# THE PRIVATE IMPACT ECONOMY

## THE GLOBAL MOVEMENT TO TRACEABLE SOCIETAL IMPACT

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Companies love to celebrate the ways in which they are making the world a better place. They promote the good they are doing in the world in their ESG/sustainability reports, press releases, articles, and social marketing initiatives. This is not entirely different from nonprofit organizations, foundations, or even government agencies. While every sector has different motivations and incentives, all sectors increasingly want to be associated with making a difference. But can the stories we choose to tell about the good we are doing in the world be trusted?

The world is moving toward an impact economy. The future increasingly is one in which every industry in every sector will be held more accountable for the effect their work has on people, planet, and community. Producing traceable evidence of societal impact is among the most powerful levers to making the world a better place. Investing in the infrastructure, capacity, and technology necessary to trace the impact of our work is increasingly required by all organizations.

This is not to say that every kind of outcome or impact can be traced and proven. There are many interventions to which a purely quantitative, measurable determination of impact would be inappropriate. This is why we see evidence as such a powerful term. Evidence can include the quantitative and qualitative. It can adapt to the environment and context. What that evidence looks like, from using proven interventions to proving your particular intervention, can and should be different based on context.

A confluence of factors drive the impact economy across every sector. In the private sector, there is a growing recognition that previously considered externalities—nonfinancial impact on people, planet, community—have very real financial consequences and material value. Intangibles, the nonmonetary aspects of a business such as brand, reputation, sentiment, etc., as a portion of total assets in the S&P 500 have reached unprecedented levels. As of 2020, 90 percent of all assets in the S&P 500 are intangible.[1] Evolving regulatory environments also are requiring companies to increasingly manage their environmental impacts. Many of these trends are accelerating in civil society as well.

For example, the Black Lives Movement and the renewed push in the private sector for advancing equality and racial justice have rightfully extended to nonprofits, foundations, and universities that are increasingly being held more accountable for sharing their diversity, equity, and inclusion efforts. Activists pushing for greater progress on climate change are driving changes in everything from elections to board rooms.

Recently, Salesforce.org had our annual social value (ASV) verified by a third party, something few, if any, organizations have done before. Annual social value is the monetary value of what we contribute to the community. It is not direct impact data; it does not speak to the changes those contributions have made for individuals and communities we seek to empower. It is, however, a demonstration that the stories organizations choose to tell about their impact should be rooted in trustworthy, traceable, ethical, and transparent data whenever possible.

Real value is created by how we treat our environment, our stakeholders, and our communities. The Business Roundtable, a collection of CEOs from the largest companies in the world, said last year that it was time for companies to be held accountable by all their stakeholders, not just their shareholders. Investment firms are acquiring impact analysis firms to help them evaluate the nonfinancial performance of their portfolios. Foundations and government agencies are increasingly engaged in performance-based contracting, and nonprofits are responding to these opportunities by working to invest more in evaluation and learning.

As we move toward this impact economy, we must work to increase the amount of our impact that is traceable. We must improve the quantity, quality, and interoperability of the information we use as evidence of impact. There are several things organizations of all types can do to improve the traceability of their impact.

## INVEST IN STAKEHOLDER FEEDBACK

Any and every stakeholder impact conversation should begin with the people and communities whose lives are being impacted; that is, the stakeholders. This includes your customers or clients, your employees, your partners, and the communities impacted by your work.

The practice of soliciting feedback from those affected by your products and services is something that has long been practiced in the private sector, where there is an automatic closed feedback loop between buyers and sellers. Simply put, if you fail to listen to your customers, you go out of business.

Initiatives like Listen for Good[2] and Feedback Labs[3] are bringing these concepts into philanthropy and social service delivery and development, where such a feedback loop frequently does not exist. For example, the humanitarian sector uses direct feedback from beneficiaries to identify abuses by its field workers. The practice of Safeguarding allows for those receiving services to communicate directly with leadership to report misconduct. This kind of direct feedback has been shown to reduce abuses in large, distributed organizations.

Engaging stakeholders about impact is important but insufficient. You must be willing to not just collect that feedback but use it to drive decisions that can lead to profound changes. Listening is the start of an impact data journey that, when done right, produces insights and new understandings that drive learning, continuous improvement, and, ultimately, better impact performance.

## INVEST IN IMPACT MANAGEMENT CAPACITY BUILDING

Technology and data collaboration investments can accelerate traceability of impact; however, the most important move is investing in our people. We can lead stakeholder engagement programs, purchase technology for our field staff, and invest in data sharing, but if we do not invest in the capacity of all organizations to measure and manage their nonfinancial performance, these efforts will fall flat.

In a world of traceable evidence of impact, we must ensure that all stakeholders are ready to consume and use that information. This can begin with our staff, but it must not end there. Yes, we must ensure that individuals across our organizations are able to track and use nonfinancial performance data. When we are making decisions, we must look at our financial measures, operational KPIs, and the impact of these efforts.

But we also must ensure that communities are able to access and use this information, that funders and donors have access to traceable impact, and that those served by our organizations also can consume our nonfinancial performance information.

## INVEST IN ACTIVE IMPACT MANAGEMENT

Organizations must not just report on their impact but also engage in active impact management. Impact management is grounded in continuous improvement and learning theories. It is when organizations change how they are operating today to improve the impact they will see tomorrow by learning from what they did yesterday.

While the private sector is farther along when it comes to having systems to manage their core operations, even companies are nascent when it comes to the systems they use to manage their environmental, social, and governance (ESG) performance. We are seeing more and more investment into technology to monitor what has traditionally been seen as nonfinancial performance. Companies also are increasingly using new technologies, like blockchain, to track the societal impact of their operations through their supply chains.

Civil society must deepen its investments in active impact management. The sector has focused a disproportionate amount of its technology investment in fundraising operations as opposed to technology engaged in the delivery of services, most notably at the point of service delivery. When program and impact data are collected, far too often data is collected and aggregated at the central office, leaving those in the field with inadequate information and technology to help them do their jobs better.

As we seek to create more traceable impact, creating a digital trail of the interaction where impact is occurring is critical. Program management technology can be a great asset in helping people increase the amount of impact data about their work. We must ensure that everyone across the organization has access to technologies that demonstrate their performance.

Living Goods[4] is a great example of an organization that invests in technology at the point of service delivery. Working in three countries across Africa and Asia, Living Goods seeks to improve health outcomes in rural areas by giving community health workers better technology. This technology allows these health workers to provide better services and achieve greater impact in their work while simultaneously improving the evidence and traceability of that impact to the organization.

## INVEST IN DATA COLLABORATION

Success in the impact economy will increasingly be a multistakeholder endeavor. The impact supply chains discussed above highlight how every organization's impact on the world is dependent on the impact of another organization. Organizations must think of themselves as parts of multiple data ecosystems and allocate greater investments into data sharing tools and infrastructure to support the sharing of their impact performance data across organizations and across sectors.

Supporting impact data harmonization efforts also is crucial. Efforts like the Impact Management Project[5] (IMP) are creating a cross-industry framework for understanding different types of impact. Thanks to initiatives like IMP, significant progress is being made to harmonize the alphabet soup of sustainability reporting standards for corporations. Cross-industry impact standards drive data interoperability even across similar programs in different sectors.

The World Economic Forum and the International Business Council are leading an effort to harmonize sustainability metrics and reporting for corporations.[6] Nonprofit and philanthropic organizations are increasingly seeing ground-up efforts for metric alignment, and groups like the Urban Institute are working to catalogue metrics by program area.[7]

Metric alignment is one necessary step. Once we have organizations collecting the same data, we need to support increasing reporting and sharing of impact information. Efforts like Guidestar's Platinum Seal,[8] requiring outcome data, and Charity Navigator's acquisition of ImpactMatters[9] demonstrate increased demand for outcome and impact information about nonprofit organizations' performance.

On the private sector side, investors are buying impact analysis firms and changing investment strategies to value nonfinancial performance. This is being driven by improvements in data sharing and reporting by companies against sustainability metrics.

To have traceability of impact, we must be able to share standard information with one another about our nonfinancial performance, and investing in our data sharing and infrastructure is a critical step on that journey.

## CONCLUSION

Imagine what the world will look like when we trace a much larger amount of impact data across sectors. We will be able to hold one another more accountable for the effects of our actions. We can better direct resources to where they are able to do more good. We can ensure that all stakeholders' voices are heard and better influence the decisions of our business, government, and philanthropic organizations. In short, we will all deliver more societal impact together.

This future state is not a panacea. There are limits and risks. A lot of good work will not and cannot be traced back to some measurable impact. We must not allow easily traced outcomes to dominate more challenging, unmeasurable outcomes. We also must ensure that as we move toward an evidence- and data-driven impact economy we do so in a responsible and ethical way. We must not increase the vulnerability of already vulnerable populations through our impact data collection efforts. We just ground these efforts in frameworks that give people real agency over the collection and use of their data.

Evidence should be central to our understanding of the nonfinancial performance of all organizations. That evidence should be traceable and verifiable by outside sources, whether they be auditors or evaluators. Over the next ten years, we are sure to see more organizations investing in these efforts and billions of dollars will transact over the nonfinancial performance of all organizations.

## NOTES

1. Aran Ali, "The Soaring Value of Intangible Assets in the S&P 500," Visual Capitalist, November 12, 2020, www.visualcapitalist.com/the-soaring-value-of-intangible-assets-in-the-sp-500/.

2. Fund for Shared Insight, Listen4Good, n.d., https://fundforsharedinsight.org/listen4good/.

3. See Feedback Labs website, https://feedbacklabs.org/.

4. See LivingGoods website, https://livinggoods.org/.

5. See Impact Management Project website, https://impactmanagementproject.com/.

6. "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation," World Economic Forum, September 22, 2020, www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.

7. See Outcome Indicators Project, Urban Institute, website, www.urban.org/policy-centers/cross-center-initiatives/performance-management-measurement/projects/nonprofit-organizations/projects-focused-nonprofit-organizations/outcome-indicators-project.

8. See Candid website, https://learn.guidestar.org/seals.

9. See www.charitynavigator.org/index.cfm?bay=content.view&cpid=823.