

Impact monetisation

A summary of the discussions
with the IMP's Practitioner
Community

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About this paper

The discussions that formed the basis of this paper have been captured by the author, Sara Olsen, in collaboration with the IMP team. It was published in July 2020.

For any questions with regards to the discussions around impact monetisation, please contact team@impactmanagementproject.com

About the Impact Management Project

The Impact Management Project (IMP) is a forum for organisations to build consensus on how to measure, compare and report impacts on environmental and social issues.

We convene a Practitioner Community of over 2,000 organisations to debate and find consensus (norms) on impact management techniques.

We also facilitate the IMP Structured Network – an unprecedented collaboration of organisations that, through their specific and complementary expertise, are coordinating efforts to provide complete standards for impact measurement, management and reporting.



Purpose

In 2019, the Impact Management Project (IMP) launched [Managing Impact](#), an online forum for the [IMP Practitioner Community](#) to discuss and debate technical topics related to impact measurement and management. Now, Managing Impact has over 330 members, and more than 100 thoughtful posts from individuals wanting to advance the thinking around complex issues.¹

[Impact monetisation](#) kicked off the first of three topics on impact valuation – the subsequent discussions covered [impact ratings](#) and [standardisation in impact management](#).

Each discussion runs on Managing Impact for up to six weeks before members of the Practitioner Community convene via “huddles,” or webinars that gather participants to share their views in a live setting. These allow for a deeper dive into the more complex issues surrounding the topic, before the insights from both the forum and huddles are synthesised into a discussion document.

The purpose of this paper – and the other discussion documents – is to shed light on the richness of the discussions to anyone who was unable to participate, whilst offering points for reflection to those who were. They are designed to help clarify the issues involved in each topic, rather than to provide definitive conclusions regarding particular issues.

This paper is structured according to the questions that were put forward to huddle participants:

- 1. What is impact monetisation?**
The definition of impact monetisation, how it is used and who uses it
- 2. Why does impact monetisation matter?**
The questions impact monetisation helps users to answer
- 3. What are the challenges of impact monetisation?**
What should be considered when trying to integrate impact monetisation and financial valuation
- 4. How can practitioners implement impact monetisation well?**
Five suggested norms for quality impact monetisation

Each section provides a brief overview of the main points of the discussion and, where relevant, includes quotes from commenters on Managing Impact and participants in the huddles. Quotes from Managing Impact are attributed to the person that posted them, since those comments are publicly available; quotes from the huddles are anonymised given that these sessions were held under Chatham House Rules.

¹ Conversations on Managing Impact are ongoing – see the back page of this document for instructions covering how to sign up and participate.



What is impact monetisation?

Impact valuation refers to the process of estimating the relative worth, or usefulness, of social, environmental or economic impacts to people. Impact valuation is useful for enterprises and investors in choosing among prospective projects or investments, in setting targets for impact performance, and in monitoring, measuring, and communicating impact performance of past projects or investments. Impact valuation can be qualitative; monetised (i.e., assign a monetary value to impact); or quantitative but not monetised (e.g., impact ratings).²

Impact valuation is not the practice of finding a way to “cash in” on social or environmental impact. (In business and investment, the phrase monetisation can mean finding a way to generate revenue from an asset).

Impact monetisation isn't a new idea; people have been working on it in the private sector context for more than two decades, and much longer in development finance and other contexts. But in the past few years, interest in the approach has grown as mainstream investors re-orient their thinking to include impact alongside financial returns.

Advocates of impact monetisation propose that by translating impact into a comparable value, it becomes possible for analysts to incorporate impact considerations that would otherwise be ignored into everyday business and investment decisions (hopefully tempering the scourge of short-termism). Ideally, the monetised value of impact reflects the importance that stakeholders place on the impact they experience.

Examples of current proponents of monetisation techniques include:

- PwC's [Total Impact Measurement and Management Framework](#)
- Y Analytics, "[Monetizing Impact](#)"
- The [Capitals Coalition](#)
- The [Value Balancing Alliance](#)
- The [Impact Weighted Accounts Initiative](#)

² This definition of impact valuation is taken from the Capitals Coalition. Other terminology is used throughout this paper, including:

Impact, which is defined as “a change in [social, environmental or economic] outcome caused by an organisation, [either partially or wholly]. An impact can be positive or negative, intended or unintended” (IMP Structured Network definition based on existing definitions); and

Outcome, which is defined as “the result of an action or event which is an aspect of social, environmental or economic well-being” (IMP Structured Network working definition, based on the OECD).



Why does impact monetisation matter?

Participants in the online conversations identified the following potential benefits of impact monetisation:

- **Stakeholder voice:**

“We often say “value is in the eye of the beholder”. This brings me to [a] key principle of social value: “Involve stakeholders”. When we make our valuations explicit, it is essential that those experiencing the outcome are involved in the process of valuation.”

- Ben Carpenter

- **Transparency:**

“Monetization is not without its challenges. It can be prone to false precision. But it also gives us tools to express our uncertainty clearly. As noted in some of the other posts, other challenges include discounting future impacts or comparing across different sectors or geographies. But monetization does not create these issues. It can, however, make them explicit and transparent. In doing so, it supports better decisions about impact, which is what we are all aiming for.”

- Greg Fischer

“Decision makers are used to dealing with uncertainty – so let’s make this uncertainty transparent (e.g. using ranges rather than precise figures). Let’s understand the precision required for the decision.”

- Tom Beagent

- **Accessibility to managers and investors:**

“...monetizing social and environmental impacts can harness all the tools of modern portfolio management and capital budgeting. I’ll leave it to the cognitive scientists to explain why putting a dollar sign in front of a value seems so effective, but it is. If we in the impact community can deliver measures of impact in a form that makes sense to the larger investor and business world, they can then readily apply the tools of their trades. This is what we want: for deeply experienced investors, managers and entrepreneurs to bring to impact the same skills they have honed focusing on financial returns.”

- Greg Fischer

“The step to understanding contribution and monetization not only digs into a deeper understanding of causal relationships and stakeholder recognition, but also provides a context and understanding of impact to a broader group of stakeholders, an understanding that might otherwise be reserved for rigorous research circles.”

- Will Nielsen

- **Comparability of performance data:**

“The comparability [monetisation] brings across indicators is a breakthrough. The fact that it necessarily quantifies what previously seemed unquantifiable elevated from niche conversations to richer conversations at the leadership level... Monetized impact valuation results are intuitively understood within business. The comparability benefit offered by impact valuation is far-reaching as it allows to provide a consistent view across businesses and across CSR-type interventions.”

- Sonja Haut

—
“[Monetisation] supports better decisions about impact, which is what we are all aiming for.”
—



“...monetization provides a common language that enables conversations between not only the finance and impact communities but also within the impact community itself.”

- Greg Fischer

- **Potential for increased positive impact via better decisions:**

“Because we want to maximize impact, we need a universal metric with which to compare potential investments.”

- Ken Chomitz

“If impact is transparent in a way everyone understands and enables comparison, investment will flow to ventures with the best outcomes for society and businesses will make decisions which benefit society as well as their investors.”

- Tom Beagent

“As business, we have the duty to contribute to the challenges of today’s and tomorrow’s society. In a radically changing business environment (e.g. climate change, income inequalities, digitalization), this requires to re-think how we are evaluating business performance. We need to transform from maximizing profits to optimizing the total value we create. In other words: From a shareholder value to a system value approach, taking natural, human, social and financial capital along the value chain into account. And impact valuation in monetary terms provides the foundation to go beyond just reporting.”

- Christian Heller



What are the challenges of impact monetisation?

When put into practice, however, impact monetisation poses a number of challenges. There is not yet a generally-accepted methodology applicable in all contexts. Existing approaches vary in their scope, whether they monetise outputs or outcomes, whether contribution is taken into account, and what sorts of financial proxies are used. Many approaches also fail to incorporate the voice of the stakeholders who are experiencing the impact, which participants in the discussions felt was critical.

The result is potentially inaccurate or misleading impact valuations that lead to unanticipated harm:

“...negative impacts can be justified with positive impacts. Companies who have problems with negative impacts are particularly compelled to use impact valuation to justify their existence e.g. tobacco companies might justify the negative impact of their products by pointing to the positive impacts they are creating in other spaces e.g. through philanthropic initiatives.”

- Huddle participant

“I don’t think monetization does anything that quantification can’t, but raises difficult and uncomfortable questions by trying to put the numerator and denominator in the same unit and allowing a sense of comparability across divergent impact themes and across funds that may actually not be realistic.”

- Brian Trelstad

“I think there are three broad reasons as to why monetization is not mainstream: 1) there are only weak incentives for different actors to do so; 2) money is not a good indicator of certain impacts that people care about (such as equality, fairness, well-being...); and 3) technical and data challenges often lead to a high degree of uncertainty and threaten credibility. These are inter-related and reinforce each other, so I think those who want to promote monetization will have a hard time.”

- David Pritchard

“The biggest challenge to impact monetization is the lack of an agreed outcome framework (i.e. well-being). In the absence of this, outcomes are plentiful, as are different ways to value them. The end result is a competition between one monetization methodology versus another. When this occurs, we forget that the point of this exercise is to evolve HOW we think about value, i.e. to broaden our consideration of the nature of returns (footnote Jed Emerson) to one that values social and environmental returns alongside financial.”

- Stephanie Robertson

“As we move forward in the monetisation process, we do not want to fall foul of the same shortcomings of other economic theory which leaves things out such as “externalities”.”

- Huddle participant

“Monetisation will risk decision-making becoming biased. Several biases come to mind: 1. A bias in favour of things that are easy to monetise. Monetisation in the health sector has a very specific market price, but what about more complex issues such as biodiversity? 2. Bias towards things with an alternative higher cost which are not necessarily more important. i.e. saving lives for people with insurance compared to those that don’t have it. 3. Bias against innovation. Using or trying to integrate risk factors into an integrated one-dimensional monetised version can risk innovation.”

- Huddle participant

“...negative impacts can be justified with positive impacts. Companies who have problems with negative impacts are particularly compelled to use impact valuation to justify their existence.”



While participants emphasised the important of deriving monetary values of impact from stakeholders' own views of how important the impact they experience is, they recognise that this best practice is always followed. They noted that the monetised value itself does not take into account a number of other important contextual data-points, such as the perceived necessity of the outcome by the stakeholders reached.

Lastly, it is important to emphasise that the reader of an impact valuation report will ultimately apply their own personal priorities (values) to the reported monetised impact, and will thus be doing their own impact valuation on top of the one disclosed. As such, impact monetisation is not an estimate of social value in the eyes of the user of the information; it is an input to that user's estimate of social and environmental value.



How can practitioners implement impact monetisation well?

Various recommendations were put forward by huddle participants:

1. Practitioners expressed a need for general guidelines regarding:

- what types of information should be included and left out
- whether outputs or outcomes are valued, and for knowing what is comparable
- whether enterprise contribution (the counterfactual) is taken into account
- what monetary proxies are suitable (if any) when direct data from stakeholders is not available
- how data sources and calculation methods used should be documented
- factoring in specific contextual differences

“I think it will be valuable to recognize the conditions under which a ‘generally accepted’ monetization methodology can be applied.”

- Will Nielsen

2. Monetisation needs to be complimented by supportive qualitative information that brings to life the nature of the value being created.

It is hard to appropriately identify a monetary value for every type of impact, and so disclosure of monetised impacts needs to state clearly all assumptions made and sources used. The value of sanitation, for example, includes the dignity of those who can access it, which is hard if not impossible to capture fully through quantification.

“...there are many different purposes to monetizing outcomes, and the goal of a given monetization exercise should be part of the consideration in terms of what methods are used (this gets at the “decision” part of the “precision for the decision”).”

- Matthew Guttentag

3. Further work is needed on the question of whether and/or in what cases it is ethical to use monetisation to account for the value of anyone’s basic needs.

Monetisation (like other forms of impact valuation) also poses ethical challenges. Due to differing cultural or geographical perspectives, and the separation between the party experiencing the impact and the user of the analysis, some experiences which are valued highly by one stakeholder group may be inaccurately valued by a third party with limited understanding of context. Without guardrails that are currently only weakly understood by many users, impact monetisation may serve to further entrench power differentials among those with the decision-making power and those affected by the enterprise’s activities.

In addition, people may be put in uncomfortable positions by being asked to value access to fundamental human needs in monetary terms. Indeed, the very act of monetising some things of great importance to the affected stakeholder may, in several instances, feel to that stakeholder like it devalues those things.

“I have reservations about applying monetisation techniques to certain areas, such as human rights. For example, water is a basic human right and we should not care how much it costs.”

- Huddle participant

“I think it will be valuable to recognize the conditions under which a ‘generally accepted’ monetization methodology can be applied.”

“I have reservations about applying monetisation techniques to certain areas, such as human rights. For example, water is a basic human right and we should not care how much it costs.”



“Will monetisation force those affected into the uncomfortable position of monetising their own basic needs?”

- Huddle participant

- 4. There is an opportunity for users of impact monetisation to acknowledge the “polyvocal account” rather than choosing one account (because that is akin to choosing who has power).**

“... the central challenge to this discussion is the idea that value attached to an impact (for example the value of this impact is “xyz”). Mostly, valuation is something that is in the eye of the beholder. To decide which value to write down is to decide whose value matters...value is a relational concept between a person and an impact. That means we need a “polyvocal” account: that is many valuations of many voices.”

- Huddle participant

- 5. Practitioners should endeavour to make impact monetisation accessible to enterprise managers and investors**

“I see challenges to making monetisation more relevant and accessible. It should be used in combination with an insight into a more detailed evaluation using the five dimensions of impact.”

- Huddle participant



Conclusion

The IMP team are interested in hearing from anybody already working on guidelines for impact monetisation and reporting at team@impactmanagementproject.com. In the coming months, the IMP will continue to explore challenging issues related to monetisation and other forms of impact valuation with standard-setters working on those issues. We will then come back to the Practitioner Community with points of potential consensus to test.

Until then, we leave the last word to our practitioner community:

“We can improve impact monetization through a collective effort that stands on the shoulders of giants. Evolve that work, rather than blazing new trails for the purpose of being a trail-blazer. Make work accessible. And finally, prioritize transparency over all other principles, so at minimum, differences in approach can be discussed, and ideally, used to inform and evolved the practice over time.”

- Stephanie Robertson

Please continue these conversations with us

The conversations are ongoing on [Managing Impact](#).

Please feel free to continue contributing to the discussions on impact monetisation, or any of the other topics that we cover.

You stay up-to-date on the latest topic launches by subscribing to the IMP's [newsletter](#).

To participate in Managing Impact:

- Set up a free account with Harvard Business Review [here](#)
- Log into the Idea Lab [here](#)
- Contribute to the Managing Impact discussions [here](#)

To stay up-to-date, be sure to enable summary emails or bookmark the Idea Lab's webpage.

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