Impact investment: Multiple stakeholders' measurement of financial and social benefits

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Abstract:

The Impact Investing market which seeks to create intentional social impact, requires effective impact measurement. This research used exploratory methods to examine the Impact Investing market in South Africa. In total, 12 professionals in South Africa were interviewed using semi-structured interviews. The interview pool included evaluation experts, managers and directors within intermediary businesses and owners of businesses who receive impact investment funds. While existing literature indicates three stakeholder groups, our study identified four groups and highlighted the lack of attention to beneficiaries as stakeholder group.

Our study found that stakeholder engagement should be a continuous process. We identified three key phases within an investment cycle and aligned important impact measurement and stakeholder engagement processes within each of the phases. Noting the different needs of intermediaries and investees, the key phases and corresponding processes are mapped in a Stakeholder Integrated Impact Measurement Conceptual Framework.

Keywords: Measurement; Social Impact Investment; Stakeholders; Beneficiaries

1. Introduction

This paper explores Impact Investing, defined by Bass et al.(2020:12) as investors with 'the intention to pursue impact alongside financial return'. The gap between the interests of business and society may be widening (Barnett, 2019) due to a perceived indifference of business to the struggles of the poor (Walsh, 2005). The current paper therefore explores

solutions to overcome the dichotomy between business and society. In this regard, impact investing intends to achieve social, environmental and financial impact (Bengo et al., 2021; Harji & Jackson, 2012). As a relatively new field of financial investment, Impact Investing presents a real opportunity to reduce the gap between the rich and the poor (Höchstädter & Scheck, 2015). Bass et al. (2020) note that Impact Investing significantly supports the United Nations Sustainable Development Goal 1 (United Nations, n/d) on reducing poverty. Kimbu & Tichaawa (2020: 742) confirms that, 'Impact investing is making important and positive contributions to the socio-economic development of groups at the bottom-of-the-pyramid.'

However, the social and environmental returns must be measured and reported on and not left to guesswork (Addy et al., 2019; Phillips et al., 2021). Given that impact investing funds were expected to have grown to approximately $300 billion by 2020 (Pandit & Tamhane, 2018), businesses engaging in impact investing need to be responsible in showing that their investments are achieving social returns. Ormiston et al. (2015) estimate the market potential of Impact Investing as even higher - ranging between US$400 billion and US$1 trillion. Hand et al. (2020) in their turn, found that the Impact Investing market is worth $715 billion.

An important theoretical foundation for the current paper is Stakeholder Theory (Freeman, 1984, Freeman et al., 2021). A stakeholder is defined within this theory as 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (Freeman, 1984:46). There are two parts to this definition, that is, those who can affect, and those who are affected by the organisation. Our review of current literature revealed that the first part of the definition received ample attention, that is, stakeholders affecting the business, also called primary stakeholders by Clarkson (1995). It is instrumental to pay attention to these stakeholders (Jones, 1995; Sethi, 2003), and specifically the measurement of the financial return on investment for business in CSR initiatives (Waddock & Graves, 1997).

In extant literature the financial benefit is called the business case or strategic CSR (Peloza & Falkenberg, 2009) or strategic stakeholder management (Freeman, 2011). The gap we identified, is that the second part of the definition, that is, stakeholders who are affected by business, also called secondary stakeholders by Clarkson (1995) and the impact of business on them are not receiving adequate attention. The current study thus adheres to the call of Barnett (2019), to go beyond merely meeting the needs of primary stakeholders, and instead to serve the interests of the broader society.

We are contributing to developing theory, by bringing the domains of stakeholder theory and impact investment measurement theoretical frameworks together in the current study. This study also contributes by conducting the research in an emerging market, namely South Africa, which is a resource constraint environment with high inequalities and an under-researched context for management studies (Nkomo, 2015). This study could bring new insights especially because the attention has mainly focused on Western countries. We are therefore testing the existing theoretical frameworks, within a context of high volatility and uncertainty (Nkomo & Kriek, 2011). The question remains, how are the existing theoretical models, developed in a Western context, being applied in this highly dynamic environment? For example, in a fast-changing environment, would the mapping of stakeholders be meaningful and worthwhile, when the stakeholders might regularly change or being replaced by new role players?

The South African environment and especially the larger Sub-Saharan Africa context is typified by weak institutions (Nkomo, 2015), how might the mapping of stakeholders be influenced when institutions, which are important stakeholders and which might impact the organisation's impact investments' measurement, are weak, ill-defined and inconsistent? Also, in a country which suffers from a low foreign investment ranking (Trade Economics, 2019), how might social and environmental impact investment be influenced, when the emphasis is

on survival through financial investments and sometimes foreign capital investments? These competing priorities of financial versus social and environmental returns, require deeper understanding as well as how to resolve these dichotomies.

We therefore formulated the overall research question of this study as:

How are stakeholder groups measuring impact investment?

By studying this overall question, we explore the benefits of impact measurement, identify the key barriers to effective impact measurement, establish the role of stakeholder engagement and map the development of impact investment measurement processes within a highly dynamic context, namely South Africa.

2. Theory and literature review

2.1 Impact Investing

The unfortunate reality of Impact Investing literature, is the limited scholarly work on the construct (Agrawal & Hockets, 2021; Clarkin & Cangioni, 2016; Michelucci, 2017). Our study aims to contribute research in order to further develop the theoretical basis of the construct, by differentiating it in this literature review from existing well-researched constructs in the sustainability domain and deeper exploration of how the well-established Stakeholder Theory might be applied within Impacting Investing, to further strengthen the theoretical foundation of the construct.

Impact Investing Taskforces have been established by governments in several countries, and in South Africa, the National Advisory Board for Impact Investing describes their role as a cross sectoral initiative aimed at building the eco-system in order to accelerate the deployment of capital that optimises financial, social and environmental returns and share learnings with Impact Investing Global Steering Group (Impact Investing South Africa (IISA), 2018).

While *Harvard Business Review* published a valuable 'Contingency Framework for Measuring Social Performance' (Ebrahim & Rangan, 2010) and 'Calculating the value of impact investing' (Addy et al., 2019), the subject of impact investing and specifically measurement of impact investing received limited attention in high level peer-reviewed academic journals. Literature is inconclusive with regards to a uniform definition and framework of the impact investing construct and measurement of impact.

Impact Investing seeks to create positive social impact (Alijani & Karyotis, 2019). As Freireich & Fulton (2009) highlight, those who invest for impact wish to move beyond investing responsibly (see Schepers, 2003, for an extensive discussion on Social Responsible Investments - SRI) and put their financial resources into solutions that are larger than most philanthropic entities can achieve.

Calderini et al., (2018) combine multiple definitions to suggest that Impact Investing must include three features: social returns are intentional, social returns are proactive, and the loaned capital must be repaid. Impact Investing is quickly becoming a key force in social change on a global scale (Verrinder et al., 2018), because investing and social change were once viewed as opposite ends of the spectrum. However, Clarkin & Cangioni (2016) observe that financial investment and philanthropy are recently becoming partners in social enterprise development.

2.2 Stakeholder Theory and Impact Investment

Stakeholder Theory provides a method for understanding and managing the business – stakeholder relationship (Hussain et al., 2018). Businesses have a responsibility to their stakeholders (Salzmann et al., 2005). Freeman (2011) declares in this regard, that Stakeholder Theory is a counterpoint to the idea that corporations should be managed solely in the interests of shareholders. The challenge for many businesses then becomes how to manage the many

competing interests of the various stakeholders, or more specifically, which stakeholder groups should the business prioritise.

The literature regarding exploring the link between Stakeholder Theory and Impact Investing is limited, therefore we identified this gap in the literature. When Stakeholder Theory is effectively applied to Impact Investing, it could practically lead to businesses being able to effect greater social change. In Impact Investing, 'a multi-stakeholder approach provides a frame for reconceiving the value chain, redefining the value proposition and rejuvenating and rebuilding economic and social communities and networks by bringing together investors, intermediaries, beneficiaries as well as policymakers' (Alijani & Karyotis, 2019: 13). This definition furthermore, defines the different stakeholders relevant in Impact Investing. Viviani & Maurel (2019) identify in their turn, three distinct groups of stakeholders within Impact Investing: the investor (who is seeking impact), intermediaries (fund managers and social enterprise) and beneficiaries (who are the recipients of impact investing initiatives). Mapping these groups of stakeholders is an important exercise in Impact Investing.

The typology of stakeholder groups in this Impact Investing study are illustrated by the following contributions from relevant literature: For example, there are direct and indirect stakeholders (Harji & Jackson, 2018); internal and external stakeholders (Clarkson, 1995); primary and secondary stakeholders (Clarkson, 1995); and different levels of stakeholders, due to their level of influence on the business and the level of accountability to them (Costa & Pesci, 2016). Traditionally, accountability has been viewed from a reporting perspective (Connolly & Hyndman, 2017). The current study perceives accountability as broader than the original concept of organisations, acting as agents, which were accounted to their principals. Connolly & Hyndman (2017) warn that focusing on certain salient stakeholders, such as donors and their needs of accountability, might be to the detriment of other levels of stakeholders, such as beneficiaries.

Frequently, the push for effective measures is driven by external stakeholders (Viviani & Maurel, 2019). However, the level of accountability to each stakeholder group varies, for example, accountability to some stakeholders (funders and investors) is formal, while with others (beneficiaries) - the accountability is informal (Costa & Pesci, 2016). Barnett (2019), challenges this view and advise business to engage in practices that go beyond managing for stakeholders (Freeman et al., 2007), to truly managing for society. In this regard, business is accountable to more than its direct, primary, formal stakeholders and should consider its role in the broader society. Social Impact Investment focuses in this regard on the larger role of business in creating social value for groups and individuals in society who might not have the power to have a direct influence on the business.

Different stakeholders have different needs in terms of accountability towards them (Connolly & Hyndman, 2017) and may require different information: Investors want to know that funds are being used well and social impact achieved, while managers want to understand organisational effectiveness and whether changes need to be made to enhance financial and social impact (Costa & Pesci, 2016).

Costa & Pesci (2016), note that the only stage where stakeholders are engaged as part of the impact measurement process is when data is reported back to them. However, in this research, we challenge this notion and suggest instead that the interest and needs of all stakeholders must be considered throughout the measurement process. A sub-question we therefore explore in this research is:

How might stakeholders be included in social impact measurement?

2.3 Impact Investment Measurement

Unfortunately, there has been little clarity and consensus in the literature regarding the terms which define impact investing, this, in turn, has negatively impacted the criteria for determining acceptable social returns (Höchstädter & Scheck, 2015). Addy et al. (2019:104),

lament, ‘Although the business world has universally accepted tools for estimating a potential investment’s financial yields, no analogue exists for evaluating hoped-for social rewards…’. Mura et al. (2018), likewise advise that while the area of social impact measurement has grown, there has been little uniformity in guiding theory. Most research tends to consider only limited facets of the measurement process which has led to a lack of standardization in the reporting process (Mura et al., 2018). For these reasons, we aim to contribute to building theory around the measurement of Impact Investing.

While initiatives have started to standardise measurement within the Impact Investing market, there has not yet been wide uptake of the process, as a result these initiatives are insufficient (Reisman et al., 2018). Most businesses also do not undertake baseline surveys, thus leaving the business with no basis for which to compare progress against (Molecke & Pinkse, 2017). Most intervention achievements do not go beyond calculating the number of people reached (Addy et al., 2019). A sub-question that we would like to explore in this research is therefore:

Which barriers exist to the measurement of social impact?

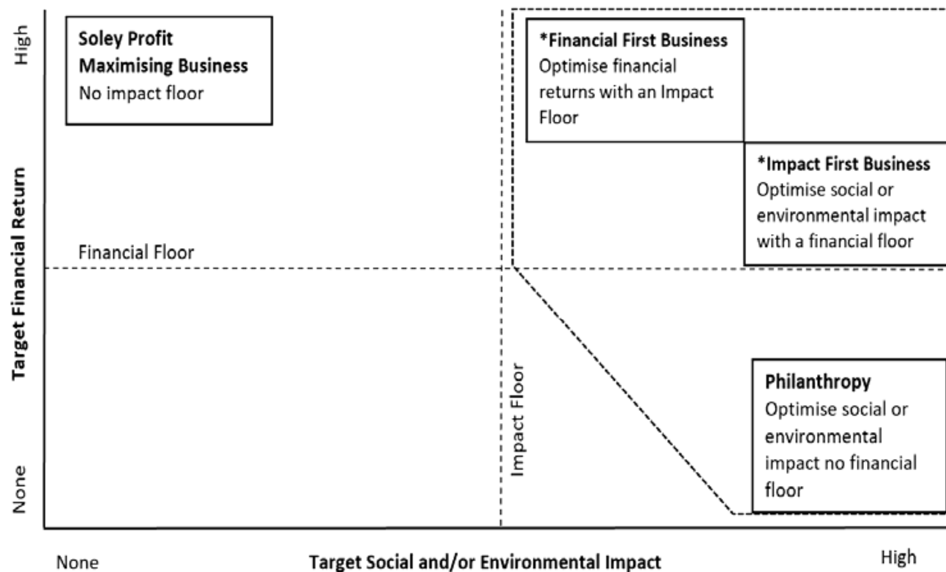
Formal methods of evaluation are often not used, rather businesses use ‘elements of material and ideational bricolage to develop self-constructed accounts of their social impact’ (Molecke & Pinkse, 2017: 551). Yet, despite the confusion hanging over evaluation, companies continue to report their social impact achievements, ‘but it is usually confined to information about commitments and process and rarely scores actual impact’ (Addy et al., 2019: 105).

Literature on measurement of Impact Investing, list ‘A Theory of Change’ as a convenient means to develop a measurement framework, interrogate the logic of the business and communicate the social impact of the business to stakeholders, particularly investors (Flynn et al., 2014). When considering relationships, the theory of change is important for determining the attribution of social change, since there are many issues that contribute to the

change and therefore the link between the business and the social impact are not as readily evident (Ebrahim & Rangan, 2010).

While some literature notes that there are only two types of investors, those who seek profit and those who seek social impact (Freireich & Fulton, 2009), other literature refers to impact first investors as hybrid investors, who seek both (Jager & Schröer, 2014; Pache & Santos, 2013). Impact first investors intent is to 'generate social or environmental good and are often willing to give up some financial return if they have to' (Freireich & Fulton, 2009: 4). Finance first investors are typically 'commercial investors who seek out subsectors that offer market-rate returns while achieving some social or environmental good' (Freireich & Fulton, 2009:4). Flynn et al. (2015), note that there are also philanthropic investors who do not pursue any profit at all and are not included in this study. The current study therefore focuses on impact first and finance first investors as both types of investors aim to achieve a social impact. See illustration of the types of investors and the focus of the current study in the figure below.

Figure 1: Type of Investors and the Focus of the Current Study



Author's own, adapted from Flynn et al., (2015: 1); Freireich and Fulton (2009: 5)

Just as there are investors who pursue either financial or social impact, there are businesses that do the same. Höchstädter & Scheck (2015) note that descriptions of investee businesses are not systematically described in existing literature. In fact, the current varying list of criteria suggest the investee should be one of several things and display a 'mission primacy', or be a 'social enterprise or narrow social-purpose organisation' or be 'unlisted' (Höchstädter & Scheck, 2015:458) or can be either 'for-profit or not-for-profit'. Additionally, Brown & Swersky (2012), suggest that the social mission must take primacy over profit generation. This lack of clarity surrounding the intentions of both the investor and investee is a noted weakness in Impact Investing literature, nonetheless, 'businesses which pursue a profit while focusing on social impact are considered hybrid organisations and constitute the heart of value creation in impact investing' (Viviani & Maurel, 2019:32).

Reisman et al. (2018) note that all too frequently investees focus on financial returns, while giving little thought to creating social impact. The current study therefore focuses on the following research sub-question:

How do impact measurement affect trade-offs in impact investments?

While the literature mentions some barriers to impact measurement, it does so on a generic level. The literature does not adequately delve into the individual business in order to understand barriers to measurement or the role stakeholders play in ensuring that measurement occurs. This research therefore explores the barriers to Impact Investment measurement.

3. Method

An Interpretivism paradigm was used for this research, because we studied the 'social phenomena in their natural environment' (Saunders & Lewis, 2012: 106). We chose exploratory qualitative research methodology (Saunders & Lewis: 2012), because qualitative research 'focuses on discovering true inner meanings and new insights' (Zikmund et al, 2010:133). There is a limited body of peer-reviewed literature on the topic of impact

measurement and Impact Investing, as a result, this research sought insights into impact measurement from experts in the Impact Investing market and an inductive research approach was used.

4. Sample

We purposefully targeted the following sample to answer our research questions: business leaders in impact investment businesses, businesses which intentionally create social impact, as well as evaluation experts. The business leaders either lead businesses which attracted capital investment from impact funds or guided impact investment strategy within impact investment funds. The evaluators have experience in designing impact measures and conducting evaluations of impact investments. Further, the population was limited to South Africa with a primary focus on Gauteng province. A non-probability sampling technique, namely purposive sampling was used, as it allowed the researchers to identify participants best suited to provide insight into the research questions.

The table below illustrates the respondents in the sample and the reason for including them. Their respective designations or job titles were included in the table.

The population sample was divided into three distinct categories, namely investees, intermediaries and evaluators. Investees were identified as businesses which either were or intended to seek capital investment through the impact investing market. Intermediaries were part of businesses who managed the funds of investors. These funds were invested either in the form of loans or as capital investment in exchange for ownership in a company. The final group consisted of evaluators who had an extensive understanding of the impact investing market and experience in evaluating impact investments.

Table 1: List of Respondents in Sample, Per Grouping, with Reasons for Inclusion and Job Titles

NO.	INTERVIEWEE POSITION	PURPOSE FOR INCLUSION
EVALUATOR		
1	Owner	Built a consultancy focusing on measuring the social impact of impact investment.
2	Monitoring and Evaluation Lead	Extensive experience in the impact investing market in South Africa.
3	Manager	Works for a consultancy evaluating the social impact of impact investments.
INTERMEDIARY		
4	Board Member	Focuses on food security and empowers small scale farmers using for-profit strategies.
5	Impact Investment Strategist	Holds a senior role in a leading impact investor with expert knowledge of impact investing practice in South Africa.
6	Director Technical and R&D	Holds a senior position within an intermediary in South Africa focusing on food security.
7	Managing Principal	Works for an investment company in South Africa and understands the impact investment market.
8	Board Member	Board member of an intermediary in South Africa and chairs the social and ethics committee focusing on social impact.
9	Chief Investment and Strategy Officer	Has extensive understanding of the impact investment market including how to engage mainstream investors.
INVESTEE		
10	Development Impact Coordinator	Works with the monitoring and evaluation team, has refined their theory of change and drives social impact creation.
11	Co-Founder and Executive Director	Has extensive experience within the impact investment market in South Africa.
12	Founder and Executive Director	Leads a social enterprise that focuses on creating social impact in South Africa with a focus on the nation's youth.

We coded 160 quotes from the interview transcripts. In the first interview, we derived 115 codes and the fourth one 45 new codes, by the eighth interview, only 5 new codes were coded and by the eleventh interview, no new themes had been identified, indicating that we had reached saturation. Since the twelfth interview had already been scheduled, we conducted that interview anyway.

The individual perceptions and understanding of business leaders and of evaluation leaders in relation to impact measurement, was the unit of analysis in our study. We based our interview guide on the relevant literature. The interview questions included, 'Identify your stakeholders and rank them'; 'When and with whom do you engage?'; 'Which barriers do you identify to impact investment measurement?' The interviewee sample consisted of three specific groups, therefore three separate interview guides with the same core questions but tailored to the specific group were designed. To facilitate the data analysis of the interviews,

all interviews were recorded and transcribed. The voice recordings, transcriptions and any notes written during the interview formed the pool of data that was analysed. Most interviews were conducted face-to-face, after ethical clearance had been obtained from the university where the researchers are affiliated with. In order to properly code the data, Atlas.ti was used to group themes and to analyse the data. Reliability and validity was ensured through verification (Morse et al., 2002) and the interview guide for semi-structured interviews was standardised and each interviewee was asked the same questions. Attention was also paid to subject error and bias as well as observer error and bias (Saunders & Lewis, 2012).

5. Results

The discussion of the results is structured according to the three sub-questions and then the overall research question is discussed as a summary of the findings. The rich dataset could be utilised in various ways, but we chose to limit the discussion here to what constitutes a possible theoretical contribution. We share results below systematically, per research sub-question.

5.1 Results of research sub-question 1: How might stakeholders be included in social impact measurement?

The results of this research question, are discussed below in terms of the answers in the semi-structured interviews on stakeholders and the engagement with these stakeholders.

5.1.1 Identifying groups of stakeholders

When respondents were asked to identify their stakeholders and to rank them, stakeholders groups were generally categorised into two broad categories, the beneficiary stakeholders (downward stakeholders) and funding/investing stakeholders (upward stakeholders). Internal stakeholders (lateral stakeholders) were generally omitted. However, as Respondent 12 (Investee) noted, '*sometimes stakeholders, you only think about the funders, you don't think about the beneficiaries*'. This was a recurring theme as Respondent 3

(Evaluator), when asked about who the most important stakeholders are, indicated, '*funders [are] first and foremost*'. Not all respondents considered the funder or investor to be most important. As Respondent 2 (Investee) noted when asked which beneficiaries were most important, '*one would be our clients I would think because that is how we earn our money, that is how we earn a profit, that is why we exist…two would be the investor … where we would be getting capital*'. Respondent 3 (Investee) added, '*there is really no point to an investment without the beneficiary*'. Nonetheless, most acknowledged that upward stakeholders receive the greatest portion of attention.

The beneficiary group includes customers, community members in which an investee is working and local authorities in the same community. The funding/investor category includes not only the entity providing the funds or the investment but it includes shareholders and board members as well to whom the investee or intermediary is accountable. Stakeholder categories vary depending on whether you were an investee, intermediary or investor. For example, the investor does not have an upward stakeholder, employees would be this stakeholder's lateral stakeholder and the investor's downward stakeholder is the intermediary. For the intermediary in turn, the investor would obviously be the upward stakeholder, as well as for the investee. The intermediary's downward stakeholder is the investee, whereas for the investee, in turn, the beneficiary is the downward stakeholder. Table 2 below illustrates this matrix that we created to show the mapping of relationships between stakeholders and forms an original contribution of this study.

Table 2: Matrix of Stakeholder Engagement Relationships Per Group

INVESTOR	INTERMEDIARY	INVESTEE
N/A	Investor	Intermediary
EMPLOYEES	Employees	Employees
INTERMEDIARY	Investee	Beneficiary

Authors' own

5.1.2 Engagement with stakeholders

The question around with which and when stakeholder engagement happens, were answered in terms of the downward, upward and lateral stakeholder groups' engagement, as well as at what point in the project life cycle engagement would happen with which stakeholders, as follows:

All four interviewees with evaluation experience noted that interaction with stakeholders should begin when conceptualising an initiative. The continuous nature of stakeholder engagement was disputed by Respondent 3 (Evaluator) who noted, '*it just depends whether all stakeholders are on the same page, as to what phase they're in*'. However, as Respondent 5 (Intermediary) noted, '*they [stakeholder groups] sit in tension*', each group has its own demands and expectations and it is important that the demands of each group are known, understood and in alignment with the intent of the intermediary or investee. This was noted by multiple interviewees from the evaluator and investee groups. Respondent 5 (Intermediary) warned, '*if you are too consultative, okay, and trying to meet everybody's needs, you actually sometimes land up confusing the entire issue*'… '*at the end of the day, your responsibility is also to say, 'how do I remain true to the business principle, the business focus that we've actually chosen to focus on?*'. The voice and need of stakeholders, '*it can sway you off your…own path*'. Hence, while stakeholder engagement is important, too much stakeholder

engagement can distract you from your vision and mission. The reasons for engagement with stakeholders were formulated by respondents as follows:

Reporting on impact was important to respondents, for example, Respondent 5 (Intermediary) stated, '*it's [reporting] built into the DNA…it is just absolutely critical*'. Respondent 2 (Evaluator) reported downward stakeholder engagement was best practice, saying the '*ideal situation…if we are saying we exist not to save money but create value for our clients then we should be able to show that.*' While it is best practice, Respondent 12 (Investee) admitted, '*we would never really report back about the entire programme to them [beneficiaries]*'. Other interviewees also indicated that downward engagement did not happen. The evaluators again, shared similar views on why they would engage with stakeholders.

Respondent 6 (Intermediary) noted, the development of Monitoring, Evaluation and Reporting (MER) frameworks '*depends on who invests or who finances these steps*'. As an evaluator, Respondent 3 noted, '*there is sometimes negotiations with [the] investor to align frameworks*'. An intermediary, Respondent 5 also said that '*sometimes we've helped them [investee] build it [MER framework].*' Formal reporting tends to take place on a quarterly basis, Respondent 2 (Evaluator) noted '*in the fund I worked with it was quarterly, on a quarterly basis to the funder*', while Respondent 7 (Intermediary) added '*every quarter we send them a financial statement which shows them their financial return and their social return*'.

Lateral engagement is equally important for ensuring that employees within an organisation align with the vision and mission of the organisation. As one evaluator, Respondent 2 (Evaluator) pointed out, '*the accountability to staff as well in terms of this is our impact thesis or this is what we are aiming to achieve as an enterprise financially but also socially.'* An investee or intermediary must conduct their due diligence. As one intermediary, Respondent 5, noted, '*we are asking of them to engage with the community in a particular way.*

What we do want to know, [as part of the] due diligence process that they in fact actually do have good relationships.'

A final reason for stakeholder engagement highlighted by this study is to prevent 'impact washing'. Impact washing is the act of embellishing the social impact that an impact investing initiative achieves. As Respondent 3 (Evaluator) noted, '*our firm has a particular focus on ensuring the beneficiary voice is featured very strongly in impact investments; the reason for this is, I mean impact washing is not unusual in this space, especially in African investments.'*

In summary, the respondents shared the categories of their stakeholder groups. The reasons for engagement with stakeholders, included reporting to the stakeholders, due diligence and gaining feedback to prevent overselling the social impact.

5.2 *Results of research sub-question 2: Which barriers exist to the measurement of social impact?*

We generated word clouds and figure 2 below illustrates one of the yields**:**

Figure 2: Word Cloud of Common Words Associated with Barriers to Measurement

The word cloud revealed that the words most commonly associated with barriers to measurement, included the cost associated with it, people, clients and skills were also more frequently mentioned.

We asked respondents to list the top barriers that a business would face when attempting to implement impact measurement and impact evaluation. Table 3 summarizes the list of barriers that respondents mentioned, as well as the frequencies with which they mentioned the specific barriers.

Table 3: The List of Barriers that Respondents Mentioned as well as the Frequency with Which They Were Mentioned.

BARRIER	FREQUENCY
Lack of organisational competence	19
Impact measurement is expensive to implement	13
Impact measurement is time-consuming	4
There is no perceived value in impact measurement	3
There is no incentive to measure impact	2
Impact measurement is administratively intensive	1
Consultants do not have the technical capacity to conduct impact measurement	1

The lack of organisational competence is the most noteworthy barrier to effective impact measurement. Respondent 5 (Intermediary), stated, '*there [is] not enough skills or talent in this country that actually really understands what M&E is actually about*'. This was supported by Respondent 12 (Investee) who identified the biggest challenge for their business in regard to impact measurement was '*the know-how, the knowledge'*. The second most mentioned barrier is cost: Respondent 9 (Intermediary) clearly stated, *'how do you measure the social return? The measurement comes at a cost'*. The process of collecting and analysing data is a continuous, on-going exercise, this requires not only competence and financial resources, it requires time. So too does producing the results of an impact evaluation.

Respondent 10 (Investee) noted a lack of incentive to measure impact, '*so we had a focus group discussion with our clients and we asked that questions, "why is it difficult for you guys to give us the social data" and they were like, "what's in it for us?"*'. One of the key

barriers to effective impact measurement is the observed and reported lack of capacity, particularly amongst investees. An evaluator, Respondent 3 (Evaluator) noted, '*the thing I often hear investors say is that they do struggle for good pipeline, they do have to invest quite a bit in terms of general business development capacity for the investees*'. An interesting finding in our study is that there are networks that have developed expertise that could be shared. The Global Impact Investing Network (GIIN) was often mentioned. Respondent 9 (Intermediary) noted, '*the resources that would help develop those [indicators] would certainly be external, I am very connected with organisations like GIIN*'.

5.3 Results of research sub-question 3: How do impact measurement of social impact affect trade-offs in impact investments?

We asked respondents about their experiences around trade-offs between financial and social impact. Almost all respondents noted the supremacy of financial returns in the discussion of what is most important to impact investors. As Respondent 5 (Intermediary) indicated, '*if the financial case stacks up and the impact case is not as strong, but good enough, we definitely will invest*'. Respondent 4 (Intermediary) said, '*that's the sort of baseline*'.

A contribution of the current study is the different stakeholder group's perceptIon of the importance of the financial versus the social ranking of impact investing. Table 4 below, illustrates the difference in perceptions.

Table 4 shows that evaluators were more likely to rate the financial return of the projects as high, while intermediaries and investees overall thought the financial contribution of their initiatives was low. Interestingly, intermediaries ranked the social impact of their investments as high, while investees ranked their social impact as low. Evaluators have presented a mixed response when asked to rank the social impact of the businesses they had evaluated. They related that proving financial returns on an investment is as simple as looking at a financial report, however proving social impact is a much more nuanced process. Several interviewees

presented a view that while both social and financial returns are important, focusing on financial returns will have a negative effect on social impact, while focusing on social impact will have a negative effect on financial returns. Essentially, it will be impossible to maximise both aspects of impact investment. As Respondent 9 (Intermediary) noted, '*you can't maximise both*'. This perception resembles a zero-sum game of an 'either or' perspective.

Table 4: Ranking of Financial Returns and Social Returns in Impact Investing

RESPONDENT	FINANCIAL RANKING	SOCIAL RANKING
	EVALUATOR	
1	Low	Low
2	High	Middle
3	High	High
	INTERMEDIARY	
4	Low	High
5	High	High
6	No Rank	No Rank
7	No Rank	No Rank
8	Low	High
9	Low	High
	INVESTEE	
10	High	High
11	Low	Low
12	Low	Low

Several respondents noted how social impact is defined depends on the person you are speaking to. This was supported by two intermediaries, Respondent 7 said, '*if you ask them, what do they mean by social return*' and Respondent 9 added, '*it is also important to know what people define as impact; what does impact mean?*'. Given the subjectivity surrounding defining social impact, it becomes necessary for businesses to measure impact and present the evidence that social impact is indeed being achieved. Unfortunately, as multiple interviewees noted, social impact is currently rarely measured.

It was also noted that the two aspects of an impact investment should not be compared and that perhaps having a conversation about trade-offs in impact investing was a discussion that did not need to happen. Respondent (8) (Intermediary) said, '*ideally you align both…both*

of them are independently successful factors of your company'…'*I am not sure if you should even compare or if you should say this is the target I am trying to achieve and this is the target I am trying to achieve and put them together in direct relation to each other, because then you are automatically in this trade-off discussion.'*

6. Discussion

6.1 Applying Stakeholder Theory to Impacting Investing (Research sub-question 1)

It was evident from the interviews that who the stakeholders are, who the business is accountable to and at what stage of the development and implementation of an impact investment initiative stakeholder engagement should occur, was either unclear or unknown. This lack of clarity has a significant negative impact on the design and implementation of effective impact measurement processes. When queried about stakeholders, interviewees rarely mentioned secondary stakeholders, (Clarkson, 1995) or indirect stakeholders (Harji & Jackson, 2018). However, interviewees did focus heavily on the primary (Clarkson, 1995) and direct (Harji & Jackson, 2018) stakeholder groups identified in the literature. While this finding is consistent with previous research (Barnett, 2019), it is concerning, since the broader impact on society was not front of mind for the interviewees.

One would have expected and it would have been ideal for this population to have this broader societal perspective when considering stakeholders. The further breakdown of these stakeholder groups by Viviani & Maurel (2019) into investor, intermediary and beneficiary allowed for a better understanding of the makeup of each group. While these three categories allocate fund managers and investees into the same category, however, based on the data gleaned from the interviews, our study shows that it is easier to understand the accountability requirements if they are separated. Connolly & Hyndman (2017) also highlighted these different requirements in terms of accountability. This is particularly relevant as the methods by which fund managers manage their investments differs from the way an investee would

manage the investment: A fund manager frequently provides capital investment to investees while investees run a business with this capital. Therefore, the accountability responsibilities differ between fund managers and investees and for a proper interrogation of stakeholder accountability they need to be viewed separately. Table 5 summarises the upward, downward and lateral stakeholders for both intermediaries and investees. However, it is important to note that where downward stakeholder engagement for an intermediary will be to an investee and will frequently be formal, the downward stakeholder engagement for an investee will be to a beneficiary and will almost always be informal. Therefore, while both groups have the same type of stakeholder engagement, the way they engage will differ.

We therefore propose a stakeholder grouping of four groups, namely investor, intermediary, investee and beneficiary, instead of the current literature's three groups. The accountabilities of the intermediary and investee groups are summarized in table 5 below.

Table 5: Accountabilities of the Intermediary and Investee Groups

INTERMEDIARY ACCOUNTABILITIES	
• **UPWARD – INVESTOR**	• Understand investor intent • Demand social impact • Demand Impact Measurement • Obtain buy-in • Accountability and transparency
• **LATERAL – EMPLOYEES, MANAGERS, BOARD MEMBERS**	• Dispel myths within the business and across business units • Provide/obtain technical support
• **DOWNWARD - INVESTEE**	• Source of profit • Provide technical support
INVESTEE ACCOUNTABILITIES	
• **UPWARD – INTERMEDIARY**	• Understand intermediary intent • Control capital investment • Demand social impact • Obtain buy-in • Accountability and transparency
• **LATERAL – EMPLOYEES, MANAGERS, BOARD MEMBERS**	• Dispel myths within the business and across business units • Provide/obtain technical support • Obtain buy-in
• **DOWNWARD - BENEFICIARIES**	• Source of profit • Source of motivation for the business • Gain insights into local situation and need

Authors' own

Intermediaries were keenly aware of the need to engage with their investees; however, investees were less likely to engage with their beneficiaries for the purposes of being accountable to them as compared to being accountable to their capital investors. It was also clear from the interviews that beneficiary groups varied considerably, depending on the business and the business intervention, hence it was difficult to clearly identify stakeholder beneficiary groups. Our study therefore highlights the need for paying more attention to the beneficiaries and perhaps to formalise accountability and possibly reporting to specified groups of beneficiaries. Beneficiaries in this sense, represents the broader society, which we identified as being neglected when considering groups of stakeholders.

Interviewees were less likely to mention the need for lateral accountability. Only one interviewee spoke of the importance of engaging with colleagues and board members to ensure organisational understanding and commitment to the mission and goals of the business. However, Costa & Pesci (2016) note that stakeholder engagement must also include lateral and downward stakeholders. Investees need to effectively engage with their beneficiaries in order to achieve a successful social impact.

For the investee, downward stakeholder engagement is also important. The beneficiaries are usually the clients of the investee's business. As a result, it becomes important for the success of the business to engage with beneficiaries. According to Stieb (2009), downward engagement should also enable the decision making of beneficiaries.

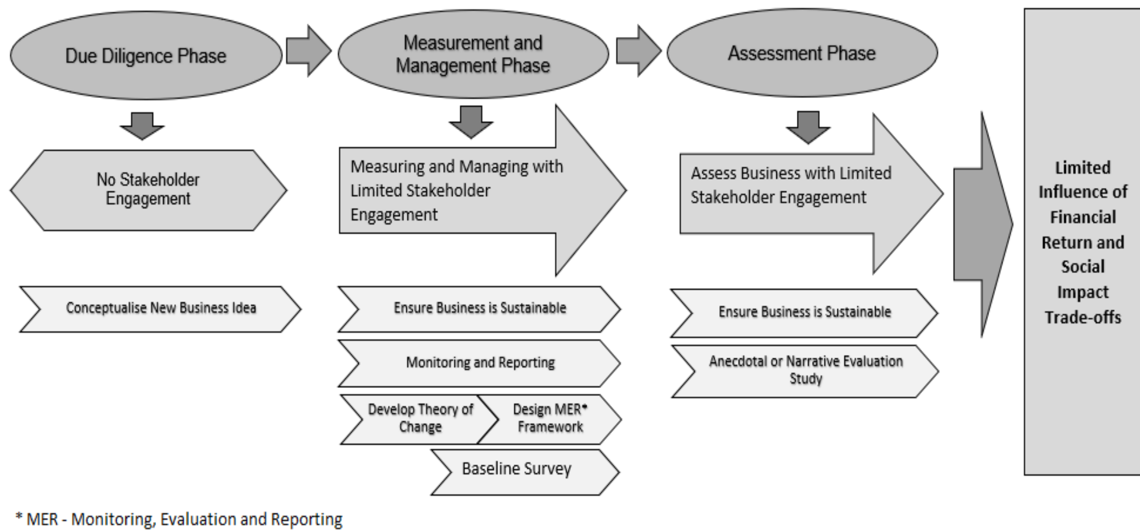
According to Freeman (1984), managing the relationships of the many stakeholders in a business is important for the success of the business, once stakeholders and their needs have been identified, the Social Impact Investment Task Force (2014) suggests that there is only one reason for engaging with stakeholders and that is to report back on the social impact that has been achieved. Costa & Pesci (2016) suggest greater stakeholder engagement, nevertheless, even their recommendation confines stakeholder engagement to understanding stakeholders'

needs and obtaining feedback through the management phase. However, it is clear from the interviews that this is not adequate. We therefore propose that stakeholder engagement is a process that the business must continually engage in if they seek to measure social impact and develop the necessary measurement tools and systems.

Costa & Pesci (2016), describe phases of the social impact measurement process and the findings in this study relates to those phases. According to Respondent 1 (Evaluator), the impact investing market divides the project cycle into three phases, due diligence, measurement and management, as well as assessment. These phases align closely with the five phases of the project cycle, (Social Impact Investment Task Force, 2014), where conceptualisation and planning form the due diligence phase, initiation and management form the measurement and management phase, and finally evaluation forms the assessment phase. Regardless of the model used, the interviewees noted that stakeholder engagement must occur across each phase. These phases sound like they are neatly sequential in separate stages. However, it seems that theory and practice are not aligned. Through the interview data, we extrapolated a process through which the stakeholder engagement could be managed during Impact Investing's execution and measurement: We created a conceptual framework to visually represent this process and to show where and which stakeholder groups are involved. Figure 3 below illustrates the phases identified in the current study.

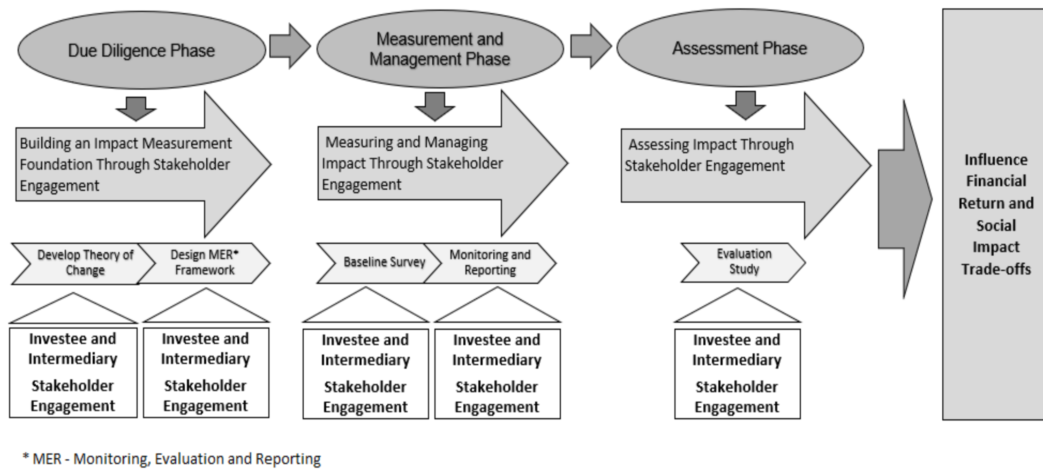
The illustration in figure 3 shows what the interviewees alluded to in the interviews, that there is actually in practice no stakeholder engagement in the beginning phase when there is the conceptualisation of the new idea. The neatly sequential actions within the measurement and management phase, are all packed together and not spread out as it should ideally be conducted. The reality is further that in practice, there are anecdotal evidence and narrative evaluations conducted. There is also limited influence of financial return and social impact trade-offs.

Figure 3: Process of Stakeholder Engagement in Practice Across the Three Phases of an Impact Investing Project Cycle



Author's own

Figure 4: Steps to Developing an Impact Measurement System



Authors' own

While this is the reality in practice according to the respondents, we created a conceptual framework of developing an Impact Measurement System to enhance the effectiveness of Impact Investing measurement and ultimately more effective Impact Investing,

to the greater good for all. Stakeholder engagement is required right through the process. Figure 4 illustrates this conceptual framework.

Engaging with stakeholders begins at conceptualisation with the development of the business' theory of change. Given that impact measurement is frequently driven by the investor and that the investor frequently invests for a specific type of social impact, it is important that engagement at conceptualisation includes upward engagement to align intent, lateral engagement to ensure the theory of change aligns with the business' intent and downward to ensure that the theory of change addresses a real need. The planning phase follows conceptualisation. During this phase, the business' monitoring and evaluation framework is developed. To ensure that the metrics are designed to measure the intended social change, it is important and the identified means for data collection are relevant to the context. It is therefore essential to engage downward to ensure the measurement is practical; upward to ensure that the investor is satisfied that the developed framework will capture the data necessary to measure the desired impact; and lateral to ensure that all business units within the larger business understand their role in the monitoring and evaluating of the product or service. The business can move on to the initiation phase, which includes the baseline survey.

During this phase, engagement with upward stakeholders shifts mainly to formal reporting on social impact achievements. Downward engagement also shifts to reporting; however, the reports are generally informal in nature. Lateral engagement includes both formal and informal reports of progress made towards social impact as well as the impact of the support provided by the various business units within the larger business. This process is more-or-less the same for both investees and intermediaries, except that intermediary reporting to investees would be formal in nature. The management phase sees a continuation of the reporting done during initiation. Reports are generally provided on a quarterly basis to all stakeholders. During this phase downward engaging includes continual verification of findings

from monitoring exercises as well as listening to stakeholder concerns about the product or services. Adjustments to the business are then made based on this feedback. Evaluation is the final phase of the project cycle. Once the evaluation is completed and the findings are available, they are formally reported upwards and laterally and usually reported informally to downward stakeholders. We propose here that the reporting to beneficiaries are formalised and that more attention is paid to this stakeholder group.

6.2 Barriers to measurement of Impact Investing

Molecke & Pinkse (2017) highlight several challenges that business pursuing social impact face. These include that impact is not demanded by investors, cost involved, social impact is difficult to measure, a business needs to be profitable before they pursue social impact, the perception of being a not-for-profit and finally time to conduct assessments. These challenges were supported by our research where interviewees noted; lack of business' competence, too high cost, lack of time, lack of perceived value, lack of incentive, assessments being administratively intensive and lack of competent consultants, as being the key challenges to impact measurement. It is interesting that, while respondents mentioned the business' competence as being a key barrier, this was not mentioned by Molecke & Pinkse (2017).

6.3 Impact measurement and evidence of social impact affect trade-offs

The suggestion that impact investors will accept lower financial returns if there is evidence of social impact, was supported by this research. For example, investors are willing to take a lower financial return on their investment if they know that their investment is achieving social impact (Viviani & Maurel, 2019). Interviewees noted that while maximising both the financial returns and the social impact was the goal of most businesses, the two were often in tension with each other, confirming prior research such as Connolly & Hyndman, (2017). Interviewees reported that focusing on financial returns negatively impacted social returns while focusing on social returns negatively impacted financial returns. Interviewees

indicated that in their experience, if investors were aware of the social impact of their work, then they would accept a lower financial return, thus making more potential investments attractive to the investor. Businesses who receive capital investment from impact investors or from intermediaries should actively work to develop a portfolio of evidence that highlights their progress towards achieving social impact. This, in turn, will allow them to work towards influencing the trade-off debate.

Figure 5: Stakeholder Engagement during the Assessment phase

Investee Stakeholder Engagement	**Intermediary Stakeholder Engagement**
Downward Beneficiaries	**Downward** Investees
1. Understand the current situation for beneficiaries 2. Engage beneficiaries as key informants 3. Ensure accountability to beneficiaries	1. Understand current situation for investees 2. Engage investees as key informants 3. Ensure accountability to investees 4. Build capacity
Upward Intermediary	**Upward** Investor
1. Ensure accountability to the intermediary 2. Provide formal reports to intermediary	1. Ensure fund accountability to the investor 2. Provide formal reports to investor
Lateral Employees	**Lateral** Employees
1. Ensure accountability to employees 2. Formal and informal reporting to employees	1. Ensure accountability to employees 2. Formal and informal reporting to employees

Authors' own

This study contributes to theory through the important differentiation between how investee and intermediaries approach Impact Investment measurement, the findings also show

the direction of accountability. The last figure integrates this contribution, according to the three phases as discussed above. For example, where investees engage with beneficiaries as key informants, intermediaries' accountability is towards the investees. See Figure 5 for more examples and the implications are important for managers.

6.4 Implications for managers

It is clear from the literature and from the interview findings that a Theory of Change is integral not only to the development of an impact measurement framework but for the development of a business' social purpose. Managers should develop a Monitoring, Evaluation and Reporting (MER) Framework. Robust measurement will support the development of evidence that the business is achieving social impact and impact evaluation needs a benchmark against which to compare evaluation findings.

Without the baseline survey data, it is difficult to prove social impact and as a result, the value of the impact investment can be questioned. This is especially true if the investor has agreed to lower financial returns in exchange for the creation of social impact. Internal capacity should be built to ensure that the business is able to oversee robust measurement. However, given the complexity of some of the required tools, managers should engage with stakeholders to identify competent consultants who can support tools development and conduct impact evaluations. Discussions over how to cover the cost of impact measurement and impact evaluation should be undertaken in order to agree on who will provide the financial resources.

6.5 Limitations of the research and recommendations for future studies

During the data collection, in-depth, semi-structured interviews were used, the views and beliefs of the researcher may have impacted the data analysis; Interviewee bias: All data was collected through interviews, as a result, the data reflects the opinions and perceptions of the interviewees. Purposive sampling was used, where the researchers used their judgement to

identify subject experts, however, this could have led to bias in the that interviewees were selected based on the researchers' views and beliefs.

Future research should explore the tension that exists between the need for impact measurement and the cost of conducting impact measurement and how this can be addressed. The current study indicated that investors are willing to accept lower financial returns if a business can present evidence that they are creating social impact. Future research should explore the value of impact measurement to impact investors and the role that impact measurement plays towards influencing investors willingness to accept trade-offs. This research was exploratory and in future a quantitative study could be conducted on a large sample so that a greater understanding of the role of impact measurement in the South African Impact Investing market can be obtained. Future research should explore the tensions in the South African context and the methods used by businesses in South Africa to overcome these barriers.

7. Conclusion

This research provides a conceptual framework outlining three key phases within the cycle of an investment, highlighting key impact measurement steps to be taken in each phase as well as who a business should engage with and why. The current study contributes to the literature surrounding Impact Investing and highlights the importance of measuring social impact; and stresses the importance of engaging with stakeholders throughout the project management cycle. This study identified four stakeholder groups and the importance of paying attention to beneficiaries as an important stakeholder group in Impact Investing.

Evidence is the best way to show impact and through stakeholder engagement a business can build an impact measurement system necessary to showcase its social impact to society and investors. In the process this will build the business' competitive advantage, establishing it as a preferred recipient of Impact Investment capital.

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