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Identification and measurement of social impact in non-profit organizations

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Abstract— **Measuring outputs, outcomes and impacts are a major challenge for nonprofits. How can donors and investors know whether they are helping or undermining the development towards a healthy and sustainable society and environment? Nonprofits have developed a wide range of approaches, tools and methods to measure their social impact. An overview of them, underlining their advantages and drawbacks, is showed in this paper in order to identify those which better disclose social performance. In addition, a two-tier disclosure framework (low and upper) is proposed along with disclosure of segment reporting.**

Keywords— **Social impact, social performance measurement, information disclosure.**

I. Introduction

There is no doubt that non-profit organizations play a key role in promoting the development of civil society and an environmentally and more sustainable economy focused on people. These organizations carry out activities and projects whose effects go beyond the immediate and purely economic results (i.e. a Human Rights workshop that generates a tuition revenue of €200 and 80 active participants). Certainly they are important achievements but what really matters is the knowledge transferred and the changes caused in people's behavior in the mid-term. Ultimately, their programs and activities affect how society might be in the time to come.

The relationship between the providers of resources and the organization affects the nature of the information each one needs about the impact. They need to understand the significant impacts of each program, as well as the relative efficiency of impact generation from one organization to another. For this evaluation purpose, building metrics about impact becomes a fundamental issue [2]-[3]. And not only in the context of financing and impact investing [1], but in the context of responsible citizenship [4].

Similar to commercial companies, these organizations need financial resources to fund their activities and programs. Public resources and grants used to be a significant source of funds. Nowadays there is an emerging interest among private investors towards impact investments as they begin to be seen as real investment opportunities. They invest for the purpose of achieving not only financial return but also better environmental and/or social outcomes that would be the case in typical investments [1]

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In line with the needs of their funders and given the current context of scarce resources, charities and nonprofits have to face a major challenge in terms of ensuring transparency of economic, social and environmental impacts. They have to provide useful information for decision-making [5]-[6]-[7]. They also should ensure accountability in the use of public resources [8].

But measuring social and environmental impacts beyond the financial return involves subjective considerations that can hardly be monetized, which makes it controversial and difficult. There is not even a consensus about the concept of impact [9]-[10]. In this sense, Ebrahim and Ragan [11], Clark et al. [13] point out a concept of impact associated with the final stage of a chain of results in a logical framework model where outputs, outcomes and impacts can be identified. Therefore, moving from measuring outcomes to a wider concept such as the impact is a great challenge for organizations [12]. Impact measurement requires analysis and tracking of changes in the community behaviors and conditions [14].

In view of the growing interest in the measurement of the impact among social enterprises and nonprofits and due to their diversity in nature (commercial enterprises, charities, cooperatives…), it does not seem surprising the high variety of tools developed for measuring what matters, the impact [15]. Despite the different approaches that underlie each one, there is one thing that all of them should enable: knowing whether the activities carried out are helping or hindering progress toward an environmentally sustainable, dignified society.

This paper describes some of the impact methods implemented by nonprofits sometimes by means of particular examples from organizations that are actually putting them into practice. Moreover, we analyze the advantages and drawbacks when they are used for different aims.

The remainder of the paper has been structured as follows: the second section provides an overview of the main characteristics of the above-mentioned methods, underlining their advantages and drawbacks; section three analyses the potential utilization of these methods when they are used for different aims; and section four summarizes the main conclusions.

II. Social Impact Assessment: Review of Methodologies

Although the academic literature on this topic is not vast, there are many experiences of measuring impact in the field of nonprofits and social ventures that lead to a great deal of assessment instruments [1]-[15]. Different approaches underlie behind all of them depending on the organization's disclosure purposes and the user's information needs (governments, private donors, impact investors…), which results in a higher or lower complexity of the assessment instrument.

According to the Foundation Center [15] the following types are differentiated: *tools* (i.e. Social Auditing and Accounting-SAA sponsored by Social Audit Network; Social Value Metrics by Root Capital; Political Return on Investment-PROI by New Progressive Coalition or Benefit-Cost Analysis by Robin Hood Foundation); *methods* (i.e. Social Return on Investment-SROI sponsored by The SROI Network; Poverty and Social Impact Analysis-PSIA by the World Bank; Balance Scorecard by New Profit Inc.) and *best practices* (i.e. Cluster Evaluation by W.K. Kellogg Foundation; A Guide to Actionable Measurement by Gates Foundation).

Another interesting classification distinguishes between methods that solely calculate a rate for the social impact of the activity or activities carried out, and methods that additionally use other resources. The former emulate the procedure to estimate a corporation's financial performance and, therefore, use a monetary approach. The latter focus mainly on non-monetary indicators. According to Ebrahim and Rangan [11] these methods can be classified into the following categories: a) Experimental methods; b) Logic methods; c) Strategy approaches; and d) Participatory and relationship-based methods.

A. *Experimental methods*

These methods are based on Randomized Controlled Trials. The Abdul Latif Jameel Poverty Action Laboratory (see its methodology at http://www.povertyactionlab.org/) underlines the utility of them for clinical trials, agricultural experiments and social programs (social experiments). Social impact is measured by comparing the outputs generated after implementing the activity on a set of beneficiaries, called treatment group, with outputs obtained in the so-called "control group" where the activity has not been carried out. The impact can be measured as the difference between both set of outcomes.

When implemented, this methodology involves additional problems (spillovers, crossovers, among others), but in general terms, it works as stated above. The main advantage is its statistical accuracy. Drawbacks include the failure to assess long-term impacts and a lack of comparability of information that hinder the comparison of results from different types of programs.

B. *Logic methods*

The W.K. Kellogg Foundation [16] uses logic models to evaluate its programs. A logic model is, basically, a systematic and visual way to show the relationships among the resources invested in the program, the activities carried out and the expected changes or results [2]. Most of the elements of a logic model are usually displayed in qualitative terms. It helps stakeholders understand how the program works and where it is going to. It is a comprehensive, intuitive and clarifying tool. But this tool mainly works for visualizing programs one by one. It is difficult to use logic models when we wish to compare different programs, with different outcomes and different impacts. The heterogeneity of the impacts puts again in the spotlight the lack of comparability as a major shortcoming in logic models

C. *Strategy approaches*

Dashboards and Balanced Scorecards are two management tools, widely used in the corporations' field, which some nonprofits have incorporated into their procedures. As Bell and Masaoka [17] state, a nonprofit *dashboard* gives important information to decision makers such as executives and boards in a quick-read way. But a dashboard is not a method for measuring social impact, it is a management tool where the measurement of social impact can be incorporated as an item. In commercial companies, the use of *Balanced Scorecards* involves the assessment of an organization not only through its financial performance, but through other perspectives like customer, internal and innovation & learning perspectives. For nonprofits, Zimmerman [18] proposes a Balanced Scorecard based on six categories (perspectives): a) revenue and funding, b) resource allocation, c) donors and board members, d) product and service recipients, e) internal operations, and f) staff development. New Profit Inc. added a new category to the framework: social impact [1].

D. *Participatory and relationship-based methods*

Methods like the Most Significant Changes Approach (MSC), the Participatory Poverty Assessment (PPA), the Participatory Rural Appraisal (PRA) and the Outcome Mapping can be included within this group.

The Outcome Mapping is a comprehensive tool for designing, monitoring and evaluating programs [19].

The PPA [20] is an instrument for including poor people's views in the analysis of poverty and the formulation of strategies to reduce it through public policy. Although it is not a method designed for measuring social impact, are the beneficiaries of the programs themselves (PPA participants) who report impact, so it allows to measure it with reliable information. It has also some drawbacks. PPA is mainly designed as a tool for improving the design of future programs through the feedback. Many of the social impact measurements can be qualitative and, therefore, they cannot be used for comparison purposes.

MSC methods [21] choose the most significant change induced by a program through a series of meetings where participants involved in the program shall jointly decide on the most remarkable change made. Similarly to PPA, beneficiaries are the ones who decide about the impact of the program and it is expressed only in qualitative terms. Therefore, information on impact is not comparable with other programs.

E. *Methods based on a rate of return*

The methods of this group calculate a rate of return by comparing the outcomes reached through a program with the resources allocated to the program. This comparison is made in monetary terms. Therefore, all the outcomes must be monetized in order to calculate the rate of return. In this group the most used methods are the following ones: Best Available Charitable Option (BACO), Economic Rate of

Return (ERR), Benefit Cost Ratio (BCR) and Social Return on Investment (SROI).

The major difference stems from how each method calculates the monetary value of the outcomes:

-The BCR, used by the Robin Hood Foundation [22], assesses the direct increase in the incomes of beneficiaries once the activities have been carried out. This method allows comparisons between alternative programs but it has a limited scope: as it depends on incomes, those programs with no direct impact on incomes are no easily measurable.

-The Acumen Fund [23] uses the BACO method for evaluating the performance of its loans. As not all the impacts are financial, it is necessary the monetization of some of the outcomes. Only the financial (monetary) value of the direct impacts is taken into account. Then, the rate of return calculated from this value, is compared with the rate of return provided by other (alternative) charitable options. Similarly to the BCR, comparability is its strongest point. However, the scope is limited and in some fields we can find no charitable options to use as benchmark.

-The ERR [24] calculate the impact of the undertaken programs in macro-magnitudes. It can be very convenient for assessing the impact of a program at a country level. But it is not suitable at a micro level. It does not fit for assessing social performance or impact in organizations or specific programs.

-The SROI [25] is probably the most comprehensive methodology for calculating the rate of return of a social investment. It involves the monetization of all the outcomes and impacts provided by a program. The SROI includes both the direct and the indirect outcomes. The advantages: it provides a right estimation of the actual rate of return, and the methodology also involves the participation of all the relevant agents. The drawbacks: apart from the monetization problems, the need to quantify not only the direct impacts but also the indirect ones is a major challenge. The latter requires making a series of subjective assumptions that can bias the results provided by the method.

Finally, the above explained four categories are not mutually exclusive but reinforcing. In fact there are tools and methods, mostly in social ventures, that try to replicate in some way, for example, experimental methods, with the purpose to estimate the impact as the difference between two scenarios. They compare data garnered by the organization to a counterfactual or benchmark (i.e. B Analytics by B Labs, Charity Analysis Framework by New Philanthropy Capital, Progress out of Poverty Indices-PPIs by Grameen Foundation or Political Return on Investment-PROI by Skyline Public Works). The final purpose is to predict impacts, demonstrate the actual impacts and try to prove them. SROI also shares many common features with logic and participatory related methods.

III. Disclosure of Social Impact

After seeing the main advantages and drawbacks of social impact measurement methods, one can think that it is hard to answer the question about which the best instrument is. Quite the opposite, the answer is simple: all of them are suitable because they are matched to each entity's needs. If we think of those methods as solely internal management tools, then it makes sense that each organization designs, implements and improves its own impact methodology in order to assess their projects or programs according to their requirements. It will be a tool directed internally and, therefore, must meet all the information needs of the internal users.

Another question, no less important, is whether the information generated by these impact measurement methods is useful to external users within a context where more and more transparency is required to nonprofits and impact investment is an emerging field. Stakeholders need a greater comparability and credibility of social impact information so that portfolio analysis might become possible.

As we have shown in the preceding section, only the methods belonging to the last group (the ones based on a rate of return) can meet the comparability requirement. Therefore, for disclosing purposes, it would be advisable that nonprofits calculate a rate of return for their social impact.

The disclosure of the social impact is fundamental for transparency purposes, as all references quoted point out. The remaining question now is to determine which method is the best one for this purpose. We have seen four of them. We have underlined the limited scope of the ERR. We have also highlighted the difficulties that we may have when finding charitable options with BACO. Furthermore, the decision about the best charitable option to use as a benchmark is clearly subjective. Therefore this method is not suitable for the purposes we are discussing.

Thus, only two methods (BCR and SROI) are suitable for disclosing purposes. They can calculate a social performance rate of return. Basically both of them use the same calculation procedure: numerator, the monetary net present value of the outcomes; denominator, the resources invested for reaching these outcomes. Both methods also face similar problems when calculating the monetary equivalents of these outcomes (what is known as the monetization process). Perhaps the main difference between them stems from the degree with which citizen participation is included. The SROI methodology is participative while, BCR is not. SROI also encompasses both direct and indirect monetary values of the outcomes. BCR is more limited and mainly focuses on the monetary value of the outcomes directly associated to a program.

At this point, a fundamental question to solve is whether nonprofits must report their social impact considering only direct outcomes induced by their activities or also considering the indirect ones. SROI is a method time-consuming and requires many resources unaffordable for many nonprofits. But reporting only direct impacts depicts an incomplete view of the actual impacts.

One possibility for solving the question could be the requirement of two tiers of disclosure. A compulsory tier, where organizations must calculate and disclose a rate of return for the social impact considering only the direct outcomes; and a voluntary tier, where the information provided would be a comprehensive measure of the social impact. This information should be presented by segment (i.e. health, genre, education…) Thus, all the organizations would disclose a measure of the social impact calculated by assuming similar hypothesis and by using similar methodologies.

IV. Final Remarks

Nonprofits and social ventures play day by day a more important role in our society. The stakeholders and, in general terms, the society, need to know the impact of the activities implemented by these organizations. This impact cannot be measured in financial terms. It must be measured under social parameters that also entail subjective considerations.

All these organizations have developed a great deal of methods for measuring social impact. None of them can be considered the best because they have been designed and used according to each entity's own purposes. Thus, some tools are mainly rating systems playing a screening function; other are assessment systems for summarizing results; there are also management systems for ongoing performance tracking and learning purposes. Nevertheless, impact information for disclosure purposes is quite heterogeneous among all nonprofits. Moreover, it is not enough to report impact information if it is in a form that nobody can understand or use it. So comparability is one of the desired qualitative characteristics of accounting information in order to make it useful in decision making.

For comparability purposes, a standardized social performance measure is required if providers of resources want to link information about social performance among different organizations implementing different types of programs and activities (health, education, gender, environment, democratic governance…). Only methods that calculate a rate of return for social performance must be used in this point. Among them, the Social Return on Investment (SROI) and the Benefit Cost Ratios (BCR) are the most suitable ones.

Another important question is the scope of the information on social impact disclosed by organizations. We propose a two-tier disclosing framework: a *low* disclosure tier and an *upper* one. The former would be compulsory for all nonprofits and will contain objective and quantitative information about results that the organization can control free from subjective considerations. Only outputs and those direct outcomes that can be identified with quality leading indicators are to be considered here for the social performance measurement. The upper disclosure tier would be voluntary for those nonprofits which would display any other information on social performance by considering all the induced outcomes and impacts after implementing activities and programs. This information should be presented by segment (i.e. health, genre, education…). The division of nonprofit's comprehensive activity into those homogeneous segments or sectors would enhance comparability.

Anyway, the questions we have presented here are not closed. Additional research, mainly in the academic area, would be advisable.

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