Measuring Social Value: Moving from the messy middle to simple, standard and satisfying.

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Introduction

The blended value concept holds that blended value organizations, and those who invest in them using social finance instruments, deliver financial, social and environmental benefits to society with emphasis on the social and the environmental and less on the financial (Emerson and Bonini 2003). It is this emphasis on social and environmental outcomes that distinguishes blended value organizations from the traditional business model. Blended value organizations face challenges in accounting for the social and environmental outcomes, most particularly for the social outcomes (Geobey, Westly and Weber 2011). As long as all the values in the 'blend' cannot be fully accounted for, then blended value organizations exist in concept and perhaps in practice but with only weak evidence that they are indeed delivering financial, environmental and social benefits as intended.

The most obvious form of blended value organization is the social enterprise; an enterprise that delivers social/environmental impact while generating revenue from business activity. These organizations are primary drivers for social metrics; so too are social finance investors. Social finance investors make investments to get blended returns. It is the blended value organizations and investors that make up the majority of the demand side for social metrics. Without the metrics to measure all types of returns it is hard to know if the outcomes that are intended from the investment are being produced. Without social metrics, blended value investments are more like mushy, mixed-mode money movement that is a cross between a donation and an investment.

Response to the demand for social metrics has been the creation of a multitude of tools, approaches, methods and practices; that is what exists on the supply side of this social metrics landscape. The response does not connect often enough with the demand side and vise versa; creating the messy middle.

The current situation where social metrics are weak and uncoordinated undermines the blended value potential and that is disappointing. Opportunities to improve social metrics are the next big hurdle (Bugg-Levine and Emerson 2011) to growing the blended value into a more significant practice.

Demand and Supply Side of Social Metrics

The practice of measuring social value, or social metrics, is an emerging field that involves not-for-profits (NFPs), social finance investors, social enterprises, corporations and governments. As an emerging field social metrics is challenged with messy definitions, disconnects between supply and demand and inefficiencies that are frustrating the next steps in this emerging and important area. The demand for social metrics comes from organizations in the social sector who want to use measurement of social impact to, primarily, attract funders and improve operations, although other uses and benefits of social metrics have been identified (Hebb 2011, Robertson 2012).

The drivers on the demand side, the funders and social investors and the social entrepreneurs, contribute to the confusion and put hurdles in the way of a clear path forward; largely because there is no unified tool or approach to social metrics. Metrics tools are frequently created for the use of a single funder or investor, often proprietary (Bugg-Levine and Emerson 2011) making it a resource drain to generate the required information for multiple funders and/or social finance investors. For the organizations that have to spend resources to collect, analyze and report outcomes and impact metrics it has to be worth it – it has to result in more funding/investment or improve organizational effectiveness.

On the supply side, where the tools and methods for measuring and reporting social outcomes are found, there is a great number of approaches, tools and methodologies that promise to meet measurement and reporting needs (Hebb 2012, Hagerman 2007). Inefficiencies created by the 'messy middle', in the practice of social metrics are increasing costs for organizations and creating barriers to social finance and social enterprise. Blended value concept guru Emerson reflected recently on the situation: "Unfortunately, the poor state of measurement practice continues to threaten to undermine the impact investing industry."

(Bugg-Levine and Emerson 2011 p. 173). This paper makes the case that the next step in this emerging field has to be a move toward a unified approach and a single tool for measuring social impact that will satisfy the demand and the supply side of the social metrics landscape.

Moving out of the messy middle

Building a unified tool will require the collective effort of a number of different actors – social metrics practitioners, organizations that deliver social outcomes, social investors, social entrepreneurs and an umbrella or backbone/network organization that can serve as the coordinating point for all these actors. Governments may have a role, but they would need to find a clear incentive and obvious benefit during this time of austerity. Missing from the landscape is the space where this can happen and a primary driver to get us there and help to create the space. Whoever the convener is of the key players, and vast amount of relevant information, the objective will have to be to develop a tool that is simple, satisfactory and standard. From this analysis of the supply and demand side of social metrics the following five essential necessary components are proposed.

1. Develop a clear Theory of Change

Only 20% of NFP executives in a response to a survey on social metrics use, had experience developing a theory of change (Slater 2011); a tool considered a best practice by many in the field of social impact assessment and the basis for many of the tools such as Social Return on Investment (SROI). Indeed the findings of a survey of SROI users, mostly in Alberta, one of the primary benefits for using SROI was that it helped them to develop an evidence-based theory of change for the program. Respondents to that study noted that the exercise of developing an SROI helped them to describe the change that clients experienced as a result of the program and also increased knowledge of the relative importance of changes experienced (Robertson 2012).

A good story, that exemplifies the theory of change, can be a good proxy for performance at least in the initial stages and in lieu of more rigorous metrics. “Making storytelling an integral part of a social financing strategy can build a culture of impact reporting into a new project’s DNA.” (Geobey, Westly and Weber 2011 p. 17) A good story and the evidence-based theory of change upon which it is built is at least a fundamental starting point to understand what will be achieved by action and resources committed to the project; those that are the inputs for achieving the outcomes and impact.

2. Measure outcomes and impact

Using the blended value proposition as a basis, a unified measurement tool would have the primary purpose to measure outcomes and impact. The measurement of outcomes and impact is the basis for the development of an impact risk profile where the intention is to assess the risk of achieving a “quantity” of impact. Outcomes and impact measurement is the primary information that will form the basis of a risk assessment for social ventures. Impact measurement has to be comparable over time for a single organization and be comparable between organizations, making reasonable and informed comparison possible and risk analysis possible.

It is also essential that a tool be capable of forecast and evaluation – predicting expected impact and assessing impact achieved. Forecasting means the tool has to be able to use evidence to develop and predict impact with some accuracy and place a value on that impact. That is fundamental to risk assessment. Evaluation at the end of the project may be a good starting point and has had some success among social investors (Hagerman 2007). Looking back and assessing the actual impact and value will continue to provide investors and entrepreneurs with a feedback loop and benchmarks necessary for continuous improvement and better return on investment. However the risk analysis that is done for financial risk return profiling requires that the information be available to perform risk analysis in advance of making the investment. Social risk analysis will need to mimic the financial to generate a real blended value investment (Geobey, Westly and Weber 2011).

3. Monetize and use financial proxies

Making reasonable comparisons implies that a unified tool has to use a consistent unit of measure; most likely a dollar figure, making outcomes and impact monetized. While monetizing has limitations it also offers a type of measurement that is difficult to substitute. Dollar figures remain most relevant and understood with respect to value. Until there are some other common measures for social outcomes, monetizing has been demonstrated to provide useful and valuable information. As an important part of the SROI analysis it has proved useful to organizations (Robertson 2012, Royal Bank of Scotland 2011). There are also cautions to the use of monetized values for social outcomes – they are imperfect. For example it is challenging to come to a 'real value' of an increase in social capital, or social connectedness, when the economic value is not the point. Proceeding, with a developmental approach, and making public those monetized values for hard to monetize outcomes is an approach that will allow them to be tested and debated. Over time financial proxies for standard social outcomes can be developed using cost-benefit analysis. Once developed for one organization they may be used by other organizations that have similar outcomes. Building an accessible platform for ongoing information sharing about proxies is an essential element for making proxies transparent.

4. Be transparent

Transparency is also an essential ingredient for the unified tool. A tool that has a non-proprietary methodology is the only type that will allow for ongoing development and acceptance over time. Proprietary tools, used by one organization, restrict the flow of information and make social metrics burdensome. Transparency in methodology and reporting allows a variety of users to use all or some of the outcomes measurement information.

Developing transparency implies making use of technology such as wikis and building opportunity for broad input, collaboration and 'developmental' development. These approaches have been helpful for the development of Impact Reporting and Investment Standards (IRIS). Wikis allow for the testing and collective development of financial proxies for outcomes and impact and help the move toward standardization. The fewer new proprietary tools the better, although they continue to proliferate (for example see the Foundation Center's Tools and Resources for Assessing Social Impact (TRASI) website). Building opportunities for open analysis, creating broad and diverse collaborations would be a more productive approach.

5. Be developmental

The SROI Network International has adopted a developmental approach for the development of SROI which intends to mimic the development of the Generally Accepted Accounting Principles (GAAP) of the financial world. It used an iterative process with collective thinking and experience to create the "generally accepted" nature of the principles. Indeed financial metrics use a well-practiced and accepted set of measures adhering to the GAAP guide for financial accounting, a set of principles and a practice that took decades to develop (Hebb and Wójcik quoted in Hagerman 2007). Thinking back to the era in which accounting practices began there were not even reliable economic values for land, a monetized value that we now take for granted with a well-developed and largely transparent market place to ensure fair pricing that responds to supply and demand. The market for social value needs to see itself moving in that same direction.

Moving forward: blended value investment vs. mushy mixed mode investing

It is hard to conceive of a blended value organization or investment without a social accounting system that accounts for the social impact of the organization alongside the financial. Social finance investors could emerge as leading drivers of this type of social accounting and their investment may also be vital in helping to pay for the resource intensive social metrics practices in current use. At this point there is little to suggest that social finance investors are emerging as leading drivers, even though they invest for the purpose of achieving blended value. Before social investors drive the social metrics field they have to stop accepting anecdotes as a substitute for real impact measurement and valuation. While a clear and well told story helps to give evidence to the theory of change it does not substitute for the measured outcomes. As long as anecdotes are an acceptable substitute it is hard to distinguish a blended value investment from mushy mixed mode investing where investors hope to get a financial return and also hope to get a social impact, but have no metrics to give evidence to the real results. Relying on counts of outputs, another practice that is widely accepted to substitute for measuring outcomes is similarly limited providing no impact information beyond the hope that numbers will routinely convert to impact. Mushy mixed mode investing is only part investment and the other part is donation. That is hardly good enough to build true blended value organizations and create real social investors that invest for blended returns.

Making it real: Metrics need to be Simple, Standard and Satisfactory

Application of the five principles listed above are intended to build an approach to making a tool that will be useful and serve the purpose of multiple demand side needs and supply side responses: that is toward a state where social metrics will be simple, standard and satisfactory.

If a real blended value statement, accounting for financial and social outcomes (leaving aside environmental for the moment), is to be the objective of developing social metrics then it cannot be unexpected for social metrics to require the time, expertise and effort that is devoted to financial accounting. There is a simplicity in the accounting exercise; there are international standards to follow. Spending time on developing good financial accounting reports, although a resource intensive exercise, is considered normal.

Social metrics have to be standardized; that message is clear from the investors and funders. Building standards will help to simplify.' Standards' is the right word because it implies that it is a collective process that is developed over time with an inclusive group of stakeholders.

Social metrics need to be satisfying. Both organizations and investors/funders have stated that social metrics need to overcome the 'resource' barrier –the exercise of generating social outcomes measures needs to be worth the investment of time, money, expertise and capacity (Hebb 2011, Robertson 2011, Slater 2011). As long as the effort to generate metrics is consuming for organizations then they will need to be able to identify the benefits of the exercise. More effective service delivery for organizations (Robertson 2012), better risk analysis for the investors (Geobey, Westly and Weber 2011) and funding efficiency (City of Calgary) are benefits that are expected from social metrics reporting. These benefits essentially describe the requirements of a social metrics tool; no organization, investor or funder is going to use resources to create social metrics without getting these benefits. The practice of social metrics will need to satisfy all these needs and do so in a single report to avoid duplication of effort to satisfy these requirements individually.

Conclusion

Reviewing the long list of existing tool on the supply side with the five listed principles in mind and rejecting those that do not meet the principles would net a very short list. This first step would help to allow us to focus on the simple, standard and satisfying and begin the process of building toward that state for social metrics

Building a unified tool will require the collective effort of a number of different actors – social metrics practitioners, organizations that deliver social outcomes, social investors, social entrepreneurs and an umbrella or backbone/network organization that can serve as the coordinating point for all these actors. Governments may have a role, but they would need to find a clear incentive and obvious benefit during this time of austerity. Missing from the landscape is the space where this can happen and a primary driver to get us there and help to create the space. Whoever the convener is of the key players, and vast amount of relevant information, the objective is to develop a tool that is simple, satisfactory and standard.

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