Impact Measurement: How Much Is Too Much? How Much Is Not Enough?

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This is a third and final piece in my series on impact measurement.

One of the great challenges of impact investing is knowing how much impact reporting to require from the ventures you invest in, remembering that startups face plenty of challenges without layering on needless reporting. On the other hand, impact investors want to know about the good that comes from their investments.

To find answers to these questions, I reached out to nearly two dozen impact investing experts to learn how they think about this dilemma.

Bake in the Impact

There were several themes that developed in the answers. One consistent message was voiced by Morgan Simon, Managing Director of Pi Investments, who suggested entrepreneurs and investors should . For instance, Pi investee Uncommon Cacao set a 49% margin cap to ensure cacao farmers always retain the majority of the value in a transaction."

Matthew Davis, CEO of Renew, which makes investments in Africa, made the same point, but added the caveat that it "depends on the type of business and how it and its shareholders define impact." He adds, that for his portfolio, just seeing an ethical business in Africa prosper is sufficient.

Laurie Lane-Zucker, founder and CEO of Impact Entrepreneur Center for Social and Environmental Innovation, agreed. "Another reason why it is important to bake impact values into a company's DNA at the earliest stage possible is because impact measurement becomes engrained in daily activities and is less of an 'add-on' to what each person already has on his or her plate."

Right Size the Reporting to the Company

The need to match the reporting obligations to the size and stage of development of the company was another theme that came from the experts.

Daniel Jean-Louis, CEO of Bridge Capital, which invests exclusively in his native Haiti, argues that while avoiding bureaucracy is important, a certain amount of administration is required in all businesses. "So, " Uma Sekar, impact and ESG Manager for Capria Ventures, agrees. " Right-sizing the framework with a lean and adaptive set of metrics that take the stage of the company into consideration, reduces the burden of measurement. Early stage companies do not create deeper levels of impact as yet, therefore shouldn't build a system requiring such data collection."

Nell Derick-Debevoise, founder and CEO of Inspiring Capital, encourages investors to "Be realistic." She notes, "I've never heard from a fellow B Corp (from Susty Party to Ben & Jerry's) that they gained a customer because of B Corp status." She notes that institutional investment could be years in the future for startups. She concludes, "Be smart about getting prepared for GIIRS or IRIS, but don't worry about getting it exactly right in the first three years."

Stephanie Gripne, founder and director of the Impact Finance Center and CO Impact Days and Initiative, cautions against trying to do too much.

She adds, "We're now at a point where we have the resources to embark on those types of surveys."

Find Alignment Between Investors and Entrepreneurs

When investors and entrepreneurs are well aligned in goals and objectives, it is easier to settle on appropriate measurement metrics, the experts say.

Matthew Weatherley-White, co-founder and managing director of the Caprock Group, cautions,

"Social entrepreneurs, particularly in those critical start-up years, should foreswear the kind of broad, catch-all 'values based' expectations that our community tends to place on an enterprise," Weatherley-White continues. "An example might be a retail-focused franchise-model water purification business in highly urbanized areas of Africa. Their metrics could be simple: liters of water purified, liters sold, number of unique customers, perhaps something about gender diversification in their franchisee base, etc."

This alignment should be an ongoing process, says Lisa Hagerman, director of programs at DBL Partners. "The fund manager and the social entrepreneur’s interests must continually be aligned. As such, the metrics should be applicable to the entrepreneur’s business, with the option of omitting information requested if not applicable. Metrics and social impact efforts should have a positive, and strategic, impact potential for the company as a way of keeping all interests aligned and metrics valuable, and relevant, to all stakeholders."

resident, Seal Cove Financial and founder, Bay Area Impact Investing Initiative, says entrepreneurs should seek that alignment when finding investors by "communicating appropriate and reasonable expectations for impact, outputs and long-term outcomes over the life of the investment" and then matching those to an investor with consistent risk, return and impact targets.

Topher Wilkins, CEO of Opportunity Collaboration, says the responsibility for preventing burdensome reporting rests with the investors. He suggests the entrepreneurs build trust with the investors or funders so "everyone involved knows impact is being achieved."

"The social entrepreneur is running a business first and foremost," says Laura Callanan, founding partner of Upstart Co-Lab. "All measurement -- customer feedback, employee turnover, net revenue, social impact -- needs to be useful for running the business. "

Remember Impact Reporting Is a Cost of Doing Business

The experts also noted that impact reporting is a reality that entrepreneurs need to keep in mind; this may require them to strike a balance between reporting too much and too little.

Gary White, CEO of Water.org, says, "This is always a balance that social entrepreneurs must strike. I think it is helpful to look at existing frameworks like IRIS. We have been very rigorous in our process to adopt what we feel are important impact parameters to measure. We engaged a firm, IOD Parc, to advise us on this process. While this has required some upfront investment of time, it is paying off in terms of only measuring what is most important."

Tune Your Reporting According to Your Theory of Change

The experts also agreed that reporting requirements are, at least in part, a function of the theory of change driving the investment.

"Measuring impact should be the result of an impact plan," says Cecile Blilious, founder and managing partner at Impact First Investments. "This frames the impact that the company is trying to achieve, and can then be measured. It should not be regarded as a burden, but rather as a working tool very similar to a business plan."

Gripne, from Colorado, explains, "A social entrepreneur needs to first be clear about his or her own hypothesis for impact, the research and reasoning behind it and the methods for continually testing and re-adjusting the hypothesis and measures. Those basics go a long way in gaining and maintaining investors' trust, and in buying time (and their patience) for developing and refining more sophisticated measures."

Cathy Clark, director at CASE i3 at Duke University, says, "If your theory has to do with employees, you can survey them at almost no cost. If it has to do with customer incomes after they've used your product, again, you can survey them but it will cost you something. Services like Acumen's Lean Data program can help entrepreneurs learn a great deal about their customers in a very short time for very little money."

"We think of data as a conversation, not an endpoint," she adds. "What can you ask that you or others can act on? What choices do you face that information from a stakeholder can help you answer? How do you start to find data to compare yourself to that is relevant? These are where impact makes progress."

Reporting is Important to the Movement

Bobby Turner, the CEO of Turner Impact Capital, noted that reporting is important for the impact investing movement. "Measuring impact will *not* always have the effect of improving impact as many impact models are untested and therefore there is no guarantee that the measurements will be positive. Notwithstanding, measuring impact (social or environmental) is critical to the social impact movement as without a proven correlation between profits and purpose, the movement will not be able to raise meaningful amounts of market rate capital."

In contrast, Peter Fusaro, Chairman of Global Change Associates, cautions, "If they go deep in the weeds, they will be buried with reporting and not focusing on impact. I feel the most important measurement is actually being successful in an ethical way."

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