

The External Rate of Return: an inclusive, transparent platform for measuring the overall impact of business activities upon the economy and society in general

There is increasing ubiquity in considering the ‘impact’ business has on people and places. Environmental, social and governance (ESG) issues are mapped by corporations, ‘social enterprises’ are abounding, governments are launching ‘social impact bonds’ and there is integration of ESG considerations into financial analyses by traditional investors. Even archetypal profit-focused investment banks, including Goldman Sachs and Morgan Stanley, include ESG and impact activities in their business. The notion of the social impact of business has become so mainstream that government at the highest levels – including G8 leaders and even the Pope – advocate the creation of institutions to give greater attention to driving social impact.

Along with these efforts aimed at sustainable, responsible business, there has been a rise in the tools available for measuring the social impact of business – to the tune of more than 150 impact assessment methods. The strengths of these methods are their ability to measure social impact through their usability, inclusiveness and ability to demonstrate – and enhance – value.

Despite these advances, the social impact assessment landscape is missing a platform that allows users to input and share their information in a truly transparent, comparative manner. Above all, four limitations beset existing social impact assessment methodologies:

- First, existing methods focus too much on ESG and social enterprises, underplaying the role of business activity and related financial, employment and other gains as part of an overall social impact.
- Second, methods are designed to measure outcomes pre-prescribed by the investor, often orientated to the new investing activity rather than measuring a greater or broader holistic impact.
- Third, much greater accessibility and transparency are needed.
- Fourth, there is a tendency to focus on social enterprises when measuring impact.

In an effort to move impact assessment forward, we propose a holistic, transparent platform – called the External Rate of Return (ERR). Our aim is to develop the ERR platform to be *the* destination for companies and stakeholders to engage in discussions and assessments about the impact of companies, and new activities of those companies, around the globe. The ERR is intended for all companies, not only social enterprises, and not only for companies with ESG departments or investors pursuing an impact investing approach. Through the ERR, enterprises and investors will be able to converge on using a singular, holistic platform that does not judge, silo or reduce economic and social impact inputs.

The ERR would have a social character rather than being merely a repository of company information or industry best practices. To enable its fundamentally social nature and promote a space where “social pressure” helps to build more transparent and accountable business activities, we propose the following means to achieve an ERR score. Companies directly engage with the public by proactively sharing their processes and data for each of the aspects

of the platform. In addition to providing their qualitative insights, companies would propose to quantify their score for each indicator within the five proposed vectors: Company, Suppliers, Customers, Society and Environment.

ERR platform users – across the public at large – could then comment on the scoring and provide an alternative score. Users’ rationale for an alternative score would be transparently displayed alongside the score designated by the company. This side-by-side comparison of scores would allow the company, members of the public, its suppliers, customers, and other stakeholders to engage in an ongoing conversation about the economic and social impact of the company in an informed, area-specific manner.

The crowdsourcing of impact scoring would add to the viral nature of the assessment method; rather than yet another assessment method that suggests a ranking, the ERR would be *the platform* for companies and external stakeholders to share information about the impact of their activities. Above all, the ERR will enable an ongoing dialogue across the global community about the myriad ways business activities affect people and places.

The below diagram visualizes the areas covered by the ERR and highlights some of our proposed indicators. The design is that of ripples in water as business activities have numerous impacts, inside the company, on the suppliers and customers, and on broader society and the environment.

