Demystifying impact: current challenges and how to approach them

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'Impact' has become something of a buzzword and an integral part of nearly any discussion or communication about sustainability. The word's exact meaning and definition in this context remains ambiguous, however. As a result, the term 'impact' is used inconsistently, with many examples of unintentional or even deliberate greenwashing. One of the key issues is the confusion between sustainable (business) practice and impact. Therefore, it is important to note the link but also the differences between the two concepts.

For sustainability we can commonly use the definition by the Brundtland Commission stating that "sustainable development means a development, which meets the present needs without compromising the ability of future generations to meet their own needs". These needs were then typically divided into three dimensions: economic, ecologic and social needs. In other words, the primary goal of sustainability is to do no harm in any dimension with your business practice or development.

Impact, on the other hand, is the "Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended[1]." Or in the context of companies, the change or difference caused by a company's operations, services or products. In other words, making an impact means making a (positive) difference.

In 2015, the United Nations Member States adopted the 2030 Agenda for Sustainable Development, including the 17 sustainable development goals (SDGs). These goals serve as a universal reference for actors seeking to operate sustainably as well as actors aiming to achieve impact. With the above definitions in mind, sustainability would be the operations, products and services that do not directly or indirectly hinder the achievement of the SDGs, while impact would be the direct or indirect contribution to the achievement of the SDGs.

All too often, actors who claim to achieve a positive impact are in fact (just) operating sustainably. Others, who do achieve positive impact within an SDG intentionally or unintentionally do not consider their (negative) contribution to other SDGs. To overcome these issues and challenges, a comprehensive perspective on sustainability and impact proves useful.

A comprehensive perspective on impact

The Impact Management Project (IMP)[2], a forum to build consensus on how to measure and compare impact, has developed the concept of the five dimensions of impact. These five dimensions offer the necessary comprehensive perspective on impact and comprise the following (adopted and extended from the IMP):

1. 'WHAT' describes what outcome or goals (e.g. which SDG) the organisation is contributing to, whether the impact is considered negative or positive and how important this impact is to the stakeholders which are affected by this impact.
2. 'WHO' gives information on the type and geographic context of the targeted stakeholders, as well as the targeted market or the circumstances in which the impact occurs.
3. 'HOW MUCH' yields quantifiable information on how many stakeholders are affected, how large the degree of change is and how long the change has lasted/is expected to last.
4. 'CONTRIBUTION' describes mainly the additionality of the outcome, i.e. whether the outcome would also have occurred without the organisation's efforts. Contribution could also be understood as whether an organisation contributes to solving a certain problem or rather tries to mitigate the problem's negative effects.

[1] OECD (2002). Glossary of Key Terms in Evaluation and Results Based Management. Available at: http://bit.ly/1KG9WUk
[2] https://impactmanagementproject.com/

5 ‘RISK’ shows the risks (chances and amplitude) resulting from an impact which is smaller or more negative than expected. Further it should also highlight how organisations manage these impact risks.

When applying these five dimensions on the current practice in sustainability and impact communications, several pitfalls become apparent, which – to date - hinder an adequate, effective and realistic (re)presentation of impact. In the following we want to address two of the most common challenges of impact management: ensuring impact additionality and managing impact risks.

Additionality

An impact means causing a change. If we want to change a certain outcome of a situation, we must add (or subtract) something to the processes leading to the outcome. This is what the concept of additionality means. No real impact can be achieved without a certain additionality.

To exemplify this concept, we can think about public equity investments. Do we make a significant impact by simply buying stock of sustainable companies? Stock markets are highly saturated and the shares relatively freely available, such that there is always a second party to buy them, even if the first party does not. Secondly, handing shares from one third-party actor to another has economically hardly any effect on the publicly traded company itself. While an investment that factors in the measurable impact of a company might have a signal value – and could lead to significant impact if all investors did the same – “it is not likely to advance progress on societal issues when compared to other forms of contribution”[3].

At the same time, additionality can be achieved with a broad range of investment practices. These practices include venture capital, private equity and fixed income investments, but also public equity investments - if the shareholder makes use of its ownership and voting rights. Investors can engage their investees and try to help them transform into more sustainable organisations. They can make use of their voting rights and drive real change. The means for small investors might be limited, but often aggregation of like-minded investors can result in a considerable leverage on the company's decisions.

From a company perspective, additionality can be achieved by targeting the right stakeholders or markets. For example, certain products or services might not cause an impact in a highly developed country like Switzerland (e.g. offering clean drinking water), simply because the current market is already saturated with this product or service - or the standard practices are already further than the offered one. In other markets such products might however be highly additional and therefore also result in a (greater) positive impact.

Thus, good impact management and communication practices have to consider, ‘WHO’ is targeted by the organisation's efforts and whether the product or service (the ‘CONTRIBUTION’) is additional or not. This includes on the one hand a thorough analysis of the relevant market (which often is done by the marketing department anyway) and on the other hand information on the targeted geographic boundaries and circumstances. Here, it can e.g. be very helpful to make use of publicly available statistical information on the status of the SDGs in the respective countries. The UN offers several public databases, such as the Human Development Index (HDI), which can be easily used to show the potential to positively impact many of the SDGs.

Impact risks

While it is nowadays common to manage and report financial risks to an organisation’s business, such practices have developed far less for risks related to sustainability or even impact. Only recently have initiatives focused on disclosing sustainability risks to an organisation's business gained momentum (e.g. the Task Force on Climate-related Financial Disclosures, TCFD), predominantly in the financial industry and in some supply-chain intensive branches. Such risks are however usually reported as risks for the company itself and not risks for those affected by the impact caused. In current practice then, managed and reported impact risks mostly reflect an

[3] Impact Management Project, Investor Contribution

outside-in perspective; impact itself is implicitly an inside-out concept. Therefore, impact risks should be managed and reported coherently with the other dimensions.

But why is it so important to assess, manage and communicate impact risks? There are in fact many examples to show that even when aiming for a positive impact and with good intent, the actual resulting impact might be much smaller or even negative if risks are not properly assessed or managed.

- One example is microfinance investments. Even though there are many excellent and successful stories, highlighting the real impact on poverty and tearing down economic barriers, there are also projects which lead to over-indebtedness, long-term dependencies of the borrowers, usurious interest rates or other related problems for the targeted stakeholders.
- A second example highlighting negative impact despite good intent is philanthropic food aid in Africa. While such initiatives can help reduce hunger in the short term, they risk making food production by local farmers less profitable. When farmers go out of business, sustaining sufficient food production becomes even harder for the local community and can result in an even greater need for food aid. Thus, such aid (with no risk mitigation mechanisms) *can* contribute to a vicious circle without solving the problem in the long term.
- Another example, coming from the technology sector, is the so-called rebound effect[4]. It describes the fact that after buying more energy-efficient or 'greener' products, many people tend to use these products more intensively. This leads to a significant reduction in the actual, compared to the theoretical, impact on energy consumption.

Many of the problems in the examples above could have been prevented by managing and consequently mitigating impact risks. Proper sustainability and impact management includes a thorough assessment of potential impact risks for the affected stakeholders. It considers also potential negative impacts, which might be caused through the organisation's products or services, whether they cause a reduction in a potentially positive impact or cause a negative impact in a totally different area. Organisations should include such risks in their impact calculations and communications as it makes the figures more accurate and thus also strongly increases their trustworthiness and credibility. Further, organisations should include the stakeholders themselves in the risk management process in order to ensure the effectiveness of services and products offered.

To conclude, appropriate assessment, management and communication of impact risks firstly can reduce or even completely mitigate such risks and lead to an overall greater impact. Quantification and comparison of impact becomes more accurate when risks are included in the calculations. Further, considering impact risks increases transparency and credibility towards an organisation's stakeholders and can mitigate reputational risks.

Addressing the challenges

Even though many challenges and problems still exist in the context of impact, a comprehensive approach to managing and communicating an organisation's impact can effectively tackle many of these challenges. Actors that seek to achieve impact should pay close attention to their additionality and manage their impact risks. This would lead to improved reporting of impact and increased credibility.

iGravity and BDO have assisted enterprises and investors in improving their impact management approaches by installing adequate impact management frameworks and incorporating impact into the strategic goals of the organisations. The first step often involves defining and assessing the most material impact topics, especially in quantitatively challenging fields like social development. As an independent and objective auditor, BDO also audits the disclosed sustainability or impact figures and impact assessment methodologies, including internal controls and risk management.

[4] UK Energy Research Centre: *The Rebound Effect: an assessment of the evidence for economy-wide energy savings from improved energy efficiency*. 2007

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