Amit Bouri

How Standards Emerge

The Role of Investor Leadership in Realizing the Potential of IRIS

> The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit.
>
> The primary users need information about the resources of the entity not only to assess an entity's prospects for future net cash inflows but also how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources.
>
> —Summaries of the International Financial Reporting Standards Conceptual Framework for Financial Reporting 2010

Standardized accounting practices and financial reporting have evolved in tandem with the investment industry, and are now universally accepted and used. Today, the International Financial Reporting Standards (IFRS) guide reporting and aid interpretation of a business's financial position, and it is both de facto and, in much of the world, de jure that a business will regularly report standardized financial statements in order to function in a market.

How do such standards emerge? Can a common reporting framework be credibly developed and accepted over a few decades, rather than over millennia? After all, the IFRS have yet to be adopted in the United States, which instead uses the generally accepted accounting principles (US GAAP), a reporting standard that

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fulfills the same purpose. These are key questions for the impact investing industry, as efforts to develop and adopt a standardized set of social and environmental performance indicators begin to gain traction. For impact investing, uptake and widespread adoption of a credible, independent, common set of standards is critical for social and environmental impact to be realized and far-reaching, and thus for the industry to flourish.

The Impact Reporting and Investment Standards (IRIS) are designed to meet this need by providing an independent and credible set of performance indicators that any investor, intermediary, or enterprise can use to measure, track, and report an organization's social, environmental, and financial performance.[2] A diverse group of early impact investors, including traditional financial institutions, large-scale foundations, and specialized impact investment funds, called for these standards to provide a foundation for market infrastructure that can facilitate the efficient flow of capital to mission-driven enterprises.

The Global Impact Investing Network (GIIN), a not-for-profit organization dedicated to increasing the scale and effectiveness of the impact investing industry, is leading the effort to develop and promote IRIS, which the Rockefeller Foundation, Acumen Fund, and B Lab initiated in 2009. Within the past two years, IRIS has gained traction in the impact investing industry, with hundreds of enterprises reporting to their stakeholders using IRIS indicators.

In addition to its relevance to individual investors and organizations, IRIS is a tool for industry development. Like a telephone system or an online social network, IRIS increases in utility with each new user, because a larger number of IRIS adopters results in positive network externalities for the industry as a whole.[3] For example, the widespread use of IRIS increases an individual adopter's ability to compare organizational performance in various sectors.

However, for these network effects to be realized, a critical mass of early adopters must first find IRIS's value proposition compelling at an individual level. That is, initial adopters must determine that IRIS has intrinsic utility, such as streamlining impact reporting processes, assisting in stakeholder decision-making, or signaling a credible commitment to social or environmental impact. A critical mass can be reached only after these early adopters demonstrate the utility of IRIS, at which point it can become the de facto standard for the impact investing industry. As the industry coalesces around standardization, additional network externalities can be realized.

Network effects can result directly in the form of IRIS-based aggregate market intelligence, and indirectly by enhancing and supporting industry infrastructure. These indirect effects are already evident in the form of initiatives and networks that utilize IRIS, like the Global Impact Investing Reporting Standards (GIIRS), the online performance management system Pulse, and the impact investing angel network Toniic, which, together with other initiatives, is building an industry ecosystem. In the future, this ecosystem may expand to include impact investing professionals and scholars who can further refine, analyze, and apply IRIS data.

One of the early adopters that is helping to build this ecosystem is the KL Felicitas Foundation. The foundation's IRIS adoption experience will be described later in this piece to explain in practice why its founders, Charly and Lisa Kleissner, chose to adopt IRIS to track their foundation's performance, to describe the extent of the value they have found in using it, and to detail the challenges and unanticipated opportunities that resulted from its implementation. The Kleissners created their family foundation to make early-stage investments in social enterprises that they believe have the potential to scale. For the Kleissners, the importance of credible, standardized metrics is central to tracking their portfolio, benchmarking social and environmental performance, increasing market intelligence, and helping to attract more impact investors to social enterprises. The Kleissners' public support of the IRIS initiative among investor peers and social entrepreneurs, along with their current IRIS implementation, are the result of thoughtful consideration about the impact they seek to achieve through their investment portfolio. Following the case study is a discussion of the potential for IRIS to become increasingly valuable through its widespread adoption and a supportive industry ecosystem.

A NEED FOR STANDARDS: A BRIEF HISTORY OF IMPACT INVESTING AND IRIS

The IRIS initiative was formed to address the needs of the impact investing industry, including fragmented impact measurement approaches, lack of performance comparability among organizations and portfolios, and an absence of sector analyses, such as performance benchmarking. The industry's evolution continues to blur the traditional financing binary in which nonprofit philanthropy and government aid address global problems through grants, and mainstream investors maximize financial profits only. The roots of the emerging impact investing industry trace back to principles similar to those behind corporate responsibility, socially responsible investing, and venture philanthropy. Some investors have been practicing impact investing for many years, but the movement to develop these concepts into an industry is relatively new. It is in this industry-building phase that investors have increasingly recognized the need for rigorous, standardized measures. The proliferation of activity has made evident the inefficiencies and constraints that result from the lack of both a common language to describe impact, and basic market intelligence such as performance benchmarks.

A Diverse Industry

In any market, limited usage of standardized metrics and business performance reporting is a formidable barrier to the effective and efficient allocation of resources. In a market in which the beneficial outcomes from products and services are subjectively interpreted, these barriers are even more significant.[4] In addition to subjectivity around outcomes, the unique diversity within the impact investing industry makes the emergence of a common set of performance standards particularly desirable for the following reasons.

First, mission-driven enterprises are diverse and work across many sectors and contexts while employing a variety of strategies to make an impact. Despite this diversity, mission-driven enterprises need an effective and consistent way to articulate their social and environmental performance in order to establish credibility, enable peer comparisons, and effectively raise funds among the growing set of investors seeking social and environmental returns alongside financial profits.

Second, impact investors are diverse. They include large foundations, traditional financial institutions, high net worth individuals, and government agencies. Although many impact investors work at traditional grant-making or financial institutions, their roles are distinct from those of philanthropists, who do not demand or expect financial returns from grantees, and from traditional investors, who demand and expect profit maximization. The varied approaches to management and evaluation throughout these fields have led to fragmentation in impact investment performance measurement and reporting.

Third, impact investors are diverse in their approach to achieving impact. Impact investors may use their capital to focus on specific geographic regions, sectors, desired impact, or targeted financial returns. Their investee organizations focus on many social and environmental issues around the world, including affordable housing, health care, education, and alternative energy. Investors may fund social good as a complement to aid or charity, or may incorporate social factors into traditional investing to complement a portfolio that already includes socially responsible investments. Investors' financial return expectations range from a return of principal capital to market-beating profits. Indeed, impact investments are a result of investors' management of their investments toward the creation of specific social or environmental benefits along with financial returns. Managing these multiple factors requires a credible, consistent, and rigorous set of metrics that includes social, environmental, and financial performance indicators.

Thus, diversity, while a source of industry strength and potential, underscores the challenge and need for an effective way to communicate social and environmental performance.

The Intrinsic Stakeholder Benefits and Industry Network Effects of IRIS

The IRIS initiative encompasses three main components: (1) developing and refining the IRIS standards (see Figure 1); (2) promoting adoption of these standards; and (3) encouraging voluntary contribution of anonymous IRIS data to establish an expansive evidence base of the industry's social, environmental, and financial performance. These data will help ensure fair and transparent communication among stakeholders about impact targets while driving market intelligence about performance expectations for enterprises.

Investors can voluntarily choose to anonymously and securely report data to the IRIS initiative by working through its data collection partners—currently the

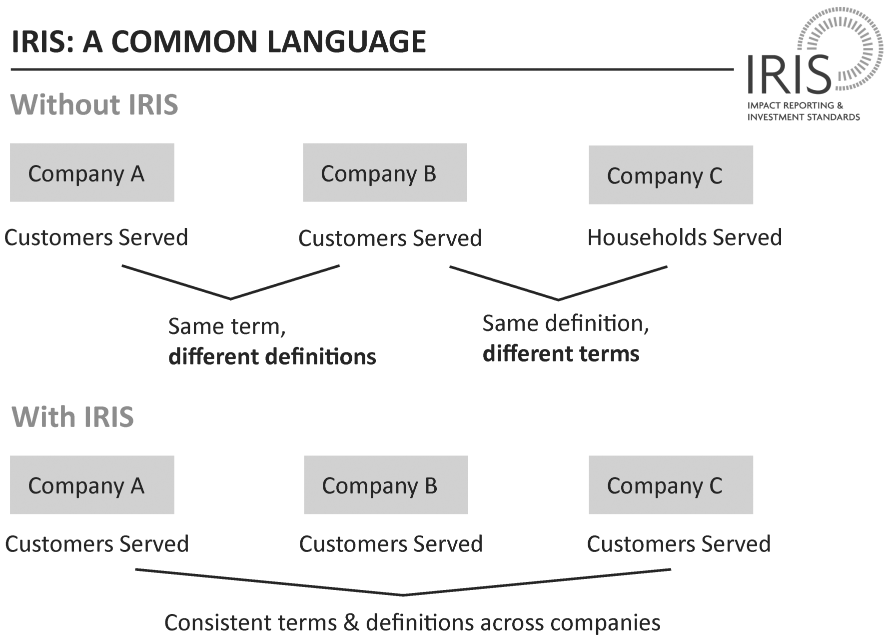

Figure 1. IRIS Standards

Aspen Network of Development Entrepreneurs (ANDE), the Microfinance Information Exchange (MIX), and Pulse (a technology platform). Through these partnerships, the IRIS initiative is able to aggregate data from diverse sources, which can then be used to generate market intelligence that helps inform the entire industry.

The initiative is focused increasingly on adoption of IRIS standards in order to build momentum toward a continually growing user base that will increase the standards' value to the industry. Part of the IRIS value proposition is its versatility and ability to meet the needs of various industry stakeholders.

Fund managers and other direct investors. Direct investors can credibly track and report the social and environmental performance of their portfolio companies by using IRIS. IRIS can be used independently or through GIIRS, a partner impact performance ratings system, to allow investors to compare the performance of an individual organization with industry benchmarks and with other organizations across the industry that have also adopted IRIS.

Investors in funds. Investors in funds can apply IRIS as a credible set of standards across multiple sectors and geographies to serve as the basis for impact reporting by a diverse portfolio of funds.

Member organizations/intermediaries. Member organizations, such as IRIS partner ANDE, can use IRIS to build shared sector-specific reporting frameworks to assess their individual member and aggregate impacts.

Mission-driven enterprises. Enterprises raising capital can better articulate their value to impact investors by measuring and reporting both financial and nonfinancial performance. IRIS provides an objective set of performance indicators that are compatible with many existing reporting methodologies, like that of the Social Return on Investment Framework, so that IRIS's alignment is straightforward and low cost.[6]

Developed as a free public good, IRIS can be used to support existing reporting frameworks. Like a dictionary, the IRIS reporting language provides clear and consistent definitions for terms commonly used to describe social, environmental, and financial performance, but it does not recommend which of these performance indicators should be used by mission-driven organizations or investors. Rather, IRIS provides a universal standard for performance indicators that can meet the needs of the diverse impact investing community. IRIS can be incorporated into impact reporting products and ratings systems, enabling enterprises to choose the indicators that are most meaningful and contextually relevant to their specific mission and goals. Once indicators are chosen, investors can begin to measure performance consistently throughout their portfolios. IRIS can then facilitate fair comparisons and aggregation of standardized performance data to complement conclusions extrapolated from anecdotes and information from proprietary reporting systems. Ultimately, IRIS initiative seeks to enable more informed allocations of resources across the impact investing industry.

CASE STUDY: KL FELICITAS FOUNDATION

> The social or environmental results of these investments, ostensibly an integral part of these enterprises, are much more difficult to compare, assuming data is available at all.
>
> —KL Felicitas Foundation, April 2011

The mission of the KL Felicitas Foundation is to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families. The KL Felicitas impact investing strategy works to match the entrepreneurial spirit and business discipline of social enterprise with the significant capital being made available through a growing network of impact investors. IRIS offers the foundation rigorous, standardized metrics that provide a consistent way to measure social and environmental performance. The Kleissners are using IRIS to measure how impactful a small family foundation can be through its use of varied philanthropic tools and strategies. The Kleissners believe that the foundation's point of greatest leverage is in early-stage enterprises: if KL Felicitas makes an early-stage investment and helps prove a concept, that investment could catalyze further investment from larger investors and thus help that investee gain scale. The foundation's commitment to using IRIS is intended to set an example of best practice that will encourage more adopters, particularly impact investors who seek this kind of standardized, comparable data.

Figure 2. KL Felicitas Foundation Reporting Components

KL Felicitas began thinking of how to apply IRIS across its investment portfolio in 2009 and is currently using it as a key evaluation tool both for current investments and to identify new grants and investments. The foundation's strong understanding of its own theory of change and long-term goals was a necessary prerequisite for its adoption of IRIS. The Kleissners devoted time and energy to determine IRIS indicators that were both reflective of their impact goals and informative for decision-making, which was crucial to ensure that the chosen measurements were relevant to both them and their portfolio enterprises.

The IRIS Adoption Process: Choosing the Right Indicators

To develop an appropriate set of IRIS indicators that reflected the intended outcomes of the foundation's work, KL Felicitas relied heavily on the mission, vision, and the key foundation goals articulated by the Kleissners. In early 2010, KL Felicitas formed a reporting framework that provides a thorough and multifaceted analysis of the progress and success of its impact investing portfolio. This framework consists of: (1) a set of core IRIS indicators applied across its portfolio, supplemented by (2) sector-specific IRIS indicators, applied wherever appropriate, and (3) a set of foundation-specific qualitative indicators (see Figure 2). KL Felicitas's first complete set of IRIS data will be collected from selected investees for the year ending 2010, and will serve as a baseline for future monitoring and evaluation.

Because comparability was a key goal for the Kleissners, they first determined the common set of core IRIS indicators to be applied across the portfolio. Given the foundation's goal of helping social enterprises scale social impact and its self-defined niche of early-stage investments, the foundation needed only a small set of indicators. Used as proxies, which would relay information about the growth and expansion of each investee. Its core indicators focus on product impact and financial performance (see Table 1). These core IRIS indicators are now a formal part of the investment evaluation rubric that the foundation uses in its due diligence process.

	IRIS INDICATOR	DEFINITION*
PRODUCT IMPACT	Number of Clients (**PI7094**)*	The number of individual consumers served by the organization
	Jobs Created in Financed Enterprise (**PI3687**)	Net number of new FTE jobs at financed enterprise (including self-employed individuals and owners of businesses)
FINANCIAL PERFORMANCE	Direct Investment—Number of Investments (**FP4359**)	Number of debt and equity investments on balance sheet
	New Investment Capital (**FP8293**)	Value of cash flows from both loans and investments
	Contributed Revenue (**FP3021**)	Contributed revenue (operating grants and in-kind donations)
	Earned Revenue (**FP5958**)	Revenue resulting from all business activities
	Net Income (**FP1301**)	Net income from all business activities, including all contributed revenue.

**Each IRIS performance indicator has a standardized definition which enables consistent reporting by all IRIS users. Similarly, each IRIS indicator is assigned a unique identification number which provides stability even as the IRIS taxonomy is revised to reflect up-to-date performance reporting best practices.*

Table 1. KL Felicitas Foundation's Core IRIS Indicators

Because their portfolio also included "clusters" of investments within specific sectors, the Kleissners chose sector-specific IRIS performance indicators for these investments. These indicators are clustered in two groups: health, energy, and water; and land conservation and restoration (see Table 2).

To render a more holistic understanding of the impact of the foundation's investments, KL Felicitas also tracks very specific, and occasionally anecdotal, qualitative indicators from investees (see Table 3). Used in tandem with IRIS indicators, these indicators may help clarify some of the different forces at play that contribute to an investment's success or failure. Over the near term, around five years, the foundation plans to compare IRIS data with these qualitative indicators to determine if there is any correlation or causal relationship between the two. This three-pronged reporting framework will hopefully illustrate if and how KL Felicitas' investment helped an organization gain greater scale and social impact.

Investee Buy-In

KL Felicitas has many investments in funds, but it is also a direct investor in a number of social enterprises. The foundation is now engaged in discussions with each investee about its own use of IRIS as a reporting and monitoring tool, and is encouraging them to migrate to an IRIS-based system to measure the outputs of their work wherever possible.

As enterprises self-report IRIS data, entrepreneur buy-in is important for accurate and complete data collection and reporting. Indeed, for an investor like

IMPACT CLUSTER	KLF SUPPORTING IRIS INDICATORS	DESCRIPTION
HEALTH, ENERGY AND WATER*	Clients provided new access to energy, healthcare, water **PI2822**	Number of clients, individuals or households, who were served by the organization and provided access to products or services they were previously unable to access.
	Energy Produced **PI8706**	Energy produced during the reporting period (MWH)
	Potable Water Produced **PI8043**	Amount of potable water produced (L)
LAND CONSERVATION AND RESTORATION*	Land Reforested **PI4907**	Hectares of land reforested during the reporting period
	Land Preserved **PI2012**	Hectares of land designated as a nature reserve
	Sustainable Cultivated Land Area **OI2605**	Hectares under sustainable cultivation

**In order to accommodate impact investments made in a wide variety of sectors, the IRIS taxonomy includes sector-specific performance indicators related to agriculture, education, energy, environment, financial services, health, housing/community facilities, and water.*

Table 2. KL Felicitas's Sector-Specific IRIS Indicators

KLF QUALITATIVE IMPACT INDICATORS	DESCRIPTION
Catalytic Investment (Stage I)	Early stage investment that continues to second and third rounds. *Applicable Investments: Beartooth Capital, Microvest I*
Business Model Development and Innovation	Support to help test, develop and refine a business model for subsequent roll-out. *Applicable Investment: eHealthpoint*
Investment Combined with Grant Funding—Blended Capital	Equity investment or loan combined with grant capital provided by KLF. *Applicable Investments: Root Capital, E+Co*
Investment Combined with Public Support	Investment support goes alongside sizable publicly-sourced investment (e.g. public healthcare). *Applicable Investment: eHealthpoint*
Alignment with Foundation Core Values	Close alignment with one or more of the foundation's core values regarding sustainability, rural communities and scaling innovation for high social impact. *Applicable Investments: all current program-related investments*
Connect Beneficiaries with Capacity Building Tools	Provide various technical assistance and capacity building tools to the recipients of loans or investment support. *Applicable Investments: Dasra Social-Impact, Souther Bancorp, Root Capital, E+Co*

Table 3. KL Felicitas Qualitative Indicators

KL Felicitas, engaging investees makes reporting relevant for the organization's own impact measurement, thereby incentivizing completeness and accuracy. This engagement also helps the foundation achieve one of the IRIS initiative's goals for the industry—to reduce enterprises' reporting burden—by seeking to streamline the many reporting obligations of entrepreneurs with multiple funders.

To facilitate a smooth transition from existing reporting methods to IRIS, investee organizations must buy in to IRIS benefits. Rather than take a top-down approach by requiring investees to migrate to IRIS, KL Felicitas expresses three key benefits that may result from aligning impact indicators with the IRIS standards:

- Investees can differentiate themselves from other, similar enterprises by using a standardized language that removes the ambiguity of impact reporting. By using IRIS, any impact investor can immediately understand what an enterprise's outputs are, and how those outputs combine to render outcomes over time.
- Interpreted within a broad context, IRIS indicators help investors ascertain the value of an enterprise's outputs. Because IRIS defines outputs in certain specific terms, investors can calculate the unit cost of one output for any enterprise and across enterprises. In this way, enterprises can highlight a comparative advantage through cost efficiencies, greater economies of scale, or otherwise.
- IRIS occasionally provides an opportunity for an enterprise to significantly enhance its impact reporting. In KL Felicitas's experience, social enterprises often do not have the technical capacity or the financial resources to adequately measure impact, let alone develop the output indicators that most closely relate to the enterprises' intended outcomes. IRIS provides an elegant, easy-to-understand, and predefined set of impact indicators that an enterprise can adopt quickly and use readily.

For some enterprises in the KL Felicitas portfolio, IRIS migration appears to simplify impact reporting by reducing the number of indicators that are being tracked, or by requiring reporting only for indicators that closely relate to the organization's mission and strategic business goals. Once collected, KL Felicitas plans to share its portfolio IRIS data publicly, unless any investee objects, on the foundation's website, www.klfelicitasfoundation.org. The first data should be posted in the fourth quarter of 2011.

Next Steps

The KL Felicitas Foundation uses IRIS to more fully understand and illustrate the social, environmental, and financial impacts of its impact investing portfolio. It will also use IRIS indicators to evaluate additional investments and provide needed performance data to a growing community of impact investors. In the short term, the foundation intends to use its data as a comparison tool to help assess relative performance across investments. In the longer term, the foundation plans to compare trends within individual investments to determine if an investee is indeed expanding and scaling, and if so, at what rate. By contributing to a more definitive knowledge base of specific impact investment accomplishments, the Kleissners believe more resources can be channeled to social enterprises, with the desired outcome of increased social and environmental impact.

Some key components of the foundation's work moving forward are:

- Share IRIS output indicators with current investees and encourage reporting alignment wherever possible, helping investees to understand how IRIS can benefit them
- Collect a baseline of data from 2010 to serve as a benchmark for future internal monitoring and evaluation, using the data as a reference point to reveal trends over three to five years, and to evaluate similar investments
- Unless investees request otherwise, transparently share data externally on the foundation's website and among investor networks
- Continue long-term analysis and identify possible correlations between selected IRIS indicators and the foundation's qualitative indicators

LEVERAGING INVESTOR BEST PRACTICES INTO INDUSTRY-WIDE BENEFITS

Impact investors like the Kleissners, who have invested time in the adoption of IRIS, are helping build the infrastructure for future social performance measurement. The realized value of IRIS for early adopters such as KL Felicitas is central to spurring broader network effects for the industry. As in the experience of KL Felicitas, initial IRIS adoption may require up-front time for planning and implementation, as stakeholders select indicators and adopt them as a common language. However, many IRIS adopters have reported benefits to internal investment management and to investees. For example, technical assistance providers have noted that enterprises often find cost savings and strategic advantages when they begin the measurement process.

Direct investors may be intimidated by the time required to engage social enterprise investees in conversation about their selected IRIS indicators. However, failing to do so could hinder entrepreneur buy-in and data quality. While KL Felicitas expressed the IRIS value proposition in terms of credibility, output value measurement, and enhanced social reporting, other investors may identify different benefits for their investees, such as decreased reporting time if multiple stakeholders agree to a set of IRIS indicators, or the potential to attract additional capital through a credible, data-driven approach to articulating their performance. IRIS indicators are most beneficial when they accurately reflect organizations' business models and stated impact goals.

IRIS is gaining traction in its early stages as an industry standard. Such standards require that industry stakeholders all along the value chain find it useful and adopt it widely. The IRIS initiative's ambitious goals rely on early adopters like KL Felicitas to demonstrate to their peers that IRIS has intrinsic value, and that its value can increase with a wider network.

IRIS Performance Data Report: Initial Market Analysis and Intelligence

The IRIS initiative's initial traction has been demonstrated with the release of the first IRIS performance data report, which is available for download at www.iris.thegiin.org. The report is a significant milestone for the IRIS initiative, as it includes the first-ever analyses of aggregated performance data from a diverse set of organizations receiving and seeking impact investment capital. Performance data on more than 460 mission-driven businesses were submitted by six impact investment funds—Acumen Fund, E+Co, Grassroots Business Fund, IGNIA, Root Capital, and the Small Enterprise Assistance Funds—and technical assistance provider New Ventures. While IRIS data submission is voluntary, anonymous, and secure, these seven impact investment intermediaries elected to show their leadership to build support for the IRIS initiative by openly acknowledging their contributions.

Although it marks significant progress for the impact investing industry, the report does not reflect the IRIS initiative's full potential. The initial IRIS dataset represents only a fraction of the growing industry, and thus can reveal only limited findings and insights. The ultimate ability of this initiative to benefit the industry depends on the emergence of de facto standards. In the future, data sent for analysis to the IRIS initiative can help the impact investing community make better informed decisions, and lead to more efficient and effective use of impact investment capital.

Opportunities: The Role of Networks

Sharing and collaboration among investors can lead to co-investment deals that help social enterprises succeed and achieve long-term impact. In addition, investors can learn from case studies on impact investing, as profiled in this journal, and from the enterprises in their portfolios to improve impact measurement and reporting.

Recognizing the diversity of impact investors, the GIIN is working to foster an environment in which different types of funders can learn from each other. The GIIN Investors' Council is one such collaboration platform intended to bring together large-scale impact investors from around the globe. For example, impact investors at traditional finance institutions and development-focused organizations are beginning to share information to increase support for the social and environmental performance of their investees. In a new industry that merges social, environmental, and financial interests, this type of collaboration will ultimately benefit both investors and the mission-driven businesses they support. IRIS can help facilitate these partnerships by coordinating and standardizing previously proprietor-specific measurements.

Many investors are going beyond information-sharing and are beginning to form sector or impact-specific partnerships that benefit both investors and enterprises. In these partnerships, impact investors like KL Felicitas are willing to adjust expectations on financial returns in portions of their portfolio in order to achieve a greater impact. They take subordinated positions within impact investment deals in order to attract larger sums of co-investment capital from financially oriented investors. These hybrid deals are often unconventional, but they can help social entrepreneurs succeed by blending business knowledge and development expertise to support the enterprise with more capital and well-aligned impact expectations.

In addition to investment partnerships, networks of investors are beginning to organize around specific impact objectives. For example, the Kleissners formed a network of angel impact investors who aim to provide relatively small amounts of capital to very early-stage mission-driven enterprises. This network, called Toniic, is beginning to determine a set of core IRIS indicators, which its members will apply to the first 24 deals made by the group. Toniic aggregates capital through its membership network, helps create a pipeline of deals for impact investors looking for opportunities in more mature companies, and provides exit opportunities, which are often difficult to find for investors operating in isolation.

There is a need for industry associations like Toniic to help define which of the IRIS indicators are most relevant for specific sectors. For example, the MIX, the world's leading provider of microfinance data, has worked to ensure that the IRIS financial services performance indicators are aligned with the MIX taxonomy. In addition, ANDE, a global network of organizations helping to propel entrepreneurship in small and growing businesses in the developing world, is working with its members to determine which IRIS indicators are most relevant for measuring the success of mission-driven small and growing businesses.

Need for Supporting Industry Infrastructure

IRIS also provides a foundation for additional market infrastructure, such as GIIRS, which is operated by B Lab, a nonprofit organization whose mission is to create a new sector of the economy that harnesses the power of business to solve social and environmental problems. Leveraging relevant IRIS definitions for commonly reported performance metrics, GIIRS has developed a survey that provides social enterprises and impact investment funds with an impact rating, similar to Morningstar or Moody's in the mainstream financial markets. Both IRIS and GIIRS reduce the reporting burden for social enterprises that are funded by multiple investors. The IRIS tool simplifies the process of measuring what matters to key stakeholders. Whereas IRIS users previously may have created unique performance indicators for every portfolio company, users now have a library of industry standards that are continuously being vetted and used by investors and other expert stakeholders in the industry. IRIS users have noted that adopting IRIS has prepared them for getting GIIRS ratings and streamlined both processes, because the GIIRS survey uses many IRIS definitions in its questions about social and environmental performance.

In addition to products and tools that build on IRIS, there is a need to educate the next generation of professionals to gain experience with impact standards and ratings. Demand for trained experts in social reporting will increase as IRIS adoption and impact investing grow. Similar to what has happened in the mainstream financial accounting field, the professionalization of the impact accounting and analysis practice could grow to include environmental and social performance auditors trained to audit IRIS performance statements. This expertise would add credibility to impact reporting statements and ensure that the information included is accurate and complete.

There is also a significant opportunity for additional case studies and action-based research on impact investing. Lessons from IRIS data-collection processes in the field, challenges of adoption, examples of additional customization of reporting frameworks, and future analysis of aggregated performance data will further enhance the effectiveness of this industry. These also will provide ample opportunity to explore IRIS network effects and observe how a critical mass can create a de facto acceptance of the IRIS reporting standards.

CONCLUSION

Unlike the traditional investment industry's ecosystem of accepted reporting standards, measurement professionals, academics, and an expansive evidence base of financial performance, the impact investing ecosystem is still young, though rapidly evolving. At this point, it is uncertain which, if any, industry standards will emerge within the next few decades, and there will be more challenges as the number of stakeholders grows. However, early IRIS adopters like KL Felicitas have found IRIS useful internally, and they have found that it can benefit stakeholders throughout the impact investment value chain. Whether there are enough potential IRIS users to create the critical mass necessary to build a full ecosystem of tools and market intelligence depends on early adopters' willingness to share their experiences with IRIS and contribute to aggregated performance analyses. Indeed, the early industry value of IRIS adoption is realized not only through leading investors' demonstration of its utility, but also through the data and best practices they share to advance collective learning.

The network effects of widespread adoption of IRIS will increase the value proposition of IRIS to investors, social enterprises, and the industry as a whole. As stakeholders begin to coalesce around a set of standards and then track and make decisions based on these data, supporting linkages such as industry networks and organizations are needed to advance market intelligence and provide credible, standardized, and useful information. There is great potential for this industry to open a vast new pool of capital for the innovative enterprises working to address the world's most pressing social and environmental problems. Meeting this task will require a collective commitment across the industry to build an ecosystem that includes impact measurement systems, platforms for learning and collaboration, and mechanisms to increase the efficiency of social and environmental performance management so that effective enterprises receive the capital they need to scale their impact.

Acknowledgments

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1. Summaries of the IFRS Conceptual Framework for Financial Reporting 2010, published by Deloitte. Available at http://www.iasplus.com/standard/framewk.htm.
2. "Intermediary" refers to funds or technical assistance providers that work with a group of organizations. Data was collected directly from organizations by intermediaries, which in turn shared data with the IRIS initiative for analyses. "Organization" refers to profitable commercial enterprises whose products and services generate positive environmental and social results—especially those in emerging economies.
3. See Michael Katz and Carl Shapiro, "Network Externalities, Competition and Compatibility," *American Economic Review* 75, no. 3 (1985); and Jeffrey Rohlfs, "A Theory of Interdependent Demand for a Communications Service," *The Bell Journal of Economics and Management Science* 5, no. 1 (1974): 16-37.
4. "Outcomes" are changes or shifts in behaviors or social paradigms that are levers for impact. Definition adapted from the Catalog of Approaches to Impact Measurement: Assessing Social Impact in Private Ventures, Rockefeller Impact Investing Collaborative, 2008.
5. "Impact Investments: An Emerging Asset Class," J. P. Morgan Global Research, 2010.
6. A white paper detailing the use of IRIS in conjunction with the SROI method is available at http://iris.thegiin.org/materials/iris-and-social-return-investment.