IMPACT MANAGEMENT

A market analysis of impact objectives and firm policies

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Sustainable financial products are rapidly growing. According to the 2021 Swiss Sustainable Investment Market Study, sustainable investing assets increased 31% from 2019 to 2020, reaching a total of CHF 1,520.2 billion. On the level of sustainable funds, volumes increased to CHF 694.5 billion and now represent 52% of the overall Swiss fund market – exceeding conventional investment funds for the first time.

As investor demand has increased, financial products have also rapidly developed. Today, a wide range of environmental, social and governance (ESG) solutions use differentiated strategies, themes and ambitions to offer investors varying combinations of financial returns and impact. The menu of strategies typically follow one of three approaches:

**NEGATIVE SCREENING**
(negative/exclusionary and norms-based screening): Avoid material ESG risks or comply with a values-based investment thesis. Exclude companies or sectors from the investment universe based on ESG concerns.

**POSITIVE SCREENING**
(sustainability-themed, best-in-class, ESG integration): Acknowledge the potential positive correlation between ESG quality and returns. Integrate financial implications of ESG factors into research and analysis – weight fund toward holdings with higher ESG quality.

**ACTIVE OWNERSHIP**
(engagement, proxy voting, impact investing): Identify ESG as a lever for value creation. Pursue improvements in a company’s ESG performance by engaging with the board or management.

Industry maturation has brought increased attention from regulators and activists, highlighting the risk of ‘greenwashing’. Consequently, sustainability claims will be increasingly monitored and challenged by both investors and regulators. Rising expectations require sustainability-labelled products to be able to substantiate their claims and to demonstrate how they differ from conventional investment solutions. With the implementation of the EU Sustainable Finance Disclosure Regulation (SFDR), addressing and overcoming these challenges is critical to advance the industry.

SFDR will completely change the disclosure landscape of publicly listed companies and other firms. To this end, it is important to first understand the ESG data ecosystem. Incorporating ESG information into the investment process relies on companies to first report their ESG data. Here, the SFDR will implement a system of 50 adverse impact indicators, of which 32 will be mandatory to report, and 18 will be voluntary. The compulsory factors range from carbon emissions, fossil fuel exposure and waste levels (E) to gender diversity and due diligence over human rights (S) and a company’s record on exposure to corruption, bribery or other scandals (G).

Once companies report on ESG criteria, data aggregators such as MSCI, Sustainalytics and others capture, systematize and relay this information to asset managers, banks and other financial players. Using ESG data, asset managers then use an array of approaches to launch their sustainable products. Seven typical approaches include: 1. Sustainability-themed investments, 2. Best-in-class investment selection, 3. Exclusions/negative screening, 4. Norms-based screening, 5. ESG integration, 6. Engagement and voting, and 7. Impact investing (see Figure 1). The trends are clear. Reporting and managing impact data will become a cottage industry in the coming years. Integrating the topic of Impact Measurement and Management (IMM) into investment and organizational processes will be critical to lay the foundation for long-term sustainable growth.

In the following study, the impact objectives and firm policies of 22 Swiss organizations were examined to identify how firms approach and integrate IMM practices. Survey responses from the organizations are complemented with illustrative quotes from the Impact Finance Forum’s advisory members to contextualize the results.
This report captures data from a diverse sample of 22 Swiss corporations and investors collected via a survey distributed between January and March 2022. Respondents answered questions about how they measure, manage, and report their impact.

TARGET FINANCIAL RETURNS
The majority of respondents target risk-adjusted, market-rate returns (59%); 41% target below-market-rate returns (Figure 3). Below-market investors are split among those targeting below-market-rate returns closer to market rate (9% of all respondents), those targeting below-market-rate returns closer to capital preservation (23%) and those providing donative capital (9%).

INCLUSION CRITERIA
All survey respondents represent organizations with meaningful experience in the field of impact finance, as defined by three key inclusion criteria determining survey eligibility: (1) participants from the first annual Impact Finance Forum conference; (2) leaders, CEOs and chairpersons from the Swiss financial, political and business sectors; and/or (3) organizations that actively measure their social and/or environmental performance. To complement the survey findings, qualitative insights were captured from members of IFF advisory board.

DATA ACCURACY
While the Research Team conducted basic data checks and sought clarification as appropriate prior to analysis, all information in this report is based on self-reported data. Respondents were instructed to complete the survey with respect only to their own experience.

PRIMARY IMPACT OBJECTIVES
Most surveyed organizations (77%) target both social and environmental outcomes (Figure 4). Some 14% target only social impact objectives, and 9% target only environmental objectives. In terms of impact categories, the three most prioritized objectives were SDG Goal 4: Quality Education (50% of respondents), Goal 13: Climate Action (45%) and Goal 7: Affordable and Clean Energy (41%). The least targeted objectives (all with 5% response rates) included Goal 2: Zero Hunger, Goal 10: Reduced Inequality, Goal 14: Life Below Water and Goal 15: Life on Land.
This section explores how organizations measure and manage impact by setting impact targets, measuring progress towards those targets, and managing their business activities to achieve their social and environmental impact goals.

**REASONS FOR MEASURING AND MANAGING IMPACT**

Respondents were asked to rate the importance of motivations in terms of impact and financial return for measuring, managing, and reporting on the impact of their investments; nearly all organizations measure and manage their impact because they find it at least ‘somewhat important’ to better understand progress towards their goals, to improve their impact performance or to proactively inform key stakeholders (Figure 6).

Although still regarded as somewhat important by most respondents, extrinsically-motivated reasons to measure and manage impact such as client demand, government regulation, capturing business value and communicating for fundraising/marketing purposes were not deemed as important.

To arrive at these targets, organizations use a variety of inputs. Organizations often examine the social or environmental problem they hope to address and set targets to help measure progress against those challenges (40% of respondents) or develop targets in line with global development agendas such as the Sustainable Development Goals or the Paris Climate Accord (26.67%; Figure 10). Stakeholders also heavily influence investors’ target-setting: 46.67% of respondents set targets in line with their investors’ objectives or work with third-party consultants to set their impact targets (6.67%).

Respondents rank-ordered the most important criteria in selecting impact metrics; the top two criteria were reliability and standardization (Table 1). As their top priority, respondents seek impact metrics that are reliable, meaning they are valid and indicative of actual impact. As a second priority, they seek metrics that adhere to existing standards which may speak to the general interest in more standardization across IMM practice. Other important factors include utility, seeking metrics that will be useful and actionable, and the ease and feasibility of collecting information for reporting.

**Table 1**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighted Score</th>
<th>Weighted Score (Inverse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Standardization</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Utility</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Ease</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Comparability</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Precision</td>
<td>2</td>
<td>20</td>
</tr>
</tbody>
</table>

Note. Weighted scores were calculated by multiplying the number of responses selecting each criterion as their top choice by two, multiplying the number of responses selecting each criterion as their second choice by one, and adding these scores together. The inverse weighted scores were calculated by multiplying the number of responses selecting each criterion as their last choice by two, multiplying the number of responses selecting each criterion as their second to last choice by one, and adding these scores together.
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USES OF IMPACT DATA

Organizations use impact data to drive a range of key activities and decisions. Most commonly, they use impact data to communicate impact results to stakeholders (71%; Figure 30) and to set or revise their impact goals, expectations and/or targets (71%). Well over half of organizations use impact data to assess their impact performance (57%).

Nearly one-third of respondents indicated that they use impact data to identify appropriate metrics and refine their overall data-collection process or to improve their capacity to conduct impact analytics (29%), while relatively fewer respondents indicated that they use impact data to assess risk factors or improve their data collection processes.

EXCLUSION POLICIES AND RESTRICTED ACTIVITIES

Another core method to manage impact is to set an exclusionary policy that bars investment or engagement with a company whose business activities are deemed unethical, harmful to society or in breach of laws or regulations. More than half of respondents indicated that their organization had adopted an exclusion policy that bars investment or engagement with a company whose business activities are deemed unethical, harmful to society or in breach of laws or regulations. More than half of respondents stated that they intend to develop one in the future. 16% didn’t know whether their firm had an exclusion policy and 11% indicated that they intend to develop one in the future. Of the respondents with an established exclusion policy, only 30% make it publicly available (another 30% plan to make it publicly available in the next year).

STAFF INCENTIVES AND EXTERNAL ACCOUNTABILITY

Respondents shared whether and how they incentivize their organizations’ staff to achieve impact targets. More than 70% of respondents stated that their teams are intrinsically motivated to achieve impact. Similarly, 14% of respondents indicated that compensation for some or all staff is tied to impact achievements. In terms of external accountability, more than 70% of respondents indicated that their impact results are audited or held accountable by a third-party. Nearly one-third of respondents indicated that they use principles such as the UN Principles for Responsible Investment (UNPRI) or the Harmonized Indicators for Private Sector Operations, or HIPSO, used by many DFIs.
LOOKING AHEAD: IMPACT OUTLOOK

IMM practice has matured over the past several years. As both investors and corporates have recognized the importance that IMM plays in the market to communicate and accelerate resources to the world’s most pressing challenges, demand for more sophisticated tools has emerged to enable more rigorous IMM practices. Challenges remain to improve the collection, aggregation, and comparison of impact data.

CHALLENGES TO IMM PRACTICE

Despite substantial progress, several significant challenges need to be overcome in the coming years to advance IMM practice. Among the most severe are transparency on impact performance (indicated by 60% of respondents as a significant challenge) and fragmentation in approaches to IMM (identified by 50% of respondents as a significant challenge). Other critical challenges included challenges related to personnel, such as the availability of professionals with relevant skill sets (80% as significant or moderate) or the availability of guidance for IMM practices (70% as significant or moderate).

IMPROVING IMPACT MEASUREMENT AND MANAGEMENT

Finally, respondents were asked about the relative importance of various practices and ideas to advance the field of impact measurement and management moving forward. Transparency in impact data and integration of impact data into decision-making were regarded as the most important (80% and 73% of respondents rated as ‘very important’ respectively). All respondents indicated that integrating impact data into financial accounting standards and adoption of common impact principles were at least ‘somewhat important’ while most respondents also indicated that benchmarking and third-party auditing were important albeit to a lesser degree.

SEVERITY OF CHALLENGES IN IMM PRACTICE WITHIN ORGANIZATIONS

In addition to sharing their perspectives on challenges facing the market at large, respondents reported on the challenges faced by their own organizations when implementing IMM. These challenges primarily relate to impact measurement—collecting, comparing, and using impact data. Collecting quality data was regarded as a significant challenge by 30% of respondents and another 40% regarded comparing impact results as a significant challenge.

IMPORTANCE OF RESOURCES TO STRENGTHEN IMM PRACTICE

Respondents described the importance of various resources to further develop IMM practices. These resources reflect the nature of the key challenges highlighted in the sub-section above, with clear focus on tools to strengthen impact investment projects, government legislation to standardize IMM frameworks, and increased educational resources such as webinars, case studies, and certifications for impact professionals. By contrast, translating tools to other languages was not perceived as importance by respondents.

Note. Weighted scores were calculated by multiplying the number of responses selecting each criterion as their top choice by three, their second choice by two, their third choice by one and adding these scores together. The reverse weighted scores were calculated by multiplying the number of respondents selecting each criterion as their last choice by three, their second to last choice by two, and third to last choice by one and adding these scores together.

Figure 15

Figure 16

Table 2
REFERENCES


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