

Impact Measurement and Management Roadmap

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Introduction

Impact investors set themselves apart from traditional investors because they invest for both financial returns and impact. As such, impact measurement and management (IMM) is a critical component of every impact investor's practice. In its simplest sense IMM is how an investor gathers and applies data to maximize the positive impact and minimize the negative impact of their investment.¹ It is also how an investor determines if they are meeting intended impact goals or not.

This roadmap was initially built by ICM members, *for* ICM members. We hope it serves as a tool for any serious private capital impact fund to better understand where its IMM practices are today and identify actionable steps for improvement over time.

Why Measure + Manage Impact

IMM is not only industry expectation today, but it is also integral to a fund's performance across financial, social and environmental results and contributes to impact alpha (i.e. how impact can drive outperformance in financial results). Some benefits of measuring and managing include:

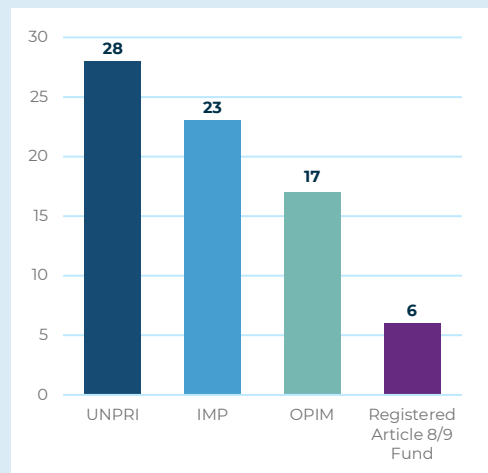


Enhance Impact

Impact fund investors can leverage data collected from portfolio companies to quantify the impact of their investments. In turn, this data can be used to identify opportunities to deepen and/or broaden the fund's impact within the investment and across the current and future portfolio. Examples of this might include refining portfolio company products or service delivery to improve results when impact data disappoints, or targeting new beneficiary groups or regions for expansion when seeing opportunities to grow impact.

IMM TOOLS + PLATFORMS

Which Frameworks do ICM members use?



- UNPRI = Principles for Responsible Investment
- IMP = Impact Management Project
- OPIM = Operating Principles for Impact Management (Impact Principles)
- Registered Article 8/9 = SFDR fund designations

*All data is based on a survey of **67 ICM member funds** that reported on their IMM practice in Q1 2023.

¹"Getting Started with Impact Measurement & Management (IMM)." The GIIN. <https://thegiin.org/imm/>.



Add Business Value

IMM data can add significant business value to a fund pre- and post-investment. Pre-investment, data can help a fund more quickly and effectively diligence and select attractive investment prospects and better identify risks and opportunities. Post-investment, funds can apply this data to support several activities including, but not limited to:

- Growing revenue
- Improving operational effectiveness and efficiency
- Mitigating risk
- Comparing relative performance
- Improving stakeholder relationships
- Recruiting and retaining talent



Communicate

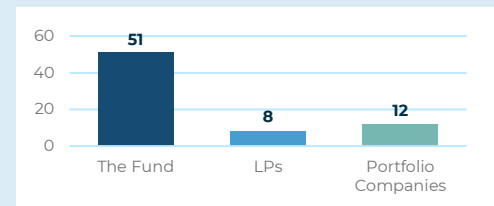
IMM data can be used to tell the story of a fund and its portfolio companies' impact. Funds can relay information to key stakeholders (e.g. current LPs and portfolio companies), use it in marketing materials (e.g. future LPs, prospective company management teams and entrepreneurs), and leverage it to build the fund's reputation.

What to Measure + Manage

Investors should choose the metrics they measure based on details on both the fund and its portfolio companies. For the fund, this will depend on its investment thesis and the corresponding sectors it invests in. For the portfolio companies, this will also depend on their stage and specific business models. Early-stage companies may not have the internal bandwidth to track a large number of metrics or may not have the systems capabilities or resources to fully research and track outcomes data. Investors can help early-stage companies to curate a focused set of critical metrics and outcomes to capture within their realistic capabilities and also make plans for improving those over future years. Later-stage companies may have increased capacity and resources to track a more comprehensive set of indicators, capture more granular or longer-term outcomes data, or even invest in third-party research

IMM TOOLS + PLATFORMS

Who pays for IMM management?



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ESG V. IMPACT

Impact investments intend to generate positive, measurable social and environmental outcomes alongside a financial return, which can range from concessionary to market-rate. The goal is a positive outcome for people and/or the planet. ESG-integration involves the consideration of financially material ESG factors to mitigate risk when analyzing any given investment.



studies. What metrics and outcomes indicators an investor chooses depends on the objectives, priorities and capabilities of the management team and its companies. Broadly, metrics are categorized along the following continuum:²

	INPUTS	OUTPUTS	OUTCOMES	IMPACT
DESCRIPTION	What is invested	Amount of products, services or other results from activities	Observed changes resulting from activities	Broader change resulting from activity
EXAMPLE	Money, time, and other resources contributed	The number of people who completed a vocational training program	The % of people who graduated, earned a certification and gained full-time employment	Often measured through isolating the outcomes of the intervention (e.g. through an RCT) and via longer-term studies

The benefits of input, activity and output data are that these data points are easier to capture and may be better entry points for an investor who is newer to IMM or who has limited resources. However, only measuring input and output data often does not produce sufficient evidence to demonstrate whether the fund is truly achieving its impact objective(s). For example, if one invests in a program that provides vocational training, then counting the number of people who have completed the program (an output metric) does not necessarily confirm or disprove whether the impact objective was achieved. In order to prove or disprove whether one achieved the impact objective it would be necessary to measure an outcome. This could include measurable skills gains by students from the training program, the number of graduates who secured new jobs, or the amount of increased income earned post-training.

Investors should try to design IMM data collection to capture or begin to track outcomes indicators, even if company data sets are limited or imperfect in nature and will need improvements over time. It helps to start with that goal in mind versus building complicated IMM systems around simpler but much less useful output metrics. Outcomes indicators help investors measure whether their investments are truly delivering against their impact objective(s). Investors may need to start with output metric collection but can work to build company internal systems to understand—even in small steps over time—the real changes and improvements resulting from portfolio company activities, products or services. Investors can also utilize existing third-party research based on

² Stannard-Stockton, Sean. "Getting Results: Outputs, Outcomes and Impact (SSIR)." Stanford Social Innovation Review: Informing and Inspiring Leaders of Social Change, 26 July 2010, ssir.org/articles/entry/getting_results_outputs_outcomes_impact.



others' activities and efficacy studies (proxies) to build confidence in likely achievable outcomes while they work to build portfolio company capabilities to track their own data.

Firm IMM Practices and the ICM Roadmap

Measuring and managing impact can be a complex process and for many investors — especially those new to IMM — it may be intimidating. The ICM-created framework below aims to break down IMM into discrete fund manager practices. The first step as an impact fund manager is to establish a thesis and baseline firm IMM practices. Demonstrating compliance with the ICM Fundamentals of IMM, four IMM practices listed below, is an expectation for all ICM members.




Over time, investors can advance their IMM practices by either adding additional IMM practices (see vertical axis) or deepening their activities within a given practice (see horizontal axis).

ICM Fundamentals of Impact Measurement and Management (IMM)*

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM STANDARD	GROWING YOUR IMM PRACTICE →
PRE-INVESTMENT	Investment strategy development 	A. Define clear impact objectives(s) for the portfolio and its investments	✔ Yes	
		B. Establish an IMM process	✔ Yes , informally	✔ Yes , more intentionally, consistently, and thoughtfully
		C. Establish Manager's contribution	✔ Yes , qualitatively (informal)	✔ Yes , qualitatively (formal narrative)
POST-INVESTMENT	Investment management 	E. Measure the impact of each investment	✔ Yes	

*The ICM Fundamentals of IMM are informed by the Operating Principles of Impact Management (Impact Principles)

Growing Your IMM Practice*

	INVESTMENT PROCESS	IMM PRACTICE	THE ICM STANDARD	GROWING YOUR IMM PRACTICE →	
PRE-INVESTMENT	Investment strategy development 	A. Define clear impact objectives(s) for the portfolio and its investments	✔ Yes		
		B. Establish an IMM process	✔ Yes , informally	✔ Yes , more intentionally, consistently, and thoughtfully	
		C. Establish Manager's contribution	✔ Yes , qualitatively (informal)	✔ Yes , qualitatively (formal narrative)	
		D. Assess expected impact of each investment	✘ No	✔ Yes , qualitatively (formal narrative)	✔ Yes , qualitatively through assessing alignment to impact thesis and establishing quantitative forecasts of impact
POST-INVESTMENT	Investment management 	E. Measure the impact of each investment	✔ Yes		
		F. Manage the impact of each investment	✘ No	✔ Yes	✔ Yes , and leverage data to accelerate impact
		G. Assess, address, monitor, and manage potential negative impacts of each investment	✘ No	✔ Yes , informally	✔ Yes , formally
	Exit Planning 	H. Conduct exits considering effect on sustained impact	✘ No	✔ Yes , informally	✔ Yes , formally
I. Review, document, and improve decisions and processes based on achievement of impact and lessons learned		✘ No	✔ Yes		

*The ICM Fundamentals of IMM are informed by the Operating Principles of Impact Management (Impact Principles)



The IMM practices described above were created as a roadmap for ICM fund members. The practices are intentionally strongly aligned with the Operating Principles for Impact Management (Impact Principles). ICM provides regular training on its IMM Roadmap as well as regular opportunities for member funds to share in a trusted community of peers, how exactly they execute the ICM Fundamentals and other practices within their firm. Additional real-world examples of each IMM practice by ICM members are available in the accompanying case studies.

How to Measure + Manage

There are many tangible ways to collect IMM data from portfolio companies and then to organize it across a portfolio to analyze results. Some ICM member firms utilize Excel spreadsheets or Google docs for data collection, analysis and recordkeeping. Both simple and very complex IMM templates and files can be built with these common tools. Other investors may encourage companies to choose their own preferred reporting mechanisms.

A plethora of software and data companies have also come to market with targeted impact investor products and solutions. Some of these utilize an assessment tool with a standard set of metrics for all companies, like B Lab's B Impact Assessment, and some are fully customizable based on firm-selected metrics and indicators. ICM regularly invites new and leading solutions providers to present to interested member funds on their products and services, and members regularly share what has worked well and where they continue to see market gaps.

How to Leverage Data

Once impact data is collected, it is a good practice to review the results in depth and include all fund team members who work with a company in its data analysis and review, including those who might play a governance or advisory role.

ICM surveyed its 100+ members in January 2023 on their IMM practice and how they align to the ICM fundamentals. Investors reported which tools and platforms they use in their IMM practice. Many investors still use systems developed in-house with software or platforms such as Excel or Salesforce. For tracking and managing data the following were also cited as used by multiple investors in ICM's network:

- **IRIS +**
- **Impact Management Project (IMP)**
- **B Lab's B Impact Assessment**
- **The UN SDGs**
- **UpMetrics**
- **Sametrica**
- **Proof of Impact**
- **Novata**
- **Persefoni**
- **metricESG**
- **60 Decibels**

Impact data analysis may include:

- whether or not results are in line with expectations, perhaps those that were set pre-investment or other expectations based on other knowledge of the business
- differences in results across departmental, geographic, beneficiary group or other perspective
- trends from a longitudinal, departmental, geographic, beneficiary group or other perspective
- comparisons with internal or external benchmarks to inform performance
- any requested data was *not* provided by the company (informing their data capabilities and current practices)
- cross-portfolio company trends and outliers

It is also a helpful practice to ensure results are shared with company senior leadership and to provide any supporting information on portfolio or external benchmarks back to the company. This can be a part of a fund manager's unique impact contribution (additionality).

Impact management involves utilizing the data gathered to inform engagement and management of investments in order to ensure desired impact is achieved and/or to maximize impact achieved. Firms can use their analysis to inform areas where companies may need assistance or where they want to proactively engage to improve results. Portfolio engagement plans can be built and goals set, and ongoing company data collection can inform progress.

How and What to Share

Externally, impact data should be shared with key fund stakeholders, including Limited Partners on a regular basis. This can be through direct raw data transfers or via curated impact reports that also combine qualitative results, case studies and beneficiary viewpoints. Funds may choose to integrate impact reporting with financial reporting to Limited Partners or may have a separate reporting structure or frequency for the two.

Some funds may also choose to share some portion of impact data publicly to inform broader stakeholder groups on the fund's approach or results. Impact data from privately held companies may contain sensitive or confidential information and so public reporting should be done carefully and with company permission. But encouraging companies to share results enables field building and cross-sector learnings that can grow overall impact.

High-quality impact reports can help with marketing a firm to new or future investors, peer funds, prospective company management teams, and future talent. Impact reports provide the opportunity to communicate fund impact strategies, targets, and portfolio results to a wide audience. Reporting formats may include written reports, presentations, websites, and multimedia and video. Example impact reports from ICM fund members of different investment stages, sectors, and sizes are available on the ICM website, or by request.



Comments on Independent Verification

A newer practice in impact measurement and reporting is to have a third party verify the IMM systems and practices of a firm and provide an independent opinion of results to investors or advice on ongoing IMM practice improvements. Quality third-party or independent verification of fund impact data and impact reports can ensure rigor, transparency and accountability goals are met. Membership networks with standards like Impact Capital Managers can also play a critical role by surfacing emerging processes, holding members accountable to a community of best-in-class peers, and interrogating how various IMM approaches inform effective decision-making and ultimately advance performance. While independent verification is not part of the ICM Fundamentals in 2023, the network is seeing increased adoption of this practice among member funds driven in part by limited partner demand. In Q1 of 2023, 34% of ICM members noted that they use third party verification as part of their impact practice. The network will continue to provide information to interested members on independent verification and leading service providers in the market.

IMPACT CAPITAL MANAGERS

The Impact Capital Managers mission is to accelerate the performance of our members and to scale the private capital impact investing marketplace with integrity and authenticity. We do this through our membership association, which includes 100+ funds representing more than \$60B in impact-focused capital, and through field-building initiatives and partnerships supported by the ICM Institute. The ICM network of peers is engaged and collaborative by nature. As part of our commitment to grow the marketplace with integrity, members must meet certain criteria including standards on impact measurement and management. ICM is a proud organizer of the Mosaic Fellowship and with Achieve Partners, producer of the Better Money, Better World podcast.

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