

IMM extends beyond measurement to having a more holistic and robust process for managing impact throughout a full investment lifecycle.

The Impact Management Project (IMP) describes managing the impact of an investment, or portfolio of investments, as ‘taking into account the positive and negative impacts of the underlying enterprises/assets as well as the investor’s own contribution’. The United Nations Development Programme (UNDP) goes a step further describing impact management as the ongoing practice of identifying, measuring, monitoring, valuing, evaluating and improving impact, in order to reduce the negative and increase the positive outcomes for people and the planet.
**What is meant by ‘impact’?**

An impact is defined as ‘the change in outcome (positive or negative) caused by an organisation, directly or indirectly, wholly or partially, intended or unintended’ (where an outcome is the result of an action or event which is an aspect of environmental, social and economic wellbeing).

As the following figure from the IMP shows, this includes the impacts from the use of products and services (the ‘what’ companies do) to the impacts from production and distribution (the ‘how’ companies do it). Importantly, the impact should be considered in the context of appropriate thresholds or norms in order to determine whether it is positive or negative.

![Diagram showing the impact of products and services, production, and distribution]

Following detailed industry consultation, the IMP reached a consensus that impact can be measured across five dimensions: what, who, how much, contribution and risk.

- **What** tells us what outcome the enterprise is contributing to, whether it is positive or negative, and how important the outcome is to stakeholders;
- **Who** tells us which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome;
- **How much** tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for;
- **Contribution** tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise. This is similar to additionality but also captures simple ‘value-adding’; and
- **Risk** tells us the likelihood that impact will be different than expected.

The IMP classifies three different types of impact which companies can have – the ABCs of impact - which can also act as a framework for investors:

- **Acting to avoid harm** (e.g. reducing their carbon emissions);
- **Benefitting stakeholders** (e.g. selling goods that improve health outcomes); and
- **Contributing to solutions** (e.g. providing unemployment services to underserved populations)
**Why should investors manage impact?**

Impact management encompasses disclosure and reporting, but within the context of a larger strategic process which also includes developing an impact thesis, setting impact goals and managing performance.

Investors, like companies, have varying motivations for managing impact. Some want their capital to intentionally deliver positive change for people and planet, or to align their money with their personal interests and values. Some manage impact in order to mitigate risk or meet regulatory requirements. Others are driven by capturing financial opportunities that may exist by better understanding the societal and environmental impacts of companies or assets they are considering or already investing in.

**The impact management process**

Managing impact is a continuous process to deliver and improve impact, with various key components.

The International Finance Corporation’s (IFC’s) [Operating Principles for Impact Management](https://www.ifc.org/wps/wcm/connect/default向/operating_principles_for_impact_management) provides a useful framework for investors for the design and implementation of their impact management systems, to ensure that impact considerations are purposefully integrated throughout the investment life cycle. The nine principles may be adopted at the corporate, line of business, fund, or investment vehicle level.

![Impact Management Process Diagram](image)

The UNDP has also developed the [SDG Impact Standards](https://www.undp.org/content/undp/en/home/ourwork/sustainable-development-goals/sdg-impact-standards.html), which provide a common language and best-practice guidance for integrating impact management and contributing positively to the Sustainable Development Goals through business strategy and investment practices and decisions. There are standards for private equity funds, bonds and enterprises, each providing context for applying other tools and frameworks including metrics, taxonomies and reporting.
Selecting impact metrics

Impact metrics are used to track the performance against impact targets. Metrics are not typically intrinsically negative or positive; rather it is the performance against a metric which is positive or negative (and the only way this can be determined is through a social or environmental threshold or norm e.g. science-based targets).

There are standard metrics or custom metrics and investors can choose to use the most appropriate for them. Standard metrics are often preferred in order to support comparability of impact performance across investments. The GIIN’s IRIS+ catalogue of metrics is a common industry standard along with the Harmonized Indicators for Private Sector Operations (HIPSO).

While the United Nations’ 17 Sustainable Development Goals (SDGs) are not metrics in themselves, each goal comprises various SDG targets which can be tracked by unique indicators. Recognising that some SDGs are inherently more investable than others, the SDI Asset Owner Platform classifies investments for their contribution to SDGs.

Verification of impact

Increasingly there are impact assurance offerings in marketplace. RIAA’s long-standing Responsible Investment Certification Program assesses products for their sustainability claims. Certified investment products labelled as ‘impact’ must satisfy an Impact Test focused around intentionality, measurement and contribution, and necessitating a robust impact management process in place.

Globally, BlueMark was specifically established to assess and audit the impact statements of impact investors. The organisation’s work focuses on assessing how closely investors are following the IFC Impact Principles as well other management frameworks such as the IMP.

FAQ

Q There are so many different frameworks and standards relating to corporate sustainability reporting and impact management. How do I know which one/s are best to use?
A The IFC’s Operating Principles for Impact Management are an excellent starting point. While there are a myriad of standards and frameworks which relate corporate sustainability reporting from GRI to the B Impact Assessment, there are increasing efforts to harmonise and align a number of these frameworks, acknowledging that they are often complementary (e.g. SASB focuses on financially material impacts while GRI covers the full ranges of themes relevant to stakeholders). There are also an emerging number of providers providing digital platforms to manage impact which integrate these different frameworks, standards and norms such as Sopact’s Impact Cloud.

Q How can I approach integrating impact management with financial management?
A With impact management in its infancy, it’s common for impact and financial analysis to exist in silos, however this is not ideal. Work is underway by the Impact Frontiers collaboration to advance the integration of impact into financial frameworks, processes and decision-making including this helpful handbook.
Q  **How do I approach valuation or monetisation of impact?**
A  Historically, it’s been hard for companies to financially account for their benefits and costs to society and the environment.Impact accounting is an emerging area focused on expressing impact in monetary terms. Social Return on Investment (SRoI) is a methodology for measuring social or environmental value not reflected in conventional financial accounts. Harvard University's [Impact-Weighted Accounts Initiative](https://www.impact-weighted-accounts.com) is focused on creating financial accounts that transparently capture a company's financial, social and environmental performance, in a way that informs management and investor decision making.

Q  **How do I compare impact across investments?**
A  The ability to compare impact results across investments and funds and to gauge progress towards goals is a challenge often encountered by investors. The GIIN's new [COMPASS](https://www.guin.org) methodology offers a standardised approach for investors to analyse and compare impact performance across the investment process in a rigorous way.

**Further resources**

- [Impact Management Project](https://impactmanagement.org) is the leading global forum for building consensus on how to measure, assess and report social and environmental impact
- RIAA's Impact Management and Measurement Community of Practice (IMMCOP) is available for all [RIAA members](https://www.responsibleinvestment.org) to join to participate in forums and get the latest on best practice IMM.
- RIAA's [Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020](https://www.responsibleinvestment.org) unpacks how Australian impact investors are thinking about and doing IMP.
- Social Value International's [Seven Principles of Social Value](https://www.svlonline.com) are a useful tool for investors as part of the due diligence process for making an investment
- The Global Impact Investing Network's [The State of Impact Measurement and Management Practice, 2017](https://www.giin.org) is a comprehensive survey of the state of IMM in the impact investing industry

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**ABOUT RIAA**

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 400 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

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