Standardisation in impact management

A summary of the discussions with the IMP's Practitioner Community

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About this paper

The discussions captured in this paper were hosted by author Mike McCreless, Head of Investor Collaboration at the Impact Management Project. Contributing IMP authors include Jo Fackler, Olivia Prentice and Clara Barby. It was published in July 2020.

For any questions with regards to the discussions around standardisation in impact monetisation, please contact team@impactmanagementproject.com

About the Impact Management Project

The Impact Management Project (IMP) is a forum for organisations to build consensus on how to measure, compare and report impacts on environmental and social issues.

We convene a Practitioner Community of over 2,000 organisations to debate and find consensus (norms) on impact management techniques.

We also facilitate the IMP Structured Network – an unprecedented collaboration of organisations that, through their specific and complementary expertise, are coordinating efforts to provide complete standards for impact measurement, management and reporting.

Purpose

"The purpose of this paper is to shed light on the richness of the discussions to anyone who was unable to participate, whilst offering points for reflection to those who were.

In 2019, the Impact Management Project (IMP) launched Managing Impact, an online forum for the IMP Practitioner Community to discuss and debate technical topics related to impact measurement and management. Now, Managing Impact has over 330 members, and more than 100 thoughtful posts from individuals wanting to advance the thinking around complex issues.[1]

"What can (and can't) be standardized in impact management?" is the last in a three-part series of discussions. The first discussion focuses on impact monetisation, while the second addresses impact ratings.

Each discussion runs on Managing Impact for 4-6 weeks before members of the IMP Practitioner Community convene via "huddles," or webinars that gather participants to share their views in a live setting. These allow for a deeper dive into the more complex issues surrounding the topic, before the insights from both the forum and huddles are synthesised into a discussion document.

The purpose of this paper – and the other discussion documents – is to shed light on the richness of the discussions to anyone who was unable to participate, whilst offering points for reflection to those who were. The goal is not to provide a definitive conclusion, but rather to take the pulse of IMP's Practitioner Community on what aspects of impact management can and should be standardised; what should remain bespoke; and whether there is an optimal middle ground between standardisation and customisation.

Quotes are anonymised given that the huddles were held under Chatham House Rules.

1 Conversations on Managing Impact are ongoing – see p.11 for instructions covering how to sign up and participate.

Why does standardisation matter?

As more enterprises and investors seek to manage and improve their impact[2] on people and planet, best practices are emerging. Standard-setters for impact measurement, management and disclosure are also stepping forward to help enterprises and investors converge on good practice more quickly. This can range from data standards and widely-agreed definitions of indicators, to shared principles and practices.[3]

"...some degree of standardisation is a necessary step on the path to scale. If measurement and management of the social and environmental performance must always be bespoke, there is little chance that it will become the 'new norm."

But what are the limits of standardisation of impact management in a private sector context? Are there aspects than cannot or should not be standardised at all, or perhaps only through political and regulatory channels?

These seemingly arcane questions matter because some degree of standardisation is a necessary step on the path to scale. If measurement and management of the social and environmental performance of enterprises and investments must always be bespoke, there is little chance that it will become the 'new norm.'

And yet there are reasons to think that impact management can never be completely standardised. There are many nuances specific to individual geographies, sectors, and asset classes. Even with recent advances in data collection and analysis, data availability and assurance remain a challenge. And even if perfect data were available, different stakeholders will always have different preferences and goals, and there is no single 'correct' way to arbitrate between them when making decisions.

2 In this paper, we define an **outcome** as the result of an action or event, expressed in terms of social, environmental or economic well-being. An **impact** is the change in outcome (positive or negative) caused by an organisation, directly or indirectly, wholly or partially, intended or unintended.

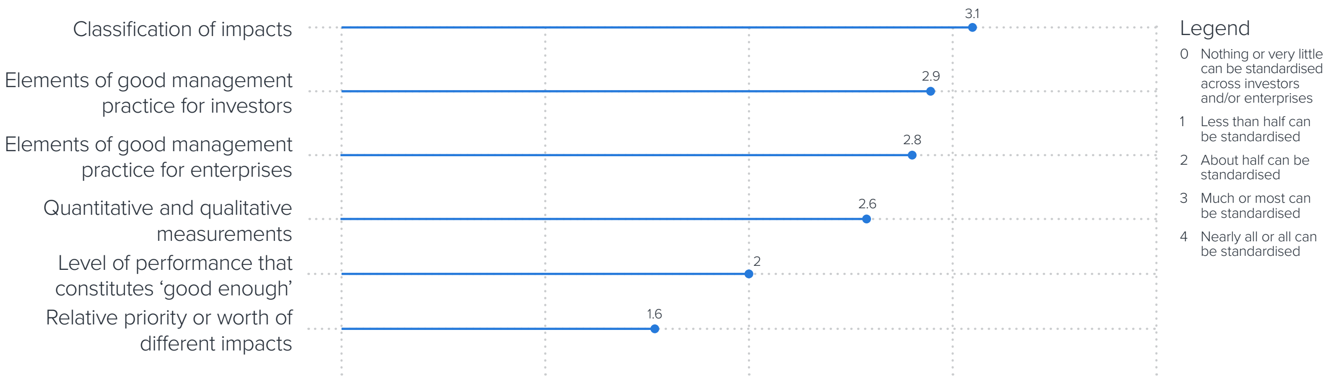
3 The Merriam-Webster definition of 'standardised' means "something established by authority, custom or general consent as a model or example."

What elements of impact management can be standardised?

For the purposes of this discussion, we defined the following six elements of impact management. During each huddle, we polled participants about the extent to which each element of practice could be standardised:

1. **Classification of impacts** that enterprises and investors might choose to measure and manage (e.g. the Sustainable Development Goals or thematic classifications).
2. **Elements of good management practice for enterprises**
3. **Elements of good management practice for investors**
4. **Quantitative and qualitative measurements**: indicators/metrics/disclosures used by enterprises to measure and manage their outcomes, and by investors to understand enterprise impacts
5. **Level of performance that constitutes "good enough" for each measurement** (social or ecological thresholds)
6. **Valuation**[4] (i.e., relative priority or worth) that enterprises and investors should place on each type of impact

Figure 1: Poll results from the huddle discussions[5]



4 In this paper, we define **impact valuation** as the process of estimating the relative worth or usefulness of the impacts of an enterprise (or an investment in an enterprise) on people, the environment or the economy. Impact valuation is useful for enterprises and investors in choosing among prospective projects or investments, in setting targets for impact performance, and in monitoring, measuring, and communicating impact performance of past projects or investments. Impact valuation can be qualitative; monetised (i.e., assign a monetary value to impact); or quantitative but not monetised (e.g., impact ratings). See previous posts on impact monetisation and impact ratings for more information.

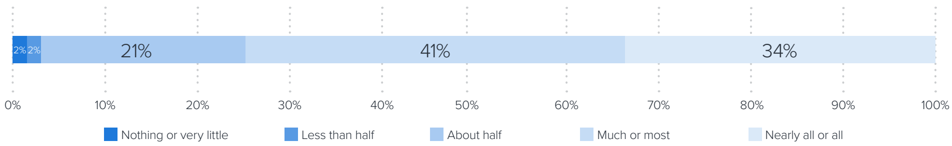
5 Sample size = 58. These are the combined results from the two huddles. In each huddle, we conducted two identical polls, one before the discussion and one after, to see how views changed. The data here are the combined results of the second poll in each huddle (i.e., these represent participants' views after discussion of the issues). The sample size of the first poll in each huddle is larger (93) because people dropped off prior to the final call. The only material difference in results between the first and second polls is that the score for "Classification of Impacts" rose from 2.9 to 3.1, making it the "most standardisable" element of impact management. In discussion, participants indicated that the reason they changed their score is because they were not clear on the question being asked during the first poll.

Through these polls, huddle participants expressed optimism that more than half of impact management **practices** and performance **measures** could be standardised. In contrast, for anything related to **value judgements**, participants indicated that half or less than half could be standardised, whether it be the level of impact performance that constitutes "good enough" or the relative priority or worth of different impacts.

Classification of impacts

Here, we refer to a high-level typology of impact themes, the example par excellence being the SDGs. The impact classes developed through the consensus-building efforts of the IMP provide another example.

Figure 2: The extent to which classification of impacts can be standardised



Three-quarters of huddle participants indicated that much or most, if not all, could be standardised.

Practitioner reflections

On the one hand, practitioners found classification to be the most standardisable element of impact management.

> *"I thought the typology would be the easiest element to standardize because it's the highest, most general level of conceptual organisation. It doesn't require as much detail as the others we are talking about here."*

On the other hand, practitioners expressed reservations about the degree to which global classification schemes truly 'fit,' and the degree to which expressing alignment with them is actually useful.

> *"I wonder whether people look at the same typology and say they are agreeing with it, but actually thinking it means different things. Sometimes people have to shoehorn themselves into a typology like the SDGs, but it doesn't really fit."*

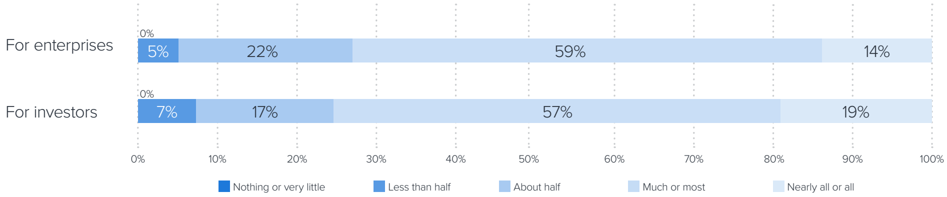
> *"There's an issue that the [SDGs] framework, targets and wording are very much aimed at government. It's not always the easiest fit for other organisation types. Other [frameworks], such as CDP, are more fit for purpose."*

> *"Do you think [the SDGs] can be captured by sub-indicator to get to another level of specificity? Broad alignment to a goal doesn't seem like a useful standardisation process."*

Elements of good impact management practice

This refers to the activities, articulated at a high level of generality, by which enterprises and investors can manage their impacts.

Figure 3: The extent to which elements of good impact management practice can be standardised



More than half of huddle participants felt that much or most could be standardised.

For enterprises, examples of standardised impact management practices include:

- United Nations Global Compact
- Natural Capital Protocol
- Social and Human Capital Protocol
- Social Value UK's "Maximise Your Impact" Guide for Social Entrepreneurs

For investors, examples of standardised impact management practices include:

- Operating Principles for Impact Management
- UNDP SDG Impact Standards

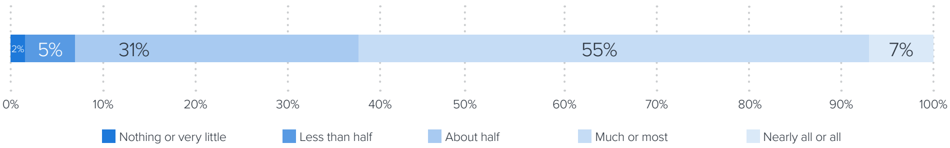
Practitioner reflections:

> *"I struggle with the lack of clarity around expectations of good practice for early stage SMEs vs more mature businesses. Can there be a realistic standardised set of expectations based on company size and stage?"*

Quantitative and qualitative measurements

These refer to the indicators, metrics, and disclosures used by enterprises to measure, manage, and report their outcomes, and in turn by investors to understand enterprises' performance.

Figure 4: The extent to which measurements can be standardised



More than half of huddle participants felt that much or most elements of good impact management practice could be standardised. There seems to be consensus that enterprises and investors should use standardised indicators wherever possible to promote consistency and comparability.

However, there is also recognition that enterprises and investors may need to complement standardised metrics with at least a few bespoke ones. This is both because standardised measures have not been agreed to for every type of impact in every context, and also because each enterprise and investor may have slightly different impact goals, strategies, or availability of data in their contexts.

Examples include:

- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- CDP
- TCFD
- IRIS+
- Harmonized Indicators for Private Sector Operations (HIPSO)

Practitioner reflections:

Practitioners were in favour of using standardised measures where possible, while also noting circumstances in which bespoke measures might be necessary.

> *"We use both standard and non-standard indicators. Every project and environment is unique. So whilst you might always use a certain standard indicator, each project may need the flexibility to measure something unique to that environment."*

> *"The other aspect of measurement and management is having metrics to improve internal programmes. [As a field-building non-profit], we have a unique programming profile for which standardised metrics do not exist. It does necessitate that we create some bespoke metrics, but as the space starts to evolve, we hope to see more inclusive metrics coming forward."*

> *"Organisations using custom metrics must be extremely clear about how they define and calculate their metrics to permit comparison and validation. They also should explain why they needed to use bespoke metrics. This is critical to ensure that organisations do not create metrics that make them look better than then standardised metrics would."*

The primary value of standardisation of measures is the comparability that they enable, whether that's within an organisation, or conducted by external stakeholders that wish to compare multiple similar organisations. For other purposes, standardisation may not be as important.

> *"If you're an organisation looking at how / why impact is occurring, standardisation can get in the way of that. If you are using indicators for the purpose of high-level decision making and/or transparency/disclosure around how you're contributing to global efforts such as the SDGs, then standardisation is possible and preferable."*

> *"When creating funds and balancing investments, it is important to have data to channel capital and make investment decisions. The more standardised data you have, the better you can allocate resources."*

"The more standardised data you have, the better you can allocate resources."

> *"Any standardised disclosure should be absent of any scoring, and as factual and homogenous as possible. The attribution of impact should remain with those using the information. This puts a limit on what can actually be reported and how it is reported for maximal transparency."*

Participants observed a risk that standardised measures may crowd out more careful thinking about impact, as well as deeper engagement with stakeholders.

> *"Sometimes the indicator takes on a mythical aspect of "we've always used that". Whilst an indicator may seem like it makes sense, when you actually look below at what you're measuring, you realise that you've measured nothing."*

> *"If indicators are standardised too much, there is a risk that organisations will focus on these indicators at the expense of engaging with stakeholders. There is then a risk that the impact is not maximised or achieving a real lasting change for the beneficiaries."*

> *"When the fund management world developed ESG ratings and ESG standardisation, there were laudable attempts to make sure that investors receive consistent and transparent information from different providers. But they ended up becoming an end in themselves for fund management companies, without actually improving how capital is allocated. How do we ensure that current laudable attempts at impact standardisation don't end up at the same thing?"*

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Participants also noted that most metrics – standardised or bespoke – often cover only one or two of the five dimensions of impact, and that practitioners may need to combine multiple metrics to obtain a multi-dimensional view of impact.

> *"In the past, there was the tendency to think that a farmer was a farmer and [disclosure standards] had plenty of standard indicators for farmers. In many people's minds, reaching 500 farmers meant more impact than 200 farmers, and that was that. There wasn't much thought about who the farmer was, what impact they experienced, how much, etc.,"*

Participants mentioned the concept of dynamic materiality[6] as a useful lens in determining what can be standardised (and for how long), and what cannot.

> *"I wanted to introduce the notion of dynamic materiality. There's a constant shifting of which issues (and by extension, indicators) are material to companies and investors, which makes it difficult to keep up. You can continue to evolve reporting standards over time, or you can define a core set of standardised metrics and leave the interpretation up to the user."*

6 Kuh, Thomas and Shepley, Andre and Bala, Greg and Flowers, Michael, Dynamic Materiality: Measuring What Matters (January 17, 2020).

See also Dynamic Materiality And Core Materiality: A Primer For Companies And Investors, Bob Eccles, Forbes, January 17, 2020.

Participants also mentioned the concept of bounded flexibility as promising in determining what degree of variation is acceptable in measures of impact, and why.

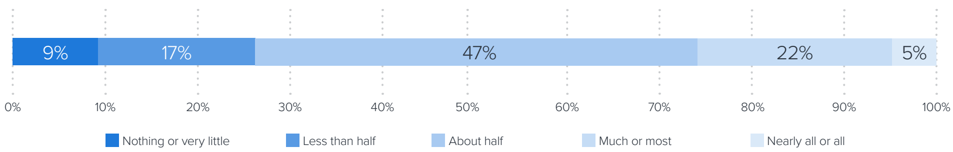
As described by Kate Ruff and Sara Olsen in The Next Frontier in Social Impact Measurement Isn't Measurement at All[7]:

> *"Current financial standards manage variation with what might be described as bounded flexibility, or choice within limits, coupled with consistency (pick a method and stick to it) and disclosure (fine print gives details on methods used)... This [article] offers three bits of wisdom to those arguing for standardized social impact measures:*
>
> - *When we eliminate variation, we lose something important: relevance. Relevance manifests in details such as the timing of when to measure an outcome or the definition of a term. What is at stake is not trivial; it is the meaningfulness of the measure itself.*
> - *Uniform measures are difficult to achieve and expensive to maintain.*
> - *We can achieve a reasonable level of comparability with bounded flexibility, consistency, and disclosure, so long as there are skilled analysts who can make sense of the differences in measurement approaches."*

Level of performance

When looking at the level of impact performance that constitutes "good enough" for each measurement (using social or ecological thresholds), the average huddle participant felt that about half could be standardised.

Figure 5: The extent to which the level of impact performance that constitutes "good enough" can be standardised



Examples:

- 'Living Income' thresholds
- Body Mass Index
- Science Based Targets for greenhouse gas emissions

Practitioner reflections

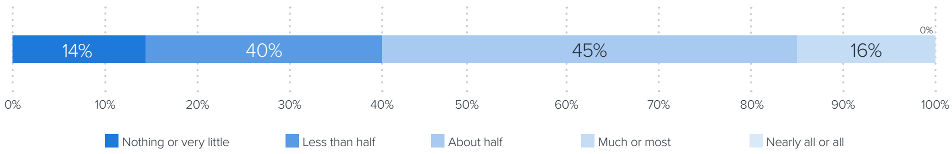
> *"To me, this is very values-laden and where subjectivity / context lies. For things like body mass index or science-based targets, it is possible to have standardisation. But when you look at wellbeing and aspirations, they look very different for different people. This is where it could be quite damaging or dangerous to have standardisation."*
>
> *"There has to be some sort of segmentation. I'm not saying [that performance] can't be standardised, but it should be grouped by different types (geographical, demographic, size of organisation, industry)."*
>
> *"At a global level, thresholds like this are extremely unethical to standardise."*

7 Kate Ruff and Sara Olsen, Stanford Social Innovation Review, May 10, 2016.

Valuation

This refers to the relative priority or worth that enterprises and investors should place on each type of impact. Huddle participants indicated that this is the least standardisable of the elements of impact management discussed, though some portions may be standardisable.

Figure 5: The extent to which the relative priority or worth of different types of impacts can be standardised



Practitioner reflections:

There was an emphasis that enterprises and investors should engage the stakeholders experiencing the impact to understand what they value, rather than asserting or imposing the enterprise's or investor's own values:

> *"I agree that techniques can be standardised, but it's difficult to have standardisation around priorities, which are people-specific and very complex. We want to create value for people and the planet and if we are being too generic about those values, we risk missing the whole point as to why we do this."*

> *"We first have a look at who is around the table and who isn't in the room. It's easy to say 'this is too hard' when the people affected aren't at the table. I'm thinking very specifically about gender rights and different stakeholders who are going to be experiencing impact, but who are not necessary the investors or enterprises at the table."*

> *"I go back and forth on this! I do think it depends on the decision that you are making – if you are deciding whether to invest in a large multi-national corporation, it's hard to engage every single stakeholder being affected. One path forward is to look at the costs being occurred by the corporation as a whole, especially on the environmental side. Or, you could look at small individual projects and really engage the stakeholders before deciding whether or not to invest. But it's harder to do this at larger scales."*

> *"This is extremely challenging. It is not just an issue that different organizations have different goals, but what is important and of value to one culture is absolutely different than another. Standardisation risks homogenising the importance of impact based on opinions and perspectives of the Global North with the money to invest. It could result in another form of impact colonialism."*

> *"The very process of seeking out valuations for the impacts from the populations affected is a notable improvement beyond investors and corporations, who have historically tended to be among the more privileged in society, imposing their values upon others."*

"I agree that techniques can be standardised, but it's difficult to have standardisation around priorities, which are people-specific and very complex. We want to create value for people and the planet and if we are being too generic about those values, we risk missing the whole point as to why we do this."

For whom, by whom? Stakeholder voice and the standardisation of impact valuation

"Sometimes we have to prioritise which stakeholders and which impacts we value more, even if we wish we didn't have to."

Having established emphatic agreement on the desirability of incorporating stakeholders' views in decision-making of enterprises and investors, huddle participants began to grapple with the some of the challenges that can arise along the way:

> *"As [socially-motivated investors], we all put different values on things, and we debate what those values should be amongst ourselves. And we all want to prioritise stakeholders. But what we are realising in this conversation is that stakeholders' values are no less complex and diverse than our own. Stakeholders are not a homogenous group. Sometimes we have to prioritise which stakeholders and which impacts we value more, even if we wish we didn't have to."*

> *"It's good to say that we want a better, more equal planet. But it's tricky because you're never going to be able to please everyone."*

It seems clear from the online discussions around impact monetisation and impact ratings that diverse preferences and marginal utilities of various stakeholders are addressable in impact valuation. But how much standardisation should there be in the way that different enterprises and investors value and prioritise diverse impacts on diverse stakeholders?

Enterprises and investors seem to particularly struggle to know what to do in the tough cases when:

1. Relative preferences and the needs of stakeholders are not clear, even after stakeholder engagement (e.g., everybody wants reduced carbon emissions and everybody wants reduced poverty but it's not clear which positive impact is more-desired by stakeholders)
2. Stakeholders want different, mutually incompatible things (this could be within one group, like consumers, or across groups, like consumers vs local community members); and
3. Stakeholders want something that is against the economic interest of the enterprise or investor, in the short- as well as long-term.

Even if an enterprise or investor were to be wholly altruistic and subordinate in its interests to those of its stakeholders (including the environment), there does not appear to be one "correct" way of doing so. It appears inevitable that enterprises and investors will have to rely at some point on their own preferences and values to make decisions.

In these situations, organisations leading on this topic traditionally encourage practitioners to engage with stakeholders if they haven't already, to codify (and question) their assumptions, and to be internally and externally transparent about what data and methodologies were used to prioritise impacts. Organisations developing publicly-available approaches that enterprises and investors can use for impact valuation and benchmarking include B Lab, the Capitals Coalition, the Impact-Weighted Accounts Initiative, Social Value International, the Value Balancing Alliance, and the World Benchmarking Alliance. The IMP team looks forward to exploring this question further with these organisations and continuing to carry this discussion forward on the Managing Impact platform.

Conclusion

Discussions with the IMP Practitioner Community suggest that some elements of impact management, such as classifications and practices, are largely standardisable. Others, such as impact valuation, may not be. The IMP team looks forward to continuing to explore these ideas with practitioners and standard-setters. Our goal is to advance the discussion among practitioners, not to arrive at definitive conclusions. We give our Practitioner Community the last word:

> *"A level of standardisation will be important, but there's also a nuanced aspect that we need to get comfortable with... that is not to settle at one of the extremes, but to become comfortable somewhere along a path."*
>
> *"I wonder if there's a difference here between standardisation and having a way of giving transparency to evidence our certainty around things."*
>
> *"Accounting standards have gone through a lot of development over the last 100 years. We are at an earlier stage in thinking about impact. But we need to start somewhere."*

Please continue these conversations with us

The conversations are ongoing on Managing Impact.

Please feel free to continue contributing to the discussions on impact monetisation, or any of the other topics that we cover.

You stay up-to-date on the latest topic launches by subscribing to the IMP's newsletter.

To participate in Managing Impact:

- Set up a free account with Harvard Business Review here
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