RESEARCH PRIMER: Impact Measurement in Impact Investing

INTRODUCTION:

The growing field of impact investing, which now encompasses over $1.5 trillion USD in assets under management worldwide, relies on impact measurement to assess the social and environmental effects of investments.[1]

Michael Brown, Head of Research at the ESG Initiative explains, “Impact measurement allows investors to understand if their capital is truly making a difference, helps in decision-making, and promotes accountability.”

This primer provides an overview of impact measurement, covering fundamental concepts, key approaches, and practical considerations for implementing an effective impact measurement system.

THE LANDSCAPE OF IMPACT MEASUREMENT:

Impact investors rely on a range of frameworks, resources, and tools to support their impact measurement work. These elements, which are described below, complement each other: taxonomies organize thinking about impact, evidence repositories validate what works, metrics packages provide specific indicators, and management standards enable proper implementation. There are many examples of each element, and more are being launched every day; below, I share a few specific examples to illustrate each type of element.

1. Impact Taxononies

Impact taxonomies provide structured ways to categorize different types of impact. The United Nations Sustainable Development Goals (SDGs) offer a widely adopted thematic framework with 17 goals and 169 targets.[2] The Impact Management Norms provide another important taxonomy, helping investors assess dimensions such as who experiences the impact, how much impact occurs, and what risk factors might reduce impact effectiveness.[3]

2. Evidence Repositories

Evidence repositories help investors ground their impact measurement in empirical research about what works. Key resources include the Abdul Latif Jameel Poverty Action Lab's database of randomized evaluations of international development programs,[4] Project Drawdown's climate change solutions catalog,[5] and Evidence for ESSA's collection of evidence-based educational programs.[6]

3. Metrics Packages

Metrics packages provide standardized indicators for measuring impact. IRIS+ stands out as the most comprehensive collection, offering standardized metrics across multiple sectors.[7] There are also more thematic packages such as the Gender Equality Mainstreaming Framework, which specifies numerous indicators to track progress in tackling gender disparities in business.[8] Another example is GOGLA Impact Metrics, which focuses on impact indicators tailored to off-grid solar infrastructure.[9]

4. Impact Management Standards

Impact management standards provide guidelines for how organizations should approach impact measurement and management. Some standards, such as the SDG Impact Standards, provide principles and practices for how organizations should incorporate impact considerations into their decision-making but do not prescribe specific reporting requirements.[10] Others, such as the Operating Principles for Impact Management, provide both management guidelines and specific reporting requirements.[11] Signatories must annually disclose their alignment with the principles and undergo periodic independent verification.

THEORY OF CHANGE, THE FOUNDATION FOR IMPACT MEASUREMENT:

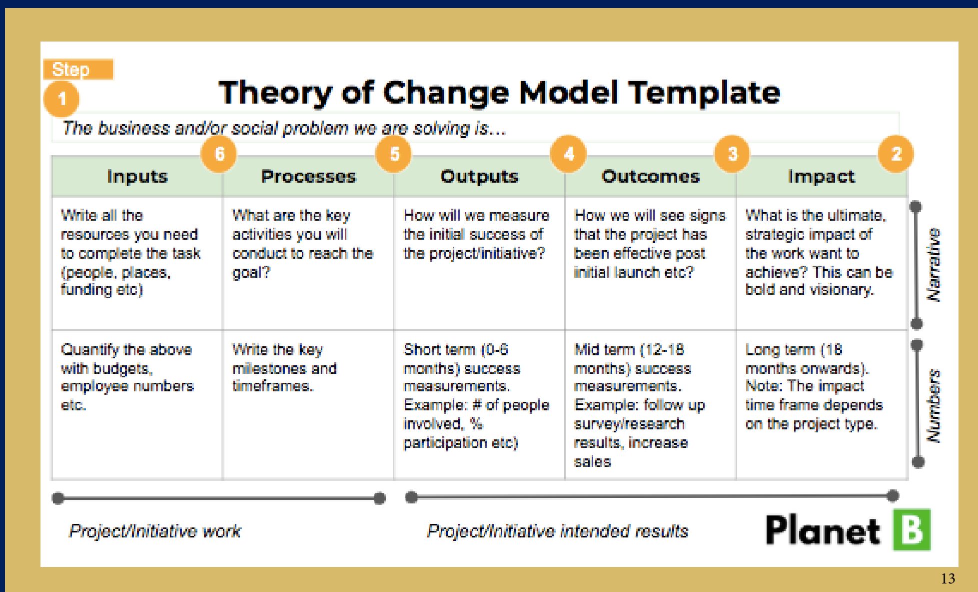
While the landscape of impact measurement offers many tools and frameworks, their effective use depends on having a clear and well-constructed theory of change (ToC).[12] A ToC helps investors select appropriate taxonomies, identify relevant evidence, choose meaningful metrics, and implement suitable management standards. It forms the bedrock of effective impact measurement by outlining the logic by which certain activities and interventions are expected to lead to specific outcomes and broader impacts.

ToCs can be applied to various organizational levels – an impact fund deploying capital, a social enterprise receiving investment, a specific program or initiative, etc. For the purpose of this primer, we focus on how a ToC can be applied at the level of an impact investee. To illustrate, a well-constructed ToC for an education-focused enterprise might include the following:

- The ultimate impact aimed for – e.g., reduced intergenerational poverty in underserved communities
- Intermediate and longer-term outcomes contributing to that impact – e.g., improved literacy rates among school-age children
- Outputs from activities – e.g., number of students completing online reading modules
- Activities or interventions supported by the investment – e.g., developing and deploying AI-powered reading assistance app
- Resources or inputs needed – e.g., financial investment for software development and content creation

Importantly, a well-constructed ToC helps address one of the key challenges in impact measurement: attribution. In complex social and environmental systems, it can be difficult to attribute observed changes to a specific intervention. By clearly articulating the causal links between activities and impacts, and basing these links on existing evidence of what has been shown to work, a ToC provides a framework for understanding how and why an investment is likely to contribute to desired outcomes.

A ToC is often depicted visually as a logic model, which typically presents the components listed above in a linear sequence from inputs to impacts. This visual representation can help stakeholders understand and communicate the intended path to impact. However, it is important to remember that real-world impact is typically more complex than suggested by the linear layout of most logic models, as multiple external factors can influence outcomes simultaneously, interventions may have unexpected ripple effects, and changes in the broader environment can amplify or diminish intended impacts.



Step 1

Theory of Change Model Template

The business and/or social problem we are solving is…

	6 Inputs	5 Processes	4 Outputs	3 Outcomes	2 Impact
Narrative	Write all the resources you need to complete the task (people, places, funding etc)	What are the key activities you will conduct to reach the goal?	How will we measure the initial success of the project/initiative?	How we will see signs that the project has been effective post initial launch etc?	What is the ultimate, strategic impact of the work want to achieve? This can be bold and visionary.
Numbers	Quantify the above with budgets, employee numbers etc.	Write the key milestones and timeframes.	Short term (0-6 months) success measurements. Example: # of people involved, % participation etc)	Mid term (12-18 months) success measurements. Example: follow up survey/research results, increase sales	Long term (18 months onwards). Note: The impact time frame depends on the project type.

Project/Initiative work — *Project/Initiative intended results*

Planet B

APPROACHES TO MEASURING IMPACT:

With a solid ToC in place, impact investors can turn to the practical task of measuring impact. This section outlines three primary approaches to impact measurement, each with its own advantages and challenges.

1. Direct Measurement of Outcomes

Ideally, impact investors would directly measure the outcomes and impacts outlined in their ToC. For an education technology investment, such direct measurement might mean tracking improvements in student test scores or graduation rates. While this approach offers the most direct evidence of impact, it can be challenging, time-consuming, and expensive to implement, especially for early-stage companies. In general, impact investors and social enterprises do not have the capacity to implement formal randomized control trials and other sophisticated statistical methods of evaluation.

> **“Direct measurement is often most effective when it incorporates input from stakeholders who experience the impact, ensuring that what's being measured reflects what matters most to affected communities.”**
>
> - Michael Brown,
> Head of Research at the ESG Initiative

2. Measuring Outputs as Proxies

Given the challenges of measuring outcomes directly, many investors rely on output metrics as proxies for impact. As noted before, outputs are the tangible, immediate results of an investment's activities. In the education technology example above, outputs might include the number of students using the platform or hours of educational content delivered.

While outputs are easier to measure, they do not guarantee impact. There is a risk of overreliance on outputs, which can lead to misguided conclusions about an investment's effectiveness. Therefore, output measures should be used cautiously and in conjunction with other forms of evidence linking these outputs to desired outcomes. Always strive to understand and validate the connection between outputs and ultimate impacts by consulting any existing evidence on the factors contributing to the impact you are targeting.

3. Assessing Mission Alignment

This approach involves tracking indicators that show whether an investee is operating in alignment with its stated mission and impact goals. These indicators are closely tied to an investment's ToC, helping determine whether an investee is operating in fidelity to the ToC that motivated the investment.

For example, if your ToC posits that providing affordable financial services to underserved communities will lead to economic empowerment, you might track:

- Percentage of customers from low-income backgrounds
- Geographic distribution of services
- Affordability of products compared to market alternatives

These indicators don't directly measure impact but provide helpful information on whether the company is positioned to create the impact outlined in your ToC.

IMPLEMENTING AN IMPACT MEASUREMENT SYSTEM

This section outlines the key steps and considerations in building and maintaining an effective impact measurement system. From selecting appropriate indicators to establishing learning protocols, each component plays a vital role in translating impact theory into practice.

1. Identifying Indicators

Select indicators that align closely with your ToC and balance comprehensiveness with practicality. Consider using standardized metrics, such as those from the IRIS+ system, to allow for comparability. However, don't be constrained if custom indicators are necessary to reflect impact.

2. Setting Targets

Whenever possible, set clear, measurable targets that are ambitious yet achievable. This should be a collaborative process involving both investor and investee, considering the investee's capacity, market context, and relevant benchmarks. Ideally, each target should have a specific timeframe for achievement, with interim milestones to track progress along the way.

3. Setting Data Collection Frequency

Decide how often to collect impact data. More frequent collection allows closer monitoring but can burden investees. Quarterly reporting often strikes a good balance, but the appropriate frequency may vary depending on the investment and indicators being tracked.

4. Building a Platform

Develop a system for collecting, storing, and analyzing impact data. This platform could range from custom spreadsheets to third-party impact management software. Consider factors such as ease of use, data security, analytical capabilities, and scalability when choosing or developing a platform.

5. Establishing Analysis and Learning Protocols

Create clear processes for reviewing data, extracting insights, and applying lessons to improve impact performance. Regular review sessions with investees can help turn data into action. Engaging stakeholders—particularly those directly experiencing the impact—in data collection, analysis, and interpretation helps ensure measurement approaches are relevant and meaningful. For example, an education technology company might involve teachers and students in determining which learning outcomes to track and how to measure them effectively, rather than relying solely on standardized metrics. Importantly, these protocols should include mechanisms for identifying and addressing potential negative impacts. Impact isn't always positive, and it's important to be vigilant about unintended consequences.

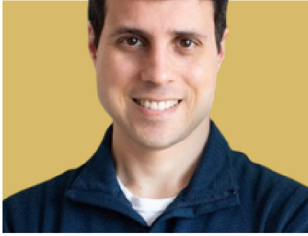
6. Determining Resource Allocation

Impact measurement can be resource-intensive. When implementing your system, carefully consider the balance between measurement costs and benefits. Ensure that the resources devoted to measurement don't detract from the actual impact work. Start with what's feasible and gradually expand your measurement capabilities as your investments and resources grow.

CONCLUSION:

Impact measurement is rapidly evolving, with emerging trends including increased use of technology for impact analysis, greater focus on quantifying impact risk, and more emphasis on participatory approaches incorporating beneficiary voices.

Large institutional impact investors typically employ comprehensive measurement systems that combine multiple frameworks and custom metrics, while smaller investors and early-stage companies often begin with standardized tools like IRIS+ metrics and gradually build more sophisticated approaches. Your commitment to rigorous impact measurement will enhance your own practice and contribute to building a more accountable and effective impact investing ecosystem.



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The Wharton ESG Initiative:

The Environmental, Social and Governance (ESG) Initiative conducts academically rigorous and practically relevant research that investigates gaps between the current pricing of ESG factors by investors and corporations and their long-term business and societal impacts. Informed by this research, we offer 30+ courses that MBA and undergraduate students can assemble into the ESG for Business major or concentration, over a dozen co-curricular experiences, four Executive certificate programs, and an expanding array of industry and policy convenings. We advance Wharton's best-in-class education of current and future leaders, equipping them with the tools, skills, and perspectives needed to navigate a world in which ESG risks and opportunities are increasingly material. For more information, visit https://esg.wharton.upenn.edu.

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