Measuring Social Impact

Paul Miesing
School of Business
UAlbany-SUNY
Albany, New York
Learning Objectives

• To gain an understanding of the value of measuring a venture’s social impact
• To understand the multiple benefits in learning how to measure social impact
• To examine the steps involved in measuring, quantifying, and monetizing impact for a venture’s stakeholders (investors, management team, employees, etc.)
• To demonstrate examples of how to measure and quantify a new venture’s social impact
Measuring Social Impact

- Why is it so Difficult to Measure “Doing Good”?
  - Really hard to define “good”
  - Challenge of relating “good” to financial values
  - Tough to identify cause and effect of “doing good”
  - General lack of maturity in social program data collection and performance evaluation
  - Diversity and overlapping nature of social enterprise domains
  - Variety of purposes that organizations have for conducting these analyses

- Why Bother Doing it Right?
  - Demand for greater accountability requires measurable results
  - Better allocation of scarce resources by increasing awareness of which programs are working and which are not
  - Make a stronger case to your stakeholders – especially funders – that your organization is achieving its mission
  - Identify the organization with cutting-edge approaches in its outcomes and impact
Social Value Proposition (SVP): “Logic model”

Inputs
- Resources, Organization, etc.
  - Complete control
  - Immediate
  - Efficiency

Activities
- Decisions, Partnerships, etc.
  - Complete control
  - Immediate
  - Decisions, Partnerships, etc.
  - M#tri¢$

Outputs
- Direct Results
  - M#tri¢$
  - Short-term
  - Effectiveness

Targets
- Indirect Results
  - M#tri¢$
  - Intermediate-term
  - Mission

Stakeholders
- Systemic Change
  - M#tri¢$

Impact
- Individuals & Society(s)
  - Long-term
  - M#tri¢$

Constituency Satisfaction?
Social Value Proposition (Cont’d.): SEED example

Small Enterprise → Economic Development

- **Resources?**
  - Provide training, research, peer network, interns, etc.
  - Eligible for $35,000
- **Targets?**
  - Number of clients
  - Successful businesses
- **Immediate Tangible Measures?**
  - Jobs created/$ loan
  - Loan re-payments

- **Economic Outcome?**
  - Average salary, wage, benefits per job created
  - Increased local taxes paid
  - Amount spent to purchase various supplies from local vendors

- **Social Impact?**
  - Changes in welfare recipients, alcohol and drug abuse, arrests, etc.
  - Changes in neighborhood self-esteem
Social Value Proposition (Cont’d.):

\[ \text{Social Value Proposition} = \frac{\text{Numerator}}{\text{Denominator}} \]

Social Value Proposition (Cont’d.): Social Return on Investment (SROI)

- Attempts to quantify both economic and social impacts of social enterprises

Enterprise Value
Financial return on investment

Social Purpose Value
Costs and savings of social mission

Blended Value
Economic + socio-economic enterprise value

Value of sales - Cost of good and services sold - Operating expenses:
- Typically negative for social enterprises

Impact of the enterprise on people’s lives:
- Can be measured in lower welfare costs, higher tax revenues, cost savings/gains to government, etc.
- Costs of obtaining grants and gifts are “social operating costs”

Combines Enterprise and Social Purpose Values
Social Value Proposition (Cont’d.):
Social ROI (cont’d.)

• *Economic Value – Financial ROI:*
  
  o Demonstrates profit creation that applies in the regular capital markets (i.e., stock markets, private sector accounting methods)
  
  o Includes detailed financial statements equivalent to those produced by publicly-traded companies in the for-profit sector

<table>
<thead>
<tr>
<th>Enterprise Financials</th>
<th>Last Year</th>
<th>This Year</th>
<th>Next Year (proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$233,004</td>
<td>$537,789</td>
<td>$708,967</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>70%</td>
<td>69%</td>
<td>65%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>5%</td>
<td>-4%</td>
<td>-4%</td>
</tr>
</tbody>
</table>
Social Value Proposition (Cont’d.): Social ROI (cont’d.)

• *Socio-economic Value* – “Monetizes” social outcomes wherever possible
  
  - For example, increased employment opportunity is expressed in part by the increased taxes paid by those employed as well as by reductions in welfare costs

<table>
<thead>
<tr>
<th>Social Purpose Results (per target employee)</th>
<th>This Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Savings</td>
<td>$16,644</td>
</tr>
<tr>
<td>New Taxes</td>
<td>$1,816</td>
</tr>
<tr>
<td>Wage Improvement</td>
<td>$12,097</td>
</tr>
<tr>
<td>Other Financial Improvement</td>
<td>$9,849</td>
</tr>
</tbody>
</table>
Social Value Proposition (Cont’d.): Social ROI (cont’d.)

• **Measuring Value:**
  - Calculate **enterprise value** using standard accounting measures
    - Calculate *enterprise* index of return
  - Calculate **social purpose value** (assign monetary values to social outcomes) – Calculate *social purpose* index of return
  - Calculate **blended value** – Calculate blended index of return

<table>
<thead>
<tr>
<th>SROI Metrics</th>
<th>Index of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>$411,906</td>
</tr>
<tr>
<td>Social Purpose Value</td>
<td>$20,861,066</td>
</tr>
<tr>
<td>Blended Value</td>
<td>$21,222,960</td>
</tr>
<tr>
<td>Investment to Date</td>
<td>$442,643</td>
</tr>
</tbody>
</table>
Social Value Proposition (Cont’d.): Social ROI (cont’d.)

• The SROI Report:
  o Viewed as a non-profit organization stock report
    • Include descriptions of the social enterprise’s mission, business data, target client population, financial analyses, key social impact findings and analysis, etc.
  o Provides a standardized way of estimating value and presenting return calculations in a clear and accessible manner

<table>
<thead>
<tr>
<th>Projected Values</th>
<th>This Year into Perpetuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Projected Investment</td>
<td>$575,775</td>
</tr>
<tr>
<td>Total Projected Social Savings and New Taxes</td>
<td>$22,434,361</td>
</tr>
<tr>
<td>Total Projected Social Expenses</td>
<td>$1,573,306</td>
</tr>
</tbody>
</table>
Social Value Proposition (Cont’d.): SROI and Systems Thinking

- **Identify Issue/Problem**: What is the social cause? Has it been solved? (Done for project)
- **Solution**: Product/service that will help solve the problem (Done for project)
- **Desired Outcome**: For client, social enterprise, stakeholders/funders (Done for project (more or less))
- **Investment Required**: Total resources needed to fund the venture (Done for project)
- **Data Management & Evaluation**: Determine SROI (Today’s focus)
Systems Thinking

• Overall effectiveness includes:
  o Satisfaction of constituents
  o Adequacy of funding
  o Efficiency of operations
  o Attainment of enterprise goals
  o Ability to adapt to a changing environment

• Each of these dimensions affects the others in a system
  o ... and each one can be measured in several different ways
Systems Thinking (Cont’d.)

• A Primer on Systems:
  – Structure – Determines behavior
  – Sub-systems – Parts contribute to whole through mutual influences
  – Synergy – Operate through joint interaction to achieve something none of the parts could
  – Equifinality – Many different means to achieve identical ends
  – Entropy – Natural tendency to deteriorate over time
  – Homeostasis – Seek steady state via feedback

• Counter-Intuitive Results:
  – Law of Unintended Consequences – Well-meaning policies can backfire
  – Change Occurs Precipitously and Non-Linearly – Threshold effects can be dramatic, resulting in sudden crashes and system shocks
  – Erroneous Forecasts – Long delays for information
  – ... but Small Act → Big Impact – Abundant opportunities to solve systemic social problems
Systems Thinking (Cont’d.)

• “The Butterfly Effect” (sensitive dependence on initial conditions):
  – Coined by meteorologist Edward Lorenz in his 1972 paper “Predictability: Does the Flap of a Butterfly’s Wings in Brazil set off a Tornado in Texas?”

– Also popularized (erroneously) as Albert Einstein’s famous prediction: “If the bee disappeared off the surface of the globe then man would only have four years of life left. No more bees, no more pollination, no more plants, no more animals, no more man.”
Shared Value Creation

• Value is benefits relative to costs, not just benefits alone
  o Externalities are ignored in conventional economics

• Companies have an outdated approach to value creation by overlooking:
  o Customer well-being
  o Depleting natural resources vital to business
  o Viability of key suppliers
  o Economic distress of the communities in which they produce and sell

• Expand the pie instead of sharing a fixed pie!
Shared Value Creation (Cont’d.)

• “Shared Value” creates economic value in a way that also creates value for society by addressing its needs and challenges:
  o Enhances company competitiveness while simultaneously advancing the social and economic conditions in the communities in which it operates
  o Identifies and expands the links between economic and social progress

• Shared value is:
  o Creating economic value by creating social value
  o Using capitalism to address social problems
  o Solutions to social problems that are scalable and self-sustaining

• Shared value is not:
  o Personal values or social responsibility
  o Balancing stakeholder interests
  o Philanthropy, sharing value already created
  o The same as environmental sustainability

Same as “Social Entrepreneurship”?
Shared Value Creation (Cont’d.)

• Policies and practices that enhance the competitiveness of a company while simultaneously advancing economic and social conditions in the communities in which it operates:

1. Rethinking products, customers, needs, and markets
   • Meeting societal needs and reaching unserved or underserved customers
2. Redefining productivity in the value chain
   • How the organization better uses resources in value chain to improve fundamental productivity
3. Enabling local cluster development
   • Improving available skills, suppliers, and supporting institutions in the geographic region
Shared Value Creation (Cont’d.): Integrating company and community

- There is an inevitable link between business and society:
  - ... with long-term synergy between economic and social objectives
  - Find points of convergence between economic and social objectives, *not* assumed tradeoffs or the need for redistribution

A healthy business depends on a healthy community to create demand for its products and provide a supportive business environment

A healthy society depends on competitive companies that can create jobs, support high wages, build wealth, buy local goods, and pay taxes
Shared Value Creation (Cont’d.): Strategic positioning

- Requires fundamentally new ways of thinking about the business, technologies, and management approaches
- The broader sense of purpose motivates and attracts employees, business partners, shareholders, and the public

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>Nestlé: Nutrition</td>
</tr>
<tr>
<td>Shoes</td>
<td>Nike: Health and Wellness</td>
</tr>
<tr>
<td>Computing/Technology</td>
<td>IBM: Smarter Planet/Cities</td>
</tr>
<tr>
<td>Car Rental</td>
<td>Zip Car: Urban Mobility</td>
</tr>
</tbody>
</table>
Shared Value Creation (Cont’d.): Measuring impact

Traditional Measurement Approach
• Companies measure business performance and social value creation separately

Emerging Measurement Approach
• Companies measure the linkages between social value creation and business value

Business Value Measurement
• Revenue
• Margin
• Market Share
• ROI

Social Value Measurement
• Compliance
• Sustainability
• Impact Assessment
• Reputation

Shared Value Measurement
• The link between new products, customers, revenue and profits
• The productivity and cost consequences of new value chain practices (e.g., energy, logistics, resource usage)
• How community and cluster improvements enhance productivity and growth
Conclusions

• Measuring, reporting, and monitoring social impact remain a significant challenge – Social entrepreneurs often have difficulty coming up with a precise and transparent indicator that can accurately represent the amount of social return generated by their ventures

• Increasingly, organizations are feeling pressure from funders to account for their social returns

• “Social value proposition,” “social ROI,” and “shared value creation” are ways to maximize organizational effectiveness and value to key stakeholders

• For more information and sources, see https://pinterest.com/mgt460/assessments/
Course Purpose

• Summarize key principles of social entrepreneurship
• Identify the challenges and opportunities of social entrepreneurship
• Use evidence to analyze, evaluate, and exploit a social opportunity for an entrepreneurial venture
• Apply business functions to create and sustain a social venture
• Prepare a business plan for a social enterprise
Questions?