

Impact with Punch: The Perfect is the Enemy of the Good

Arjan Schütte

Core Innovation Capital

After around 40 years of institutional “impact investing” it is distressing that “impact measuring” is hardly de rigueur. While impact investment managers understand clearly how to measure financial returns, the best practices, systems and compliance in measuring the social benefits are anemic, at best. And what does exist often attempts to boil the ocean, measure the unmeasurable, is at odds with operational goals, or is limited to a couple data points or an anecdote. We have tried to tackle this issue with our recently launched double-bottom line venture capital fund, Core Innovation Capital. The following ideas are aspirational for our company as much as they are for this industry.

One Size Does Not Fit All

A recent and enduring trend seeks to universalize impact measurement attempting to mimic the universality that exists in financial metrics. Hospital beds, solar panels and alternative payday loans all have customer acquisition costs, profit margins (or lack thereof), and ROI even though these numbers vary. They do not share much in the ways they attempt to improve the quality of life. Valiant efforts like B-Lab and Rockefeller’s Global Impact Investing Network are taking on the herculean task of identifying universal impact attributes, with some success. I believe finding universal attributes within sectors – e.g. health care, alternative energy, financial inclusion – will yield far greater benefits by decreasing the cost of compliance, creating better proxies for impact (comparing apples to apples), and intra-sector benchmarking. To take a simple example within the financial inclusion, there are more than enough challenges simply to figure out how to measure the differing impacts between a better form of credit on someone’s life versus an emergency savings account. At this point, finding metrics that extends to all sectors is likely too ambitious.

Forget Impact, Focus on Output

Similarly lofty, and impractical, is the practice of trying to actually measure impact. Impacts are the actual, positive changes in the perceived environmental and social problems. How does the alternative payday loan actually improve someone’s life? How much does a residential solar installation really impact global warming? We can agree they probably do, but really how? Figuring that out in a meaningful way could cost more than the actual product or service. Instead, measuring the outputs – the products and services delivered by the companies we invest in – can be done at a reasonable cost and done consistently. Measuring outputs over time also positions our industry to develop better theories of how we create long-term impact.

More of Less is Better Than Less of More

I perceive a clear tension between long-term compliance and academic rigor, and place my bets on the former. I'd rather track two good outputs consistently over many years than kill myself badgering our entrepreneurs for 200 data points, which tell a more complete story only once or twice. I would much rather our portfolio entrepreneurs spend their time increasing their outputs than report, which is also something most good entrepreneurs instinctively despise (not necessarily a good trait, but nevertheless a reality).

Align Metrics with Operational Objectives

Even in impact investing, Peter Drucker's axiom, "what gets measured, gets managed" is not just true, but powerful. That is, as long as what gets measured is relevant to an organization's operational success. This is not always possible, but impact investment managers have an opportunity to do what they can to align the two. For example, tracking the income of end-users is an important data point for our fund, but this data rarely helps our companies be more successful. Consequently, compliance is harder and the utility of collecting the data is limited. On the other hand, tracking how effective a debt management's solution is at actually decreasing its end-users' debt is not just a useful output for us to evaluate the company's impact, but also a powerful metric of customer satisfaction, longevity and profitability. The panacea of alignment, of course, is not just to align metrics with operational success, but to align metrics directly with financial success.

Incentives for Leadership

Finally, if you concede that true impact measurement is largely ineffable, we are missing a big opportunity by focusing only on metrics. Creating incentives at both the operational (the companies we invest in) and at the fund level for taking leadership in increasing impact is potent and underutilized. The National Community Investment Fund has done more creative work here than I have seen anywhere. And we have built it into our fund: my partner and I have tied part of our compensation and upside to impact success, as determined by an impact audit that follows the values described here.

Arjan Schütte *is the managing partner at Core Innovation Capital, a new double-bottom line venture capital fund specializing in financial services for the un- and underbanked in the United States. He is a successful social entrepreneur and nationally recognized expert on domestic financial inclusion. Arjan earned a BA in Philosophy from Lewis & Clark College and MS from the MIT Media Lab.*