An empirical study on measures relating to impact investing in South Africa

Boris Urban* and James George
Graduate School of Business Administration,
University of the Witwatersrand,
2 St. David’s Place, Parktown, Johannesburg,
2193 P.O. Box 98, Wits, 2050, South Africa
Email: boris.urban@wits.ac.za
Email: James.george@wits.ac.za
*Corresponding author

Abstract: Research shows that impact investing provides an opportunity for the creation of economic and social value that has the potential to improve the quality of life and make social progress. The need for robust impact measurement has become a reality, since the value that is generated through impact measurement is clear. The study provides a much needed account of current thinking about measuring the outcomes of impact investments in an emerging market context. The study takes place in South Africa, where metrics of social impact, innovativeness of solution, expandability/replicability and sustainability are empirically tested using survey data (n = 159). Results show that it is the twin factors of social impact and sustainability that influence growth. These findings highlight the importance of impact measurement especially when considering calls have been made to use a recognised metrics language in order to facilitate performance analysis.

Keywords: impact investing; social impact; innovativeness, sustainability; replicability; entrepreneurship; social enterprises; South Africa.


Biographical notes: Boris Urban has more than 30 years of academic and professional experience in business, where he has practiced, taught and researched, organisational behaviour, strategy and entrepreneurship. He was the first appointed Chair in Entrepreneurship at Wits and is a rated researcher.

James George is a PhD candidate at the Graduate School of Business Administration, University of the Witwatersrand and works as a Financial Manager.

1 Introduction

Society increasingly expects businesses to account for their social and environmental value, as they are embedded in society and its physical environment (Baker, 2011; Byerly, 2015). Considering the macro-level trends facing the world today, there seems to
be a discernible shift toward re-embedding economic and business activity in deeper social and environmental contexts from both the ‘rethinking business’ and social business perspectives (Nicholls, 2011; Tan et al., 2005; Urban, 2015). The traditional bifurcated view of economic versus social value has resulted in a reality where high financial returns are not reconciled with social, environmental, cultural, and ethical impacts (Bozesan, 2013; Fortune et al., 2016; Singh and Bodhanya, 2014; Urban and Kujinga, 2017).

Recognising such contextual challenges, scholars are looking beyond businesses as only having an economic component or Schumpeterian purpose, where entrepreneurs drive innovation and activate structural changes in an economy, but also recognise a social component (Bosma et al., 2012; Urban, 2015; Ziegler, 2010). For instance, Porter and Kramer (2011, p.66) suggest the principle of ‘shared value’, which is concerned with policies and operating practices that enhance the competitiveness of a business while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.

Impact investing is another response to the challenges facing society in the 21st century and attempts to create measurable positive impact beyond financial returns (Höchstädter and Scheck, 2015). Impact investing provides an opportunity for the creation of economic and social value that has the potential to improve the quality of life and make social progress. Impact investment has been termed ‘investing with purpose’ because of its pursuit for positive social change that is not driven through philanthropy. Instead, impact investing is about making profit-seeking investments, through traditional debt and equity instruments, while supporting firms that seek to change communities for the better (Bozesan, 2013).

Scholars note that impact investing is distinguished from traditional investments as it pursues both financial returns and intentionally addresses social and environmental challenges. Impact investing reintegrates the understanding of value as a non-divisible combination of economic, social and environmental elements (Bugg-Levine and Emerson, 2011; Höchstädter and Scheck, 2015). Some authors have even suggested that impact investing combines the often-opposed forces of capitalism and social justice to solve major social problems and generate financial returns (Porter and Kramer, 2011).

Impact investment, social enterprise, non-profit and philanthropic studies (Choi and Majumdar, 2014; Mirabella et al., 2007) are relatively new areas of study, and consequently the emphasis of most publications has tended to be centred on issues of definition with designs that rely on anecdotal evidence. Few of these publications focus on impact investment that incorporates an outcomes assessment of their activities (Jiao and Pham, 2011; Meyer and Gauthier, 2013). Over the past years, the industry has developed networks, standards, and policies but measurement standards that have always been abstract (Jackson, 2013). This is somewhat surprising when noting that this rapidly expanding sector of the economy is evolving without effective evaluation tools that can provide reliable measurement and impact assessment (Lyon and Fernandez, 2012; Roy, 2012). The need for a robust impact measurement convention has become a reality and the value that is created through impact measurement is clear (SIIT, 2014).

Recognising the gap in the literature this study provides a much needed account of current thinking about measuring the outcomes of impact investments. The evaluating for impact space represents a rising and significant part of the broader sustainability, non-governmental organisations (NGO’s) and social enterprise landscape (Vinaygathasan and Pallegedara, 2014). By empirically investigating various measures hypothesised to
influence enterprise growth, the study makes several contributions to the literature. The current study is one of the first in an African market context to investigate the perceived levels of social outcomes for impact investing. Current practices focus on readily available metrics rather than broad socio-economic indicators, creating a substantial lack of information around social impact (Roy, 2012; Urban, 2015). Moreover, few studies focus on impact investment that incorporates an impact assessment of their activities, particularly in an African context (Venter and Urban, 2015). Another contribution of the study is that it takes place in an under-researched (Bruton et al., 2008) emerging market context. In South Africa, social outcomes have unequivocal application where traditional government initiatives are unable to satisfy the entire social deficit, where challenges to non-profit accountability are acute, and where the survival of many NGO’s is at stake (Gugerty, 2010; Urban and Kujinga, 2017). Such challenges are exacerbated by a social context characterised by massive inequalities in education, housing, the HIV/AIDS pandemic, and high unemployment and poverty rates (Venter and Urban, 2015).

This article starts with a brief overview of the literature under investigation in order to substantiate the formulation of hypotheses. Survey data is then collected and statistically analysed to test the hypotheses. Results are analysed and interpreted, whereupon conclusions, limitations and future research areas are delineated.

2 Literature review

2.1 Substantiality and impact investing

According to the United Nations’ (Brundtland, 1987) Commission, sustainability is the ability to meet today’s needs and not disturb the future generation’s ability to meet their needs. It is concerned with how to foster societal and environmental development without disturbing and endangering the living conditions of humans (Sheehan et al., 2014). Many corporates in the developed world now have at the very least a sustainability or environmental policy, with increasing numbers explicitly addressing corporate social responsibility (CSR) issues in their strategic planning (Urban, 2015).

A critical review of the literature highlights the differences between impact investing and other related terms such as CSR, social responsible investment (SRI), environment social and governance (ESG), and traditional investing. Impact investing differs from traditional SRI where the focus is on identifying and avoiding big companies with perceived negative business practices or products (negative screening) (Brest and Born, 2013). Trovato (2014) however, argues that SRI screens out sectors to achieve financial return and avoid social harm. Impact investing, on the other hand, looks at investments that intentionally create a positive social impact. Other researchers indicate that impact investing seeks to solve social and/or environmental challenges proactively, while SRI seeks to improve corporate governance practices through ESG criteria (Venter and Urban, 2015).

The concept of investing to achieve social outcomes is not a new phenomenon (Höchstädtler and Scheck, 2015) where the origin of the term ‘impact investing’ can be traced to 2007 and 2008 Rockefeller Foundation meetings in Italy that focused on building an industry for investing in social and environmental impact (Jackson et al., 2012). Since its formation impact investing has been growing in recognition, prominence and size (Partridge, 2013). According to the Global Impact Investing Network (GIIN),
impact investments are funds that are given to social entrepreneurs with the intention of generating social, environmental and financial return. According to Höchstädter and Scheck (2015), practitioners define impact investing from various perspectives, namely cultural, developmental, economic, governance and social (environmental). Jackson (2013) describes impact investing as mobilisation of capital for investments, with the intention to generate positive social impact beyond financial return. Others see impact investing harnessing entrepreneurship, innovation and capital to empower social improvement (SIIT, 2014), while simultaneously redefining the role of business in society (Turker, 2009). Notwithstanding the different conceptualisations, all definitions of impact investing have in common the achievement of societal and environmental changes through capital investments.

Impact investing manifests across different asset classes and financial products including private equity, venture capital and debt (Greene, 2014). Jackson (2013) categorises impact investing according to classes of actors (asset owners, managers, demand-side and service providers), and assigns user roles to categorise impact investing. There are four major players in the impact investing field, namely fund owners or investors, fund managers, communities or beneficiaries and the service providers who usually assist fund managers and communities by providing services to them (Jackson, 2013). Investors measure and consider investment options across asset classes, whilst fund managers monitor and evaluate their operations. Impact investors propose and implement private debt deals, and avail loans, guarantees and other debt instruments as well as equity and quasi-equity, to fund managers and organisations whose aim is to support the disadvantaged with affordable products, jobs, income, and services, such as food, health care, housing, education, energy and environmental protection (Brest and Born, 2013; Jackson, 2013; Venter and Urban, 2015).

In South Africa, impact investing is characterised by three major sub-sectors: capital markets, the banking sector and other non-bank financial institutions. The South African banking sector is the dominant sub-sector of the financial sector in South Africa, which is similar to other developing economies. The South African banking sector aligns itself with impact investments to support sustained economic growth, development and social transformation in South Africa. Likewise, impact investing affords the South African banking sector an opportunity to use the investments to achieve financial sector charter goals. The South African financial sector charter seeks an equitable society in terms of broadening access and directing investment into targeted sectors of the economy. Banking institutions in South Africa often act as the major intermediaries and transformers of funds, channelling such funds towards efficient use, including social value creation (Maredza and Ikhide, 2013).

2.2 Impact investing measures

Despite the proliferation of literature on impact investing, it has been noted that the industry still lacks consistency and transparency on how fund managers define, compare, measure and report on social impact. For instance one organisation might include part time jobs when measuring job creation whilst another will only include full time jobs (Stubert, 2013). Impact measurement is vital to the field of impact investing in order to legitimise the industry, as effective impact measurement brings about value for all role players, mobilises capital, and brings about transparency and accountability (SIIT, 2014). Impact investing, as a new form of investing, requires new ways of measuring its returns.
An empirical study on measures relating to impact investing in South Africa

According to Bugg-Levine and Emerson (2011), such measurement should track multiple returns of the investment. While impact investing typically measures profit in terms of financial and quantifiable social metrics (Urban, 2015), investors argue for lowering of risk while increasing internal rate of return and measurable positive impact (social and environmental). Internal rate of return and measurable positive social impact then become the ultimate goal (maximisation of profit and social wealth for the shareholders and the society). Ideally, social impact should be equal to or better than financial return (SIIT, 2014).

The impact reporting and investment standards (IRIS) instrument is the catalog of generally accepted performance metrics that leading impact investors use to measure the social, environmental, and financial performance of their investments. Currently, 4,989 organisations from 148 countries report their social and environmental performance to the IRIS initiative. Some organisations report social impact objectives, such as improvements in healthcare services, access to financial services, access to clean water, and employment generation, while others report targeting environmental objectives such as sustainable land use, natural resource conservation, pollution prevention, and biodiversity conservation. A third category of organisations aims to achieve both types of reporting objectives (GIIN, 2015).

There are many different types of outcomes that an enterprise may manifest but there are two main fundamental impacts (Brest and Born, 2013). Product impact: these are goods and services produced by the enterprise. Examples of these goods and services include, clean water, sanitation, malaria safety nets, medication, etc. The other type of impact is the operational impact which is the management practices of the enterprise on its employees’ health and economic security, as well as its effect on jobs and the well being of the communities in which it operates. These impacts are categorised as ‘outputs’ which are products and services produced by an enterprise and ‘outcomes’ will then be the effect of the outputs in improving communities (Brest and Born, 2013; Kramer, 2005).

Recognising the differing objectives measures, impact investment is considered to have an impact only if it increases in numbers and in quality of the enterprise’s social outcomes, above what would have occurred (Brest and Born, 2013). Nicholls (2011) agrees with the notion that social entrepreneurs use social impact reporting, to build legitimacy, performance and access resources. Previous research has also shown that enterprise growth means that more jobs are going to be created, and this will result in people’s lives being improved (Venter and Urban, 2015). Social enterprise growth, like any other growth of an enterprise, can impact profitability through increased revenue, reduction of costs and economies of scale. Social enterprises also pursue growth to increase profits by growing market share and by facing competition, just like conventional companies. However, for many social entrepreneurs, their value creation is not gauged by how much profit they make, nor by how much they grow, but by the social impact made (Jackson, 2013; Peredo and Chrisman, 2006).

According to impact measurement guidelines, developed by a working group on impact measurement, an important first step is to define a theory of value creation so as to ensure the resulting investment approach is proportionate, in terms of strategy and resources, as well as to the impact it intends to create (SIIT, 2013). Some of the guidelines proposed include: evaluate the baseline impact of the investee business model and of its operations, following an appropriate and recognised assessment system;
develop a logical framework for impact measurement that is based on goals, assesses both positive and negative impacts, and informs sound analysis and data organisation; use a recognised metrics language where possible to facilitate broadly understood performance analysis; when appropriate, focus on those metrics that enable investment comparisons for analogous investments; and select meaningful metrics that align to investor goals and investee business models, taking into account what is proportionate and material. Moreover, an effective impact framework outlines how specific metrics are used across the entire impact measurement process and also acknowledges the needs and perspectives of various stakeholders (SIIT, 2013).

Recognising such common practices with regard to impact investing, four ‘metrics’ are used in the current study which will hopefully facilitate a better assessment for evaluating impact investing. These broad outcomes are briefly delineated and discussed to indicate their underpinning in the hypotheses, in terms of:

1. social impact
2. innovativeness of solution
3. expandability/replicability
4. sustainability (McLoughlin et al., 2009; Kramer, 2005; Urban, 2015).

2.2.1 Social impact

Impact in this context, is defined according to the organisation’s goals and the social problems it seeks to address. Organisations that have recorded levels of social impact for the good are usually those that have been able to clearly define and articulate their social and environmental goals. Moreover research indicates that such organisations have the potential to grow in size and capacity to impact more societies (Tan et al., 2005).

Measuring social impact can assist social organisations to prove to communities, donors, civil society and government that their operations and projects are benefiting the communities (Venter and Urban, 2015). It means that they will have set their priorities right and clearly communicated organisational objectives to their staff members, who in turn are empowered to act decisively on measures. Following prior empirical evidence in the first instance it is hypothesised that:

Hypothesis 1 There is a positive relationship between higher levels of social impact and growth in terms of impact investing.

2.2.2 Innovativeness

Social innovation involves carrying out new combinations and developing capabilities to uncover social innovations that can change people’s lives (Ziegler, 2010). Business innovation is market driven (Gulev, 2016) whereas social innovation has human needs as its focus. Social innovation is conceptualised as more ambiguous and complex than conventional innovation as applied by commercial ventures, due to the higher number of stakeholders having different interests, value sets and priorities (Lettice and Parekh, 2010). Social innovation is an interactive process that brings forth new knowledge and capabilities which in turn, will be used to generate new business ideas and grow the organisation (Ziegler, 2010). Following such a line of reasoning it is anticipated that:
Hypothesis 2 There is a positive relationship between higher levels of innovativeness and growth in terms of impact investing.

2.2.3 Replicability

Investors and managers of social organisations are eager to take a solution that has worked to solve a social problem somewhere, and then scale it up so that it becomes wider. Social organisations replicate their ideas to widen their impact as well as to expand their business (Urban, 2015). Replicability and innovation usually work hand in hand meaning that organisations have to come up with innovative solutions for them to be able replicate solutions that worked somewhere else. There are many methods of replicability or scalability, franchising being the most common one. Franchising is when another organisation is allowed to operate using the same brand as the first organisation including the name, logo, mission, strategies and objectives (Dees, 2004). Based on these findings links are anticipated insofar:

Hypothesis 3 There is a positive relationship between higher levels of replicability and growth in terms of impact investing.

2.2.4 Sustainability

Social enterprises, globally, are adopting business-like strategies to empower societies and increase their chances of having lasting or sustainable social impact (Dees and Anderson, 2003). Organisations are considered sustainable when they properly manage their human, financial, manufactured and natural capitals within the society from which they operate, while adopting business-like strategies to empower societies and increase their chances of having a sustainable social impact (Dees and Anderson, 2003). Investors are driven to sustainable investing when the characteristics of the return on investment can be improved by factoring in sustainability into the investment decision. Considering that sustainable investing and the study thereof is a growing phenomenon and it is growing even faster than the investment industry as a whole, in the last instance it is hypothesised that.

Hypothesis 4 There is a positive relationship between higher levels of sustainability and growth in terms of impact investing.

3 Methodology

The context of this study is the impact investing industry. The sampling frame of the study is derived from a population of the South African impact investment network membership listings (SAIIN, 2015). Additionally the sampling frame included a global organisation aimed at strengthening developing countries’ capacities in monitoring, evaluation and performance management to support a focus on results and evidence-based decision-making – the monitoring and evaluation centre (CLEAR, 2017) which is situated in a major South African university.
A cross-sectional research design was adopted using an online self-administered survey to collect primary data. The unit of analysis was the individual as they typically hold some levels of decision-making power, and are engaged in strategic discussions for their respective organisations. A written request was submitted to the relevant organisational regional head office to obtain necessary permission for staff to participate and administer the survey. Based on the population size an electronic survey yielded a total of 518 qualifying individuals which were coded into a database where a random numbers program was applied to randomly select individuals across organisations. This multistage screening rendered a final sample of 159 complete responses, yielding a 30.7 percent response rate. This was regarded as a reasonable response rate, given that a number of emails did not reach the recipients presumably due staff mobility, error in capturing email addresses, and/or strict email policy among the organisations surveyed (Cooper and Schindler, 2011). To ensure sufficient variability and a high regional representativeness, the survey was evenly distributed among the four major cosmopolitan provinces of South Africa: Cape Town, Durban, Johannesburg and Pretoria.

Sampling characteristics reveal that 52.83% of respondents were male and 41.53% were female, while 38.93% were in the 20–29 years old category and 33.96% in the 30–39 age category. The majority of respondents (46.54%) have a completed a diploma or degree whilst a further 16.35% have a postgraduate qualification.

Care was taken to ensure clarity in measurement terminology and to ensure that the items of the questionnaire addressed the hypotheses. Existing instruments were scrutinised for suitability and the following items were used for constructing the instruments for this study. All items were measured with five-point Likert scales ranging from strongly agree (five) to strongly disagree (one). For the independent variables (IV), several evaluation measures used in the field of social enterprises (Innobasque, 2013; Urban, 2015) were scrutinised for suitability of use: these included the SROI index (Roy, 2012), the Skoll Foundation measuring innovation measures (Kramer, 2005), the Canadian centre for social entrepreneurship measures (Johnson, 2003), and the social impact measures from the centre for the advancement of social entrepreneurship (Dees et al., 2002). In the final instance measures from each of these sources were selected that best encapsulate the themes and areas of impact investing and included the dimensions of social impact (four items), innovation (three items), replicability (three items) and sustainability (four items).

Growth as the dependent variable (DV) was captured using a mixed approach as successful organisations achieve high performance both in sales growth and profitability, with different developmental pathways (Murphy et al., 1996). Following past studies (Dahlqvist et al., 2000; Steffens et al., 2009), a composite of four commonly used performance measures pertaining to growth were used (eight items). Growth was treated as a perceptive measure for the past three years (performance over three years is broad enough time-space to account for seasonal and cyclical variations in business practices and performance). Absolute growth was simply computed as the size at one year minus the size of the previous year. These growth indicators have been shown to have acceptable criterion-related validity using a range of both categorical and continuous criterion variables (Steffens et al., 2009).

Statistical programs – SAS and SPSS software were used to analyse the data. Correlation, covariance and multiple regression models were employed to analyse the data in order to determine the predicted relationships between the specified variables (Cooper and Schindler, 2011). Since the study uses self-reporting measures at one point
in time, common method bias may influence the results and conclusions. A number of procedural and statistical steps were taken to minimise this risk. Procedurally, in order to reduce socially desirable responses and item ambiguity, the questionnaire featured specific, clear, concise items, with a ‘counter-balanced’ question order, and the respondents could choose to remain completely anonymous (Podsakoff et al., 2003). Statistically, to ensure rigor in the results all items relating to the IV and DV variables were explored in a single principal component analysis (PCA), using Harman’s one-factor test (Podsakoff et al., 2003) to check if one component accounted for most of the variance. Five components with eigenvalues greater than 1.0 were detected, which accounted for 66% of the variance. The largest component accounted for only 14%. These results suggest that common method bias was not identified and is not a serious concern in this study.

4 Results and discussion

4.1 Instrument validity and reliability

Exploratory factor analysis (EFA) using the principal axis factoring with Harris-Kaiser rotation was used to assess the construct validity of the instrument. To test for construct validity first the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett’s test of sphericity were calculated. All the measures had KMO values greater than the minimum required value of 0.5 with significant p-values. Social impact = 0.735; innovation = 0.718; replicability = 0.505 (borderline case accepted); sustainability = 0.669; growth = 0.832. For all the constructs, the probability associated with Barlett’s test was p < .001. Eigenvalues greater than one and factor loadings of ≥ 0.7 were regarded as significant (Hair et al., 2010). Consequently, all items within the original hypothesised constructs were retained. Scale reliabilities were calculated using Cronbach’s alpha (Nunnally, 1978) for internal consistency and satisfactory results were obtained (> .70) in terms of: social impact = 0.898; innovation = 0.843; replicability = 0.872; sustainability = 0.772; growth = 0.919. Comparisons of means tests were conducted to evaluate the effects of single control variables on growth in isolation to other control variables, with no significant results detected. Similarly, individual one-way ANOVA tests did not find any statistical differences in growth between any of the control variables expect for one category of age group (30–39 years old).

4.2 Descriptive and correlational analysis

Table 1 shows the descriptive statistics for the summated scales and the Pearson correlation coefficients of the factors. In terms of the growth indicators, a perceptive measure of a eight commonly used performance measures was used covering the past three years and showed the following mean scores:

1. Enterprise has grown in terms of sales in the past years = 3.764.
2. Enterprise has grown in terms of employees in the past years = 3.664.
3. Enterprise’s net income margins have grown in the past years = 3.716.
4. Enterprise market share has improved in the last two years = 3.647.
5. Enterprise labour expense has grown in relation to sales revenue = 3.711.
6. Enterprise balance sheet has increased, in relation to net of assets and liabilities = 3.728.
7. In the event of a severe crisis, our enterprise will survive, we manage our liquidity = 3.841.
8. Since we started, the enterprise’s has always recorded net profits = 3.307.

Research evidence supports the fact that there is a high level of consistency between perception and actual objective firm performance measures (Poon et al., 2006).

A summated scale for each construct was computed by calculating the average of the items within the construct. The overall mean scores for the main constructs under study were relatively high, where the mean is the midpoint average on the 1–5 Likert scale. Pearson correlations coefficients were highest between innovativeness and replicability (r = 0.784), sustainability and growth (r = 0.411), and social impact and growth (r = 0.712). Several additional inter-correlations between the factors were noted however there were no extremely high correlations among the IV (>.9), which mitigates issues of multicollinearity (Cooper and Schindler, 2011).

Table 1  Descriptives statistics and Pearson’s correlations for all factors

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Social impact</td>
<td>3.975</td>
<td>0.988</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Innovativeness</td>
<td>3.534</td>
<td>1.012</td>
<td></td>
<td>.287**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Replicability</td>
<td>3.619</td>
<td>0.991</td>
<td>.365**</td>
<td>.784**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Sustainability</td>
<td>3.997</td>
<td>0.878</td>
<td>.365**</td>
<td>.360**</td>
<td>.158*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5 Growth</td>
<td>3.466</td>
<td>0.917</td>
<td>.393**</td>
<td>.324**</td>
<td>.311**</td>
<td>.411**</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: **.Correlation is significant at the 0.01 level (2-tailed). *.Correlation is significant at the 0.05 level (2-tailed).

Source: Author’s research data derived through survey data

4.3 Hypothesis testing

Table 2 shows multiple regression results where in the ANOVA section a significant F-score of 11.352 (p < 0.001) was obtained. However considering the limited amount of variance (adjusted R square = 21.9%) explained by the IV means that the predictive and explanatory power of this model is limited and a fair amount of work needs to be conducted to further understand the influence of social outcomes on growth. In terms of the coefficients, only two of the four predictors have a positive and significant relationship with growth, namely social impact (t = 2.354; p = 0.02) and sustainability (t = 3.179; p = 0.002). This means that hypothesis 1 and 4 are supported, while the empirical evidence cannot support hypothesis 2 and 3.
An empirical study on measures relating to impact investing in South Africa

Table 2  Multiple regression results: growth as the DV

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.490</td>
<td>0.240</td>
<td>0.219</td>
<td>0.59679</td>
</tr>
</tbody>
</table>

a. Predictors: (constant), sustainability, replicability, social impact, innovativeness

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4</td>
<td>4.043</td>
<td>11.352</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>144</td>
<td>0.356</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>148</td>
<td>67.460</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent variable: growth
b. Predictors: (constant), sustainability, replicability, social impact, innovativeness

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised coefficients</th>
<th>Standardised coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant) 1.664</td>
<td>0.315</td>
<td>5.289</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Social impact 0.145</td>
<td>0.062</td>
<td>0.196</td>
<td>2.354</td>
</tr>
<tr>
<td></td>
<td>Innovativeness 0.041</td>
<td>0.092</td>
<td>0.056</td>
<td>0.441</td>
</tr>
<tr>
<td></td>
<td>Replicability 0.099</td>
<td>0.082</td>
<td>0.151</td>
<td>1.212</td>
</tr>
<tr>
<td></td>
<td>Sustainability 0.281</td>
<td>0.088</td>
<td>0.27</td>
<td>3.179</td>
</tr>
</tbody>
</table>

a. Dependent variable: growth

Source: Author’s research data derived through survey data

The positive and significant finding in terms of higher levels of social impact and growth is in line with prior studies where tangible results show that impact influences people’s lives and leads to growth of enterprise activities which can then become widespread and span several communities (Urban, 2015). A plausible reason for this relationship is that the growth process is likely to be driven by increased demand for the enterprise's offerings or services. That is, demand increases first, thus allowing for the acquisition of additional resources such as employees. It seems likely that as growth increases so does the need to demonstrate impact increase, and perhaps competencies to ‘showcase’ impact are also developed as growth occurs. Social enterprises need to be accountable to their funders and donors, as well as to the communities to whom they present their products and services. Consequently, it is argued they must develop learning capabilities to showcase their social impact. Research confirms that one of the more critical challenges faced by a social enterprise is the measurement of their social impact (Nicholls, 2011). Social impact affects the ways in which people live, work, play, relate to one another, organise to meet their needs and generally cope as members of society. Impact also
includes cultural impacts involving changes to the norms, values, and beliefs that guide and rationalise their cognition of themselves and their society (UN, 2006).

Similarly the positive and significant finding between higher levels of sustainability and growth reflects the literature which confirms that social enterprises are seeking sustainable solutions in order to remain relevant and grow (Dees and Anderson, 2003). The nexus between financial sustainability and need has evolved with organisations such as the National Centre for Social Entrepreneurs which developed a mission/market/money matrix to help social enterprises establish whether their intended venture or project is financially sustainable, while at the same time in keeping with its core mission (Venter and Urban, 2015). Although research supports the notion that sustainable enterprises have a team of individuals with solid entrepreneurial and management skills, it is competency in a variety of skills contributes to the sustainability of an enterprise (Urban, 2015). However, when considering that social enterprises tend to be highly creative and innovative, replication can be much more difficult to achieve which is perhaps why few social enterprises are truly sustainable without the support of the founder, unless a skilled team is developed. It is also worth noting that the definition of sustainability in the NGO sector is quite different from the for-profit sector, with the advocacy of sustainability versus stability being contentious in view of organisations having sustainable finances, but no community support and therefore probably not sustainable (Johnson, 2003). Notwithstanding such controversies, the boundaries between the impact investing and traditional capital markets are becoming blurred as many actors in the latter are showing an interest to integrate impact investments into their portfolios and services (SIIT, 2014), consequently demonstrating impact and sustainability remain a core issue for any type of organisation.

Counterintuitive results were obtained for the innovation and replicability dimensions, as they did not relate to growth of impact investing. This is somewhat surprising considering that replicability and innovation usually work hand in hand to widen social impact as well as to grow social ventures (Urban, 2015). Creating new products or services, or new ways of delivery are required by social enterprises to satisfy the needs embedded in the social market specifically in the process bringing about social change (Mair and Marti, 2006). Considering that capital markets work best when all relevant parties can quantify and agree upon the financial value of a good being traded, a plausible explanation for the non-significant results on these dimensions may be explained by such an apparent lack of quantification. As research notes the financial value of the social outcomes achieved by impact investments is not as easily quantifiable (SIIT, 2014).

Much has been written on impact investing in developing economies in regions like Latin America, Africa, Asia, Middle East and Eastern Europe and countries such as India, Kenya, Mexico, Columbia and Peru (Darragh and Aman, 2012). Similar to the current study, many enterprises operating in Africa face challenges around elements of impact measurement, including data collection and lack of publically-available data for counterfactuals (SIIT, 2014). Studies looking at different types of social enterprises, report that those in developing countries, such as Africa, form the lowest proportion of total social enterprise activity (less than 30%) as opposed to more developed economies like the US and European countries where social enterprises are more prevalent (Terjesen et al., 2011). A plausible reason for this discrepancy may be that individuals in richer countries, having satisfied their own basic needs, may be more likely to turn to the needs of others. In other words, the opportunity cost of impact investing may be higher in
developing countries. On the other hand, social and environmental problems are often more prevalent in developing countries (Urban, 2015), and as the current study shows higher levels of social impact and sustainability are relevant to enterprise growth.

Principally the results also have contextual relevance not only in South Africa, which is currently beset by many social inequalities, but also in other similar contexts. Social and economic conditions in most African countries remain fragile and hence impact investment could play an essential role in supporting social development in these economies. Economic growth in emerging countries is often accompanied by modest social progress with minimum impact on poverty, unemployment and inequality. Generalising the current study results may prove valuable as impact investing can deliver results for international development as it aligns different sources of capital and expertise to tackle complex social challenges (GIIN, 2015; SIIT, 2014).

5 Conclusion and implications

The evaluating for impact investment space represents a new and significant part of the broader sustainability landscape, and this study has made a contribution to the literature by highlighting the importance of measuring the outcomes of impact investments. Recognising the lack of available metrics measuring meaningful social outcomes, this study provided empirical evidence on the relationship between sustainability, replicability, social impact, innovativeness and growth. Based on the empirical evidence, the most important metrics by the current study sample relating to growth were social impact and sustainability. These results translate into impact investors needing to look for the most effective methods of investing in social enterprises by evaluating their initiatives in terms of the social outcomes as conceptualised in the current study. Today NGOs and social enterprises are operating in a highly competitive environment characterised by tighter financial restrictions, with several organisations vying for the same donor funds (Weerawardena and Mort, 2006). Moreover, these enterprises are facing intensifying demands for improved effectiveness and sustainability in light of diminishing funding from traditional sources.

By demonstrating solid impact and sustainability, social enterprises can develop capacity and add value to meet the needs of groups who have been failed by previous government attempts in social redress. Moreover, the success of impact investing hinges largely on the environment within which it takes place and impact-investing ecosystems require a network of different role players and intermediaries. Consequently, gathering comparable data can be a complex process, especially when an investor seeks to compare performance at a later-stage outcome or impact level as well as across issue areas, sectors, markets and regions (SIIT, 2014).

The study has important implications, as there is need to analyse impact investing in an emerging market context as social interventions which can be measured offer the promise of empowering marginalised segments of the population in these economies. Hence it can be argued that impact investors and social enterprises may find it worthwhile to approach the public sector as a potential partner rather than a competitor in the delivery of key services. Impact investors cannot afford to isolate themselves from other key actors, but must actively search for opportunities to cooperate with and actively support their partners (Brest and Born, 2013). Impact investors and fund managers may
benefit from the findings of this study as it shows the effect of the measurement metrics that bring about higher levels of growth for impact investing. Depending on which metric that each project is strong in, management can now make an informed choice on which metric to concentrate on to increase growth. Further, practical implications of this study are that fund managers need to be transparent in their reporting if they want to grow their initiatives. They need to declare how much social impact they are having on the societies, how innovative they are, how their initiatives are replicable and lastly, how sustainable they are, in order to attract investments.

The study is not without limitations as no official or comprehensive data-base is yet available on impact investing and social enterprises in South Africa. This makes any generalisability of the results risky as no comprehensive population and sampling frame could be identified. Additionally, the study has typical survey design limitations in that survey data are self-reported and the study is prone to self-serving bias. Many of the limitations of this study afford interesting opportunities for future work. Based on the cross-sectional nature of this study, which loses the dynamic aspects of social outcomes as they may well change over time with focused reform measures, future research should aim for a longitudinal study to provide further insights and causal inferences into the relationship between these social outcomes and varied performance measures.

References


