Metrics to Align Mission with Financial Performance:
Tips from Practitioners

A Synthesis of Discussion at 2014 ANDE Metrics Conference

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"In my organization, it feels like we have a financial performance discussion, and an impact discussion, but those two discussions are separate and we don't know how to connect them."

"People in my organization disagree about whether or not there is a tradeoff between our mission performance and our financial performance, or about how we should balance them. But because we don't have any data, whenever we try to talk about it we just end up repeating our opinions to one another and the conversation goes in circles."

-Attendees at the 2014 ANDE Metrics Conference in Washington DC[1]

Introduction

Social enterprises and impact investors, along with non-profits and foundations, have invested significant effort in designing metrics to monitor and evaluate impact. Yet these impact metrics do not create as much value as they could. Too often, impact metrics, and the people who manage them, are siloed in their own departments, databases, and discourses, one step removed from strategic and financial decision-making in their organizations.

The cause is understandable: we don't have the data, analytical methods, and language necessary to fully integrate impact monitoring and evaluation with strategic and financial decision-making. Frameworks for thinking about impact and financial returns abound, but data and analytical methods are integrating the two are scarce.

But the result compromises our ability to achieve our goals. Firstly, we fail to realize the full return on our investment in impact monitoring and evaluation. More importantly, we make sub-optimal decisions about investments, product and service design, and customer selection than we would if we had integrated impact, operational, and financial data to support those decisions. In short, we are leaving impact, financial returns, or both, unrealized.

At the 2014 ANDE Metrics Conference in Washington DC, a group of roughly two dozen impact investors and capacity development providers serving small and growing businesses (SGBs) convened for a series of discussions on this topic. The discussion, and the conference as a whole, was framed by "Metrics 3.0: A New Vision for Shared Metrics," which identifies integration of impact and financial metrics as one of the next goals toward which the social sector should strive.

The commonality of experience of the people in the room was striking: all of us came from thoughtful, well-run organizations that sought to create a positive impact. The boards of directors, senior management, and front-line staff of our organizations all agreed that impact was important, and in many cases had sacrificed more lucrative careers in order to pursue that impact.

[1] Participants included representatives from Accion Frontier Investments, BHI, Bridge Fund, CrossBoundary, Echoing Green, EcoEnterprises Fund, FHI 360, GOAL Humanitarian Organization, Fair Trade USA, Global Impact Investing Network, Grameen Foundation, Inter-American Development Bank, International Finance Corporation, Land O'Lakes Inc, Media Development Investment Fund, Root Capital, and SROI Network.

Yet many in the room felt like impact data had yet to suffuse itself into decision-making both at the highest levels of strategy and the day-to-day operational choices faced by front-line staff in their organizations. In fact, it often felt like impact metrics, and the people associated them, were siloed away from those decisions.

Several participants in the ANDE discussion had initiated efforts to integrate impact metrics with financial and operational metrics, to begin to break down those silos within their organizations. This document synthesizes our conversation and provides tips from participants' ongoing experiences, for others that seek to create an integrated approach to impact and financial metrics.

Why Integrate Impact and Financial Metrics?

Integrating financial and impact metrics does not simply mean, for instance, that impact investors put data about the revenues and profits of their investees in the same database as the number of people reached by each investee. It means generating and analyzing the data necessary to answer the questions:

1. Which investments, loans, products, services, or customer segments are:
    a. Making versus losing money for us?
    b. Achieving which types of impact, and to what degree?

2. Based on this data:
    a. In which ways are our impacts and our financial results aligned or not aligned?
    b. What should we do differently in our day-to-day operations and in our longer-term strategy?

Participants described several benefits to their organizations of integrating impact metrics with financial and operational metrics. Integrated metrics can help enterprises:

- Evaluate investment opportunities to achieve a target balance of impact and financial return;
- Select customers or beneficiaries to serve; and
- Develop better products and services that deliver greater impact at lower cost.

Externally, integrated metrics enable impact investors and social enterprises to help their donors, investors, and Board members to understand the relationships between various forms of impact and mission performance, operational efficiency, and financial results. Integrated metrics provide a way to report on impact performance and their financial performance in a holistic and nuanced way. In the words of one participant, *"an integrated approach to metrics gives us a way to focus our discussions with donors and investors on the things that really matter to us."*

At a sector level, integrated metrics can elevate the discussion about the possible alignment or tradeoffs between financial returns and social and environmental impact by grounding that discussion in data.

What Makes it Difficult?

While recognizing the benefits of integrating impact and financial metrics, discussants agreed that it was often unclear how to do so. One participant commented, *"The directive that comes down [from senior management] is, 'add impact metrics to our financial metrics,' but it's not that easy. You can't just add impact metrics and stir."*

Why is this? Two cruxes of the challenge are 1) lack of data about impact and, to a lesser extent, financial returns / profitability of specific segments of investments, loans, products, or customers; and 2) lack of concrete analytical methods to evaluate areas of alignment or tradeoff between impact and profitability and inform day-to-day and longer-term decision-making. Discourse at conferences and on blogs typically focuses on the first (especially getting impact data), but the second is equally necessary if impact data is to inform decision-making.

Getting the data necessary to analyze the relationships between impact and financial returns is difficult. Even once you have it, how to conduct analysis that can usefully inform strategic decisions is unclear. Participants in the discussion had explored the following analytical methods:

1. **Devise a formula that incorporates impact and financial metrics** into a single number, such as a ratio or an index. A ratio would usually have some measure of social or environment in the numerator, and some measure of financial cost or return in the denominator. This is essentially traditional cost-benefit analysis, adapted to a new context. The Social Return on Investment a methodology that can guide users in doing so.

2. **Identify a common unit of analysis** for which both impact and financial / operational metrics can be computed, and then use that unit of analysis to relate them. For impact investors, the relevant unit of analysis is likely the loan or investment, about which both impact and profitability metrics can be calculated and then correlated. (For a more detailed explanation of what this analysis revealed for Root Capital, please see the second half of a previous blog post.)

The consensus of the group was that much remains to be learned about analytical methods for integrating financial and impact metrics. One possibility that participants raised was that over time, best practice will emerge in a highly sector-specific way. For instance, for-profit industries such as aviation and mobile telephony have developed sector-specific metrics such as "Revenue per Available Seat-Mile" and "Average Revenue per User." Participants suggested that over time, analogously sector-specific metrics and approaches will evolve in the specific sub-sectors such as agricultural finance within the larger fields of social enterprise and impact investing.

Only if more organizations seek to generate and analyze integrated data about impact and financial returns will analytical methods improve and standards and best practices emerge.

Twelve Tips on Integrating Impact, Financial, and Operational Metrics

To help others along this path, participants shared a number of tips based on their ongoing efforts. These tips are organized here into a sequence which other organizations that wish to integrate their metrics might follow.

Phase 1: Starting Off

1. **Only start down this path if doing so will solve a major pain point that is widely felt throughout the organization.** Be explicit about what that pain point is and how integrating financial and impact metrics will help to relieve it.

    - Participants recognized that we all have more to do in understanding the impact of our work, and in measuring, communicating, and refining the economics and efficiency of our operations. For some organizations, it may make sense to tackle one domain (impact or operational / financial) first, before seeking to integrate the two. Trying to make major improvements in both domains simultaneously may prove overwhelming given limited staff time and resources.

2. Participants emphasized the importance of **grounding their work in a theory of change**. This need not be formal or complex, but if people have different mental models for how the organization should create impact, or how it should balance impact with financial objectives, those should be made explicit.

    - *"We didn't give this enough thought up front when developing our approach to metrics a few years ago, and now we're having to blow the whole thing up and start over again."*

    - *"We have a theory of change, and people agree on the theory of change at a high level, but underneath the surface they still disagree about how to implement it – and sometimes even how to interpret it – and this generates a lot of heated discussions."*

    - *"We spend all our time trying to move the needle without first figuring out whether it is the right needle."*

3. **Engage team members from across the organization early and often** – particularly those with whom you may disagree. Convene a cross-functional group to develop a shared understanding of the problem and how this process can help to resolve it. Consider engaging 'process champions' from other departments or teams that will contribute data and analysis, and / or consume the results. Doing so will both improve the quality of the end-product and generate buy-in and momentum that will be needed later when the process inevitably runs into roadblocks.

4. With this cross-functional group, **identify the questions you would need to answer** to resolve the pain points and / or different interpretations of the theory of change, and **what data and analysis you would need**. This group should also take an in-depth look at the technical mechanisms for merging/sharing data at the outset. How are data stored in different departments? Do all departments use the same units of analysis? Are there common identifiers for loan recipients/investees? While the goal shouldn't be to solve these issues early on, without identifying

sticking points it will be impossible to accurately estimate the time and effort needed to complete the project.

5. Identify a project manager for whom this project represents a significant portion of the job. Finding the right leader for this project is not easy, as it requires **someone who can "speak both languages" (impact and finance)** reasonably fluently, who can use a theory of change to connect metrics with the mission, who has interpersonal skills to navigate delicate conversations with senior leaders, and who has process management skills to keep the project from stalling. Ideally this person will be or report to someone with sufficient authority to unblock the process when necessary.

    - This project manager should pay attention both to senior leadership and to junior employees, who are familiar with existing data, have more time to dedicate, and are often eager to see how their individual domains of expertise can contribute to the organization's larger mission.

Phase 2: Data Collection and Analysis

6. **Identify data needs, compare with what is actually available, and develop a plan to fill any gaps,** using proxies where appropriate. The nature of the data to be collected and analysis to be performed depends entirely on the circumstances of the organization.

7. **Fine-tune and / or right-size** data needs along the way to avoid over-collection of data and 'analysis paralysis.' Use proxies when possible.

    - *"When you get a bunch of data people around the table, you wind up collecting a lot of data, whether or not it is actually useful."*

    - *"Don't confuse the process with the end goal, which is a more informed, evidence-based understanding of how social/environmental and financial factors are related."*

8. **Don't go radio-silent.** This is the part of the process in which the project manager and collaborators may need to 'disappear into the weeds' for a time in order to generate the data necessary to move the organization forward. During this time, keep stakeholders throughout the organizations up to date.

9. Invest in compelling **data visualization** to improve comprehension and to maintain peoples' interest. Develop and share pilot analyses and early prototypes of tools that might result from the analysis to convey the value of the data synthesis process while the final product is under development. Stimulate peoples' imagination about how this work can be useful to them, their teams, and to the organization at large, and incorporate their feedback into your work. This is a great way to get fresh eyes on the data and encourage broader participation. It is easy to miss important findings when a single individual or small group is doing all of the analysis.

    - *"The best thing we did was put it all in Google analytics. People loved to play around with the interactive visuals and the tools we developed."*

Phase 3: Dissemination and Socialization

10. **Don't jump straight from analysis to implementation**. If the project has been designed and implemented well to this point, then the analysis will shed light on major questions and challenges facing the organization. Design **a right-sized communications campaign** to engage different levels and teams in the organization to present the results and come to consensus on its interpretation and implications. Taking the time to **disseminate and socialize the results** will maximize the impact that the analysis has on the way people think and act in the future.

Phase 4: Tool Creation and Implementation

11. Develop an **implementation plan** to put the results into practice. The plan might focus on implementation by line staff (e.g., loan officers), communication to donors and investors, or both. Depending on the organizational context and the results of the analysis, it might entail modification of existing systems, tools, processes, or creation of new ones. Develop **feedback mechanisms** to allow users of the tools to provide input, either continuously or at regular intervals.

12. **Identify 'super users'** to help design tools / methodologies / approaches and advocate for their adoption.

Case Study: How MDIF Bridges the Gap between Operations and Impact Assessment Using a Shared Risk Metric

Media Development Investment Fund (MDIF) is an impact investor that provides affordable financing and technical assistance to independent news and information businesses in countries with histories of media oppression. Our goal is to improve client sustainability to ensure that they are able to continue to provide the news information and debate that people need to build free, thriving societies.

To effectively manage our portfolio, provide technical assistance, and assess our impact, we need to understand our clients' viability. A core tool used across our organization to inform each of these processes is our client risk rating metric. The metric is a composite of ten indicators measuring client financial performance, management efficacy, industry health, and the state of the client's collateral when applicable. The component indicators are weighted and combined to form a nine-point rating scale with nine signaling the highest possible risk and one the lowest. Our investment analysts update the indicator data on a quarterly basis and the metric is evaluated annually by independent auditors to ensure the validity of the process.

In practice, using a shared risk rating metric enhances cooperation across the organization while at the same time creating unique value for each team. The investment staff uses the combined risk rating score to evaluate the overall health of our portfolio, calculate loan loss reserves and identify clients that need management attention. MDIF's board of directors relies on the risk rating to understand and monitor portfolio health and to set MDIF's allowance for doubtful PRIs. And the impact assessment team uses the combined metric as part of our Impact Dashboard to assess whether MDIF has helped clients maintain or improve their financial viability over time.

In line with the Metrics 3.0 framework, our goal is to use the data we already have to inform both operational decision-making and impact evaluation. While different parts of the organization will always have different data collection needs and approaches to analysis, collaborating on metrics when possible has clear benefits for our organization. Sharing metrics reduces the data collection burdens on staff and clients and ensures that we are speaking a common measurement language across the organization. Isolation, on the other hand, breeds redundancy and makes collaboration a chore instead of a natural process.

Conclusion

As described in Metrics 3.0, "The challenge for impact specialists is to become sufficiently fluent in operational and financial metrics to both integrate them with impact metrics, and create and advocate for this integrated approach with the leaders of their enterprises." The siloing of impact into specialized databases, departments, and discourses serves neither impact specialists nor the organizations they support. Integrating impact metrics with financial and operational ones is the next critical step, after simply obtaining data, to enable impact investors, social enterprises, non-profits, and foundations alike to create the greatest impact at the lowest cost.