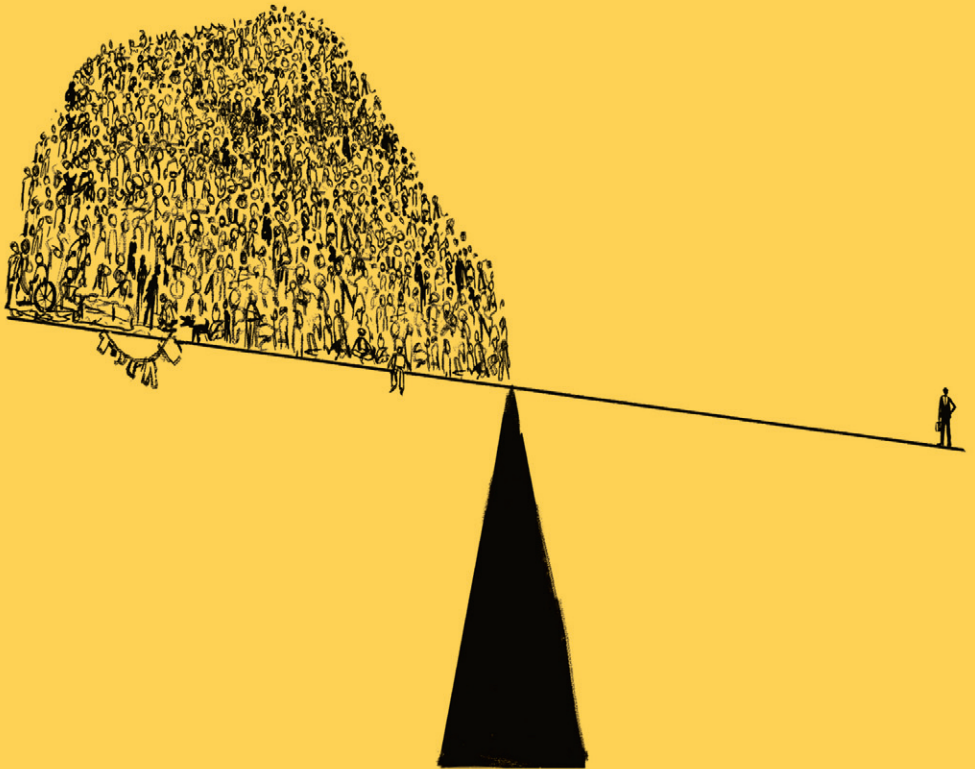


Generation Impact

International Perspectives
on Impact Accounting



Edited by
Adam Richards
Jeremy Nicholls

Generation Impact

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Generation Impact: International Perspectives on Impact Accounting

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Foreword

There are days when I am very pleased to be a part of our global change community and sincerely honored to have played a role in working with others to advance our shared agenda. Over the past thirty years I've been involved in these efforts, we have seen major and substantive advancement on any number of fronts:

- Our general approach to understanding the potential role of business in pursuing not only profit but also positive impacts in our world has clearly evolved over the years.
- The amount of purpose-driven capital (by which I mean sustainable, responsible, ESG integration and impact investing) has grown from niche market to, depending upon which banner one carries, billions if not trillions of dollars now being invested across the globe.
- Mainstream business leaders from the CEOs of major financial institutions to transnational companies are moving to embrace the idea – long recognised by others – that ‘modern’ capitalism as practiced over past decades cannot be the economic system that will meet our great and diverse needs over decades to come.
- The role of entrepreneurs in creating not only market and technology innovations but also the advancement of a vision of sustainable markets and ‘tech for good’ has catalysed start-ups and enterprise creation in seemingly every country on Earth.
- The awareness and activism of broad segments of societies mobilising to address global climate change and the need for greater social and economic justice make for daily public headlines and personal inspiration for us all.

We are truly witnessing a coming together of broad segments of nations around the world, focussed upon advancing positive change and creative solutions to the problems confronting not only humanity but also the existence of every living being and ecosystem on this planet.

This and so much more gives one real hope for our future.

And yet, it is quite simply not enough.

There are long nights when I sit in darkness, watching the shadows of our wasted energies play out on the wall, reflecting on the day's emails and headlines and mulling over our challenges and frustrations. There are nights when I pause in effort to regroup and renew, only to realise none of our current actions will be adequate or enough or sufficient to address what awaits us in the course of coming days. There is just so much that will have to change and evolve or die:

- The mistaken notion we may do well and do good without modifying either our lifestyles or material and conscience lives.
- The idea that markets alone will create the solutions we seek.
- The belief those who have and control will continue to be able to hold and direct.
- The very idea that we can *know* – that we can simply innovate our way through all this – without a fundamental reframing of our core assumptions and understanding of what it means to live, to prosper and to be as opposed to become; what it means – regardless of who we are or where we may live – to spend our lives as truly responsible stewards of a planet and as fulfilled fiduciaries of the future.

In my more optimistic moments, I can see how we might break through the fog of the present to create the future we say we seek, but in a great many other moments, I'll confess to being less than positive and less than upbeat concerning our prospects. Despite those who would have us celebrate humanity's great progress and supposed advancements,ⁱ our Earth continues in decline, taking many of us (both human and non-human) with it. International bodies of our world's leading scientists tell us we have less than 15 years to redirect not simply our consumption but also our very economics and that global capitalism itself must be completely reconceived if we are to survive as a species. That is less than a generation. In so many ways one cannot help but conclude 'the horse is out of the barn' and, in all honesty, our ability to redirect our energies and practices ran away with it.

If we were to simply consider the elements of global financial capitalism that must be redefined and altered, that would be one thing and certainly enough of a challenge, but there is that together with our need to confront extremism of various sorts, to move beyond the easy panic of scarcity and fear which now seems to drive so much of our public discourse (if that is what it may now be called), to address gender, racial, class and so many other injustices in our world. Yes, we have certainly witnessed stunning and profound advances in technology and communication that hold such great promise for our future and at the same time have buried within them the seeds of our common demise. As Martin Luther King, Jr., said,

Our scientific power has outrun our spiritual power.

We have guided missiles and misguided men.ⁱⁱ

We may well create the needed tools to build a new world, but there is no guarantee we will know how to apply them to the just and sustainable ends we claim to seek. If we are to get to the other side of this boiling Rubicon and if we are to create the communities we must have, we need to alter not only how we think and are present in the face of these challengesⁱⁱⁱ but also revise our understanding of our task, our tools and our possibilities. We must act not simply to minimise our negative impacts or modify our questionable practices but to

redirect our energies entirely towards the advancement of sustained, deep and mutual impact. We must manage our capital, our organisations and our very selves for the attainment of a changed planet.

This volume represents some of our community's best and most current thinking, vision and experience with regard to impact management. Some names you will know, and others you will come to know, but in each case what follows are the words of those not simply reflecting on the nature of a changed world (as important as that is!) but reflecting on what must happen for us to get there.

Impact management is the 'how' – the vehicle – which will help us bring into reality our greater understanding of the 'why'. The themes explored in the following pages range from how we manage organisations to how we deploy capital, how we develop and then apply new policy and regulations and how we might use networks and organised communities to advance the global solutions we must now advance.

What follows are the thoughts and words of our colleagues and contemporaries who, together with you, are changing the prospects of our common future. However, these are not the final words. They are a stepping back, a reframing and a renewal of our community's understanding of what lies before us, both in prospects and possibility. I invite you to contemplate what follows and assess how you might best embrace what you view as the positive and negative of what these pages present you.

And I hope you will renew and advance your own good efforts to create the change you seek in the world for it is the only world we have. And through these writings, our colleagues welcome you to engage in this continued process of renewed creation.

Celebrate the Struggle!

Jed Emerson
Ustaaset, Norway

Note

- i. The Stephen Pinkers and Hans Rolling and any number of venture investors marketing the innovations in which they invest, the killer apps for poverty and business solutions, all somehow viewed as one and the same, as it were....
- ii. *The Wisdom of Sustainability: Buddhist Economics for the 21st Century*, Sulak Sivaraksa, Koa Books/Chiron Publications: North Carolina, 2016, 20.
- iii. This is the topic of my last book, *The Purpose of Capital: Elements of Impact, Financial Flows and Natural Being*, the free Ebook of which is available at www.purposeofcapital.org.

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Thanks to everyone that has contributed to this book. Each author has brought their own perspectives, grounded in their experiences and we are eternally grateful for their dedication, openness and willingness to challenge the status quo to create a world of greater equality and environmental protection.

We are also eternally grateful to the people we have close to us – you keep us sane, when at times we feel like we are trying to do something that is not for those with sanity. Onwards.

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Introductions for Impact

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Introduction

Jeremy Nicholls and Adam Richards

1. Introduction

1.1 Why Does Impact Management Matter?

This book is coming out in the year that Covid-19 has changed our world, both in the immediate crises but also in its probable longer-term effects on our economies, our societies and our environment. The expectation is that this will have a significant negative net impact, an impact that will not be distributed equally but that will also undermine the work of many organisations that have been seeking to create a net positive impact (Banks, Karjalainen, & Propper, 2020; OECD, 2020). It is a time when the occupations that are most valuable are often the least paid and the least secure and clearly shows that price, as determined by our current economic system does not equate to value. We need to take the opportunity to change the way we account for value. In general, though we will be more specific, impact relates to those things that are not included in market prices. If they can be identified and valued, they have the potential to be included in the prices that drive our decisions.

Although the risks from climate change and inequality are increasingly recognised, we do not necessarily want to give up what we have at present or invest now for the future. It is difficult for us to foresee what our lives will be like if we don't make some fundamental changes much more quickly, but one thing we have seen from the global coronavirus pandemic is that society is capable of making significant and rapid change. Changes in our personal choices as well as changes in legislation are required; changes that we may not see as immediately beneficial or may not be vote winners at elections. And importantly, we will also need to change the way in which we account for impact, the basis for how we allocate resources to activities; for the public sector to achieve social and environmental goals, for the private sector to meet customer demand and provide returns to investors, and for non-governmental organisations to make the most of the resources they have.

To get there we need a shared understanding of what we mean by impacts, as this will mean we can more quickly and effectively optimise those impacts. And once we accept that we are talking about increasing positive and reducing negative changes on the well-being of people and the planet, at the rate we both need to and are able to achieve, we can focus on the decisions we are making and assess and

reward performance that delivers against what is needed. For decisions that relate to significant investment and have significant risks if they are not successful, decision-makers will need a high level of assurance that the information they base their decisions on is complete and accurate. For other decisions, which are operational and easy to reverse, the data do not need to be as rigorous. For each situation, impact management helps us to focus on decisions and on performance, and shows we can choose between different options with different impacts. This forces us to consider the relative importance of different impacts to different people. It means recognising that impacts are being valued in order to choose between options and means understanding value from the perspective of those affected.

The fundamental problem is that the people who experience impact have little or no ability to hold the organisation that creates that impact to account and to ensure that their view of the relative value of different impacts is considered, whether that impact is intended or not. Of course, there are rare exceptions especially where the impact is global (for example, the BP Deep Water Horizon oil spill), but in general people who do not have a contractual relationship with an organisation do not have the ability to hold that organisation to account. The consequence is that the interest in impact has not been driven by the people experiencing it, where one could possibly expect them to want changes to ensure that there is more positive impact created in their lives as fast as possible. Instead it has been driven by a requirement to prove that there have been positive impacts, or that negative impacts are being mitigated by those that are providing financial and other resources.

This means that the approaches we are taking to measuring, and more recently managing, impacts are not resulting in shifts to resource allocation decisions at the rate that is required to address the risks from inequality and climate change. Impact is lower than it needs to be and reported impact is very likely to be higher than it actually is.

Most of us have now directly experienced the effects of a rapidly changing climate. Many of us have experienced the effects of inequality, although we may not realise it. Not just being poor, but being poor alongside the rich. Not necessarily being jealous, but being reminded, in a world which says work hard and you will do well, that your poverty is somehow your responsibility because you haven't worked hard enough. But inequality does not just affect the poorest people in the world and has been labelled as a virus, and one that affects everyone (Wilkinson & Pickett, 2009). Many of us are indirectly experiencing its effects; be it through social unrest, unsustainable pressure on public services, or in lower life expectancy compared to others (Collinson, 2019). In recognition of the severity of inequality and the link to other challenges facing the world today, the UN's Sustainable Development Goals (SDGs) (United Nations, 2020) have targets for poverty and inequality, for climate action and clean energy. The International Monetary Fund (IMF) has also argued that inequality has a negative effect on growth (IMF, 2014), whilst the OECD's work explores how the benefits of growth are distributed and have declared:

We have reached a tipping point. Inequality can no longer be treated as an afterthought (OECD Secretary General, 2019).

2. Rethinking Capitalism

For years, GDP and stock markets indices have been the main metrics for assessing success. Yet, even before the Brundtland Report ([Brundtland, 1987](#)) that raised the profile of sustainable development as a concept and demanded that societies live within natural constraints, attempts to account for things differently have existed for some time. What is different now is the increasing realisation of the impending cliff edge that our society faces from the effects of climate change and inequality.

Despite the bad news, there are many reasons to be optimistic. The next generation is becoming increasingly concerned and willing to vote for political parties that are motivated to address these challenges, even with the inevitable challenges of transitioning to a sustainable economic system. Voices like Greta Thurnberg and Kate Rowarth ([Rowarth, 2018](#)) are changing the debate, making it possible to talk about solutions (see, for example, [Boffey, 2020](#)), that a few years ago would have not been given serious consideration.

Increasingly we realise that something isn't working, that the way our global economy allocates resources to activities to meet people's needs (and wants) has resulted in rates of climate change that threaten us all and in concentrations of wealth that undermine the very functioning of market economies ([O'Brien, 2012](#)). This is not just coming from the public sector, still a significant investor and commissioner of goods and services, or just from businesses – from corporates to social enterprise, it's also coming from asset managers. Recent comments from the largest global asset managers ([Fink, 2019](#)) and the US [Business Roundtable \(2019\)](#) have identified the need for the pursuit of profit and purpose. This is not without controversy and resistance (see, for example, [Kramer, 2019](#)), and we are yet to see significant shifts in practise. Resource allocation decisions are still predominantly being made, perhaps considering, but without evidence that different decisions are resulting in positive changes in either climate change or wealth ownership.

This is starting to change, and there is at least an intention from some to deploy capital with different motivations beyond simply maximising financial return. Over the last 10 years, the rise of Environmental, Social and Governance (ESG) investing, impact investing, as well as increased philanthropy, all demonstrate that there is no such thing as a homogenous 'hypothetical investor'. Our challenge now is to adjust our financial systems to reflect these changing motivations so that investors in all sectors are required to take account for the interests of other stakeholder groups and have the necessary information to support their decisions.

This has always been an issue for the public sector where all expenditure is for a public benefit, yet even here impact has become more important, as shown, for example, in the UK's Social Value Act ([HM Government, 2012](#)) and the New Zealand government's well-being budget developed in order to drive decisions that account for well-being ([New Zealand Government, 2019](#)).

As a consequence of all sectors shifting or increasing their focus on non-financial impacts, the issue of measuring these effects has also become more important, for example with cost benefit analysis, environmental reporting,

sustainability accounting, ESG reporting, impact measurement and social return on investment (SROI). All are approaches designed to enable organisations to report on the effects of their activities that are not captured in market prices, in other words externalities or examples of market failure.

3. Impact Measurement and Management

This has increased focus on a need to measure and manage impacts, and on the need to move beyond a multiplicity of approaches and indicators to create global standards and enshrine these in legislation. There is increasing convergence and an increasing sense of urgency. Although slightly different words might be used for the same thing, or the same words for different things, there is increasing alignment around concepts and principles. This is crucial if we are to address the challenges we face.

To date, there has been a focus on measuring impact in order to show that there has been an impact, either in line with positive intended goals or in line with practices to reduce negative impacts. This has either resulted in expectations of high levels of rigour, at least in the data that relate to achievement of goals, or in a willingness to accept measures that are not designed to support decisions that seek to optimise impacts.

It has meant that the main approaches have not given as much attention to the underlying ownership of the resources being allocated. The focus is on the impact of resource allocation decisions and not on the impact of inequality in resource ownership. It also means that in general the experience of people being affected has not driven what is measured or how it is measured, and response to this experience has been how performance has been assessed.

To address these shortcomings, there are organisations such as Social Value International, a network of national membership organisations, who have advocated for global principles for social value and impact management ([Social Value International, 2015](#)), and more recently, the Impact Management Project Structured Network has established a collaboration of standard setting organisations, coordinating efforts to provide complete standards for impact measurement, management and reporting ([Impact Management Project, 2020](#)).

Essentially, the principles ensure that when accounting for impacts, the voice of those people affected is included to help determine what is measured and ultimately managed. Explicitly recognising and including the voice of stakeholders to identify relevant and significant outcomes creates an approach that can more effectively include those outcomes that matter to the people affected. Greater awareness of impacts that are intended, unintended, positive and negative provides decision-makers with information that is more likely to improve the ability to manage and optimise impacts.

Many pages have been written on the issue of deciding what is material to include in an account. However, at its simplest, the question of what matters requires clarity on what matters to whom and for what purpose. Some approaches focus on what matters to the owner or the manager of the resources being

allocated which may or may not include impacts that other people experience. Some approaches focus on a purpose to make the decisions which may also exclude impacts where people cannot make decisions despite experiencing effects. Excluding impacts for either of these reasons risks making decisions which have not accounted for significant negative impacts and risks making decisions with a lower than possible positive impact because other positive impacts have not been considered.

Voluntary standards can only go so far, but beyond collaborations of the willing, there are numerous examples of existing legislative and regulatory changes that will embed practice in all organisations. The EU already requires large companies to disclose information on the way they manage social and environmental legislation and will complete its current consultation on possible revisions by June 2020 ([European Commission, 2020](#)). The European Financial Reporting Advisory Group (EFRAG) is running research projects on intangibles and reporting on non-financial risks. The International Auditing and Accounting Standards Board (IAASB) is running a project on the assurance of information in extended external reports ([IAASB, 2020](#)). Social and environmental issues are also increasingly being recognised in legislation that addresses specific issues, for example, the UK Modern Slavery Act 2015.

A sustainable economic system will require an approach to accounting for the value that is created and destroyed by our actions, and for managing those impacts by all organisations. Without this we will either fall back onto our existing approaches of financial accounting and GDP, the very approaches that have contributed to the current situation, or we will have a new system that still lacks the ability to direct limited resources to the most effective activities, those that meet people's needs and contribute to positive social and environmental changes. This in turn means that financial accounting and impact accounting will also need to converge, and this convergence is now being explored ([Capitals Coalition, 2020](#); [Nicholls, 2020](#)).

In the absence of legislation that makes organisations accountable to the people experiencing impacts, which would force convergence, the current situation can seem a somewhat confusing landscape of potentially competing options. Those involved in the world of impact management need to make its purpose clear so that others understand it.

Put simply, impact management is about recognising positive and negative effects on people and the planet and doing something about them. Of course, there is more detail to this, but we do not always need high levels of scientific rigour to manage our impacts. Using the analogy of 'enough precision for the decision' allows each of us in our personal and professional lives to use approaches and evidence that is fit-for-purpose. It can help us avoid the inertia or excuses of not having evidence that would be accepted for academic studies or policy-level initiatives before we act. If we create impacts, we can all try to improve them.

This book is a collection of articles by many of the people leading the work on impact management. Getting to a point where impacts are considered in all resource allocation decisions will need a fully developed ecosystem, one that ensures that organisations are held to account for their performance in creating

social, environmental and economic value. This will require changes to legislation, similar to the way in which legislation underpins a financial ecosystem of accountants, auditors and analysts supporting those making decisions in the interests of others. Whilst there is increasing recognition of the need for legal change, and there are a number of national initiatives advocating for change, this book doesn't cover these in detail. This book focuses on the ecosystem for impact that would underpin any change in legislation that would be effective.

The most fundamental change to legislation will be for all organisations, public and private, to report on social and environmental returns as well as financial, to ensure the duties of those responsible for governance are aligned and to require the purpose of the organisation to be stated, and for fiduciary duties to take the interests of those experiencing impacts into account.

4. Shift Happens! From Rhetoric to Reality

The contributions in this book come from people involved in the question of what future of impact management looks like and how we get there and come from different perspectives. Although there are still differences and still debates to be had, there has been considerable convergence over the last few years. This has allowed a shift in the discussion from measurement to management, and to optimising impact across financial, social and environmental returns.

The contributions are grouped by theme and cover:

- managing for impact
- investing for impact
- commissioning and policy for impact
- assuring for impact
- networks for impact
- Scoping for impact

Contributions addressing managing for impact focus on how organisations that are delivering goods and services, whether or not there is an intent to create positive impact, use data to make decisions, ensure that their impact is above minimum thresholds and as high as can be expected. Investors have a different challenge, potentially trying to choose between organisations using inconsistent and often incomplete data, and not constantly making decisions to optimise across social, environmental and economic factors. Commissioners, especially in the public sector, have a similar challenge, but are also often more constrained by resources and conflicting and varied demands. Networks, of sector, geography and approach have a role in disseminating good practice and advocating policy change. Finally, assuring for impact outlines the necessity, just as we have assurance to protect investors' interests, for assurance to protect people and the planet.

We are extremely grateful to all of those that have contributed to this book, and those that have supported the development of the impact ecosystem.