



# A PRACTICAL GUIDE TO MEASURING AND MANAGING IMPACT

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# A PRACTICAL GUIDE TO MEASURING AND MANAGING IMPACT

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DR. LISA HEHENBERGER, ANNA-MARIE HARLING AND PETER SCHOLTEN | APRIL 2013

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### Introduction from Daniela Barone Soares, Chief Executive of Impetus Trust

What's Impact Measurement for? Ask a social purpose organisation (SPO), and they'll tell you it helps them prove that what they do makes an impact, gives funders reassurance that their money is well-spent, and provides the stories and case studies they need for further fundraising. They might add at the end that the data helps them refine and improve their programmes, and inform their decision-making.

Venture Philanthropy Organisations (VPOs), like Impetus, work for a social sector where the work of impact measurement is driven by the need to extract maximum value from our finite resources. Where SPOs stop doing things that don't work, even if funders love that project. Where new projects are explicitly based on learnings from previous work, and bear the imprint of past successes and failures.

"Managing impact" might not be a phrase to set the world on fire but we believe the benefits of embedding the concept across the social sector would be transformational – and immediately tangible. SPOs are often experts in the needs of their beneficiaries, but lack the data on their own activities to make informed resource allocation decisions, or build an organisation that really plays to its own strengths. Data doesn't just reveal impact – it is a prerequisite for making impact. It's also the mother and father of innovation. Innovation isn't just about 'new'; it has to be about 'better'. Data reveals where an SPO could do better, and tells them when they've got there.

This Practical Guide to Measuring and Managing Impact is a timely resource with a wealth of much-needed information for Venture Philanthropy Organisations (VPOs), and the SPOs they back. It's one of the many reasons we're proud to partner with the EVPA Knowledge Centre, because sharing best practice is an essential part of the development of our sector. VPOs are in a strong position to take impact measurement and management practice to the next level. Collecting relevant data, and crucially putting it to good use, is a key challenge for SPOs. Our unrestricted funding backs the unglamorous, but essential, work of building capacity. And we're in it for the long haul: we know this sort of organisational change cannot happen overnight, and we don't expect short-term projects to do the trick.

At Impetus, we are committed to building this capacity in the organisations we support. We build relationships of trust that allow us to push our organisations to achieve more than they might have thought possible. Our deep understanding of the sector is complemented by the private sector expertise we bring in, and our long-term engagement means that support packages can see an SPO right through the process of finding out what to measure, collecting the data, and putting in place the virtuous circle that connects performance data to performance improvement.

And of course we are an SPO too! We are acutely aware that we have a duty to expend the resources entrusted to us for maximum impact, and that we only identify impact through data. We need to know what wouldn't have happened without us – whether that be more

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lives changed, improved cost-efficiency, greater sustainability, or all of the above, in the organisations we support. This is undoubtedly difficult to measure. But we are committed to finding better, and more useful ways to do so; we know our own funders value this information, but first and foremost we are doing it to ensure that, year on year, we do what we do better. This guide helps us on our journey.

A final word: managing impact is not about removing risk, as this is often the partner of innovation. We believe SPOs should be intelligent risk takers, with venture philanthropy providing the ultimate risk capital. Data allows you to know when you are taking a risk, as well as whether it pays off. And when the “pay off” can mean changing the lives of thousands, or even millions, we all need to know about it.

Daniela Barone Soares  
Chief Executive, Impetus Trust

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## Expert Group composition

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The One Foundation



social e-evaluator

## EXECUTIVE SUMMARY

This manual is targeted specifically at venture philanthropy organisations and social investors (“VPO/SI”), and more generally at impact investors, foundations and any other funders interested in generating a positive impact on society. Throughout the document, we use the term “VPO/SI” to refer to such social sector funders. The first objective of the manual is to create a roadmap or guidebook to help VPO/SIs navigate through the current maze of existing methodologies, databases, tools and metrics on social impact measurement. Therefore, we do not take a stand to recommend a particular tool, but rather have attempted to distil best practice from the various ways of measuring and managing social impact. The second objective is to trigger a movement towards best practice when it comes to measuring and managing impact. We would like the manual to become a working document that evolves with new versions over time as our industry knowledge develops.

The manual should be useful both for beginners in impact measurement, who are considering how to get started, and for more advanced investors who are struggling with how to better integrate an impact focus into everyday investment management decisions. Within the VPO/SI, the person (or team) assigned to measure impact will be the natural reader/user of the manual, but we also recommend executive directors, boards of directors and investment managers to use the manual as a reference for key decisions on topics such as resource allocation, deal selection and investment management. The manual uses plenty of real-life examples from VPO/SIs as well as five longer case studies that were developed by the impact measurement initiative (IMI) expert group members. The manual does not consider how to measure financial impact but focuses solely on social impact (using a broad definition of social that may also include environmental or cultural).

Our starting point has been to devise a process of Impact measurement for a VPO/SI wanting to measure the impact of their investment<sup>1</sup> in a Social Purpose Organisation (“SPO”). The guide focuses on two levels: how to measure and manage the impact of specific investments (level of SPO) and how the VPO/SI itself contributes to that impact (level of VPO/SI). This process is the “how to” of impact measurement and is often what is most needed by venture philanthropy organisations and social investors in general to get started. Analysis of existing methodologies for impact measurement and the experience of working together with VPO/SIs showed that most methods and tools to measure impact share a general framework. We represent the framework as having five steps as shown in the following diagram:



**The 5 steps of social impact measurement**

<sup>1</sup> We use investment throughout as including the range of financing instruments from grants, loans and equity.

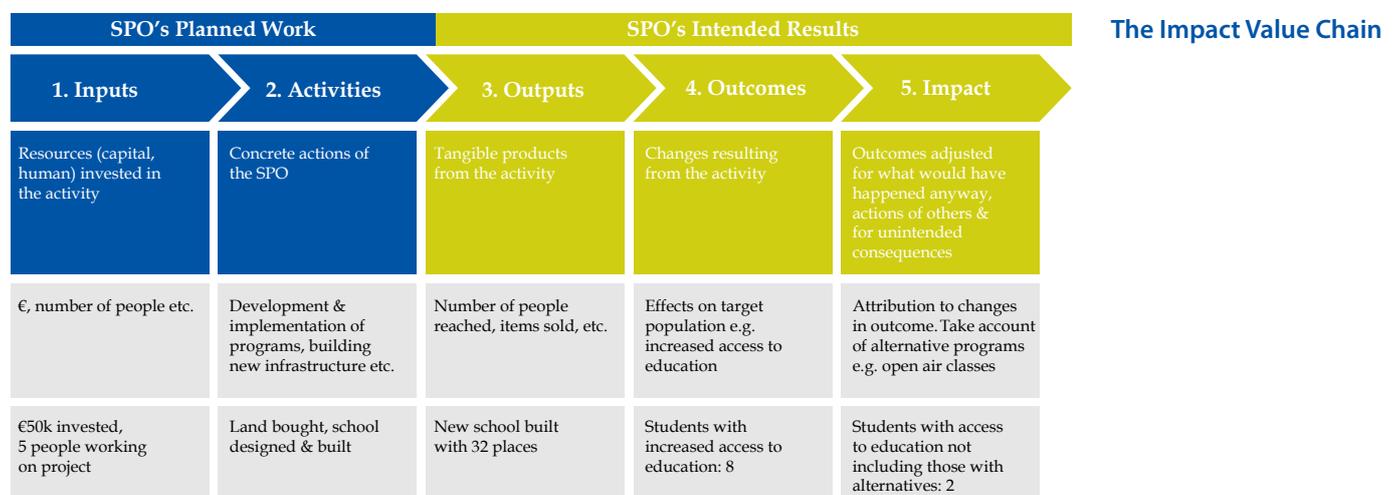
Source: EVPA

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The steps are presented in sequential order and we recommend that VPO/SIs go through the steps in this order. However within the process it is possible to go back to steps and revise them as you gain more information and more familiarity with the process. Some VPO/SIs may find it useful to go through each of the steps at a theoretical level before implementing them in practice.

The goal of impact measurement is to manage and control the process of creating social impact in order to maximise or optimise it (relative to costs). Managing impact occurs continuously and is facilitated by integrating impact measurement in the investment management process. It is important to identify what may need to change within the investment management process so that you are able to maximise social impact. That is why Managing Impact is the core of the impact measurement process. For each step in the process, one should consider how this relates to the everyday work of funding and building stronger social purpose organisations.

The impact value chain was the starting point for the definitions used in this manual as it



Source: Elaborated by EVPA from Rockefeller Foundation Double Bottom Line Project

clearly sets out the differences between inputs, outputs, outcome and impacts.

In this manual, the following definitions are used:

- Inputs:** all resources, whether capital or human, invested in the activities of the organisation.
- Activities:** the concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives.
- Outputs:** the tangible products and services that result from the organisation's activities.
- Outcomes:** the changes, benefits, learnings or other effects (both long and short term) that result from the organisation's activities.
- Social Impact:** the attribution of an organisation's activities to broader and longer-term outcomes.

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To accurately (in academic terms) calculate social impact, you need to adjust outcomes for: (i) what would have happened anyway (“deadweight”); (ii) the action of others (“attribution”); (iii) how far the outcome of the initial intervention is likely to be reduced over time (“drop off”); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes (“displacement”); and for unintended consequences (which could be negative or positive).

EVPA’s recommendation for measuring social impact is to calculate outcomes while acknowledging (and if possible adjusting for) those factors that contribute to increasing or decreasing the impact of the organisation; rather than aiming to calculate very specific impact numbers.

In what follows, we provide a quick glance at the recommended impact measurement process as detailed in the manual.

### Step 1: Setting Objectives

This step includes defining the scope of the VPO/SI’s impact measurement and setting objectives. Setting objectives is a vital step in any impact measurement process and needs to be considered at both the level of the VPO/SI and the investee SPO. Often VPO/SIs do not spend enough time upfront considering their own impact objectives and why they want to measure impact, which later makes it difficult to take decisions regarding what is relevant and what is not when faced with scarce resources.

The more specific the objectives the better the impact measurement that can be prepared For a VPO/SI, objectives should be set at two levels:

#### *(i) Level of the VPO/SI.*

On the rationale and scope of impact measurement, the VPO/SI should aim to answer five questions upfront:

- a. **What is your motivation for measuring social impact?** There are many different purposes for using impact measurement and these could each imply different target audiences and outlook.
- b. **What resources can you dedicate to impact measurement?** Resources to be considered include financial, human, technological and time.
- c. **What type of SPOs are you working with?** The maturity i.e. the stage of development of the SPO will potentially limit the type of information that the SPO can provide to you.
- d. **What level of rigour do you require in your impact analysis?** Depending on how accountable you expect your investees to be, you can increase the rigour of your analysis and thereby reduce the risk of any impact claims made.
- e. **What is your time frame for measuring impact?** The time period over which you measure impact should be determined by the most important outcomes and estimated length of time required to achieve them. But in practice there may be internal or external pressures to invest for a certain period of time. Depending on your timeframe, you will be able to draw either very specific or more general conclusions about the impact of the SPO.

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On its impact objectives, the VPO/SI should aim to answer these questions:

**a. What is the overarching social problem or issue that the VPO/SI is trying to solve?**

This can be more or less difficult depending on how broad or focused your approach but a clearly articulated response is necessary to be able to choose investments that can contribute to solving the social issue that the VPO/SI is addressing.

**b. What objective does the VPO/SI want to achieve?** Looking at your overall objectives and the relationship to be built with investees.

**c. What are the expected outcomes?** The VPO/SI should evaluate the expected outcome of its investment in the SPO, i.e. the expected outcome of the SPO and how the VPO/SI expects to contribute to achieving that outcome. It is important to consider potential unintended consequences of the VPO/SI's activities.

*(ii) Level of the SPO.*

At a minimum you should answer these questions about the SPO:

**a. What is the social problem or issue that the SPO is trying to solve?** The response should include information about the nature and magnitude of the problem or opportunity; which populations are affected; whether the matter is changing or evolving as well as in what way it is changing or evolving.

**b. What activities are the SPO undertaking to solve the social problem or issue?** This should include a description of exactly what the SPO is doing to try to effect a change.

**c. What resources or inputs (as per the impact value chain) does the SPO have and need to undertake its activities?** This should include the time, talent, technology, equipment, information and other assets available to conduct the activities, as well as the VPO/SI's contribution to helping the SPO to solve the issue.

**d. What are the expected outcomes?** This should include what the SPO must achieve to be considered successful and will form the basis of the milestones against which the SPO will be measured. It is also important to consider the unintended consequences of the SPO's activities.

***Recommendations for managing impact:***

- A VPO/SI must formulate its overarching social problem or issue so as to choose investments in SPOs that can contribute to solving that social issue.
- Understanding the current and expected social impact of an SPO early in the decision-making process is extremely valuable: it creates a common understanding of the impact of an organisation; allows the VPO/SI and SPO to “speak the same language”; and facilitates assessment of achievement of impact at later stages. A VPO/SI should convince the SPO of the value of impact measurement, provide assistance where possible and define with them the responses to the essential questions to help them express their objectives.
- Decisions have to be made about the amount of time and resources that a SPO should dedicate to impact measurement.

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### Step 2: Analysing Stakeholders

VPO/SI investments generate value for a variety of stakeholders. A stakeholder is defined as, “Any party effecting and/or affected by the activities of the organisation.”

This is an important step because the VPO/SI needs:

- To understand the expectations of the stakeholders, their contribution to and the potential impact the SPO’s work will have on them.
- The co-operation of the main stakeholders in the impact measurement process.

Applying to both the VPO/SI and SPO level, there are two aspects to stakeholder analysis:

- (i) *Stakeholder identification*; which includes stakeholder mapping (direct and indirect contributors and beneficiaries), stakeholder selection (using concepts such as materiality, accountability and relevancy) and analysis of stakeholder expectations.
- (ii) *Stakeholder engagement*; which includes communicating with the selected stakeholders and is vital to be able to understand their expectations and, later in the process, verify if their expectations have been met. This is described in more detail in Step 4.

#### **Recommendations for managing impact:**

- A VPO/SI must get the buy-in of key stakeholders (donors/investors, staff/human resources, SPOs) to the impact objectives of the VPO so that their expectations are managed and their contributions are aligned.
- Engagement with a VPO/SI’s key stakeholders should happen upfront and any major changes in the impact objectives should be properly communicated.
- When a VPO/SI makes an investment in a SPO, stakeholder analysis should be included during the due diligence phase. As the investment period proceeds, it is advisable to regularly get back to these stakeholders to verify that their expectations are being met (more details on how to do this in step 4).
- Consider upfront when would be the appropriate time to revisit stakeholder analysis together with the SPO (e.g. change to outcomes being achieved, major new funding streams, new business lines, policy changes).

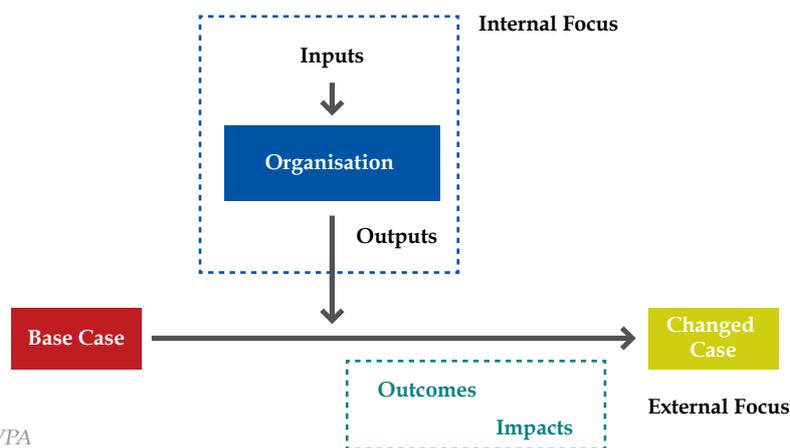
### Step 3: Measuring Results: Outcomes, Impact and Indicators

This step again occurs at two levels:

- VPO/SI level: its own outputs, outcomes, impact and indicators as per its own objectives (theory of change etc); impact measurement at a portfolio level; impact of the VPO/SI’s work on the SPO.
- SPO level: transforming its objectives into measurable results via outputs, outcomes, impact and indicators.

To transform the objectives set in Step 1 into measurable results a VPO/SI and SPO must consider outputs, outcomes, impact and indicators. For a VPO/SI, it is not sufficient to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO. Outputs are directly related to the activities of the organisation i.e. what is done to try and make a change in the base case, hence these are generally easier to measure. Outcomes and impacts are related to the expected and unexpected effects of the activities of the organisation, hence they are outside the scope of the organisation’s activities (but within their scope in terms of accountability) and generally more difficult to measure.

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**Internal vs external focus:  
the use of outputs,  
outcomes or impacts**

Source: EVPA

Indicators are used to show progress towards or away from outputs or outcomes. If output indicators are required these should be sourced as much as possible from public databases such as IRIS, WikiVOIS or other databases. If these output indicators point in the same direction as the outcome you are targeting or if there exists independent research showing that specific outputs do result in specific outcomes then some may also be used as outcome indicators. If not we recommend the following **process to select outcome indicators**:

- (i) **Define outcomes** as change statements, target statements or benchmark statements.
- (ii) **Select outcomes**: you may have a list of outcome statements but you must select those outcomes that are most important, material, useful and feasible (in achievement not in measurement).
- (iii) **Select indicators** i.e. identify two to three factors that provide measurable evidence for a sub-optimal situation. There are four aspects to a good indicator:
  - a. Indicators should generally be aligned with the purpose of the organisation, although if a potential unintended outcome has been identified, relevant indicators for this outcome may by definition not be aligned with the purpose of the organisation.
  - b. Indicators should be "SMART".
  - c. Indicators should be clearly defined so they can be reliably measured and ideally comparable with those used by others.
  - d. More than one indicator should be used, with preference for two or three.

Impact itself is a technical and often academic discussion including concepts such as drop off, displacement, deadweight and attribution. The rationale for this guide is to remove the complexity around the issue and provide practical guidance.

The ability of an organisation to measure impact will depend on the sector and geography in which it is operating. The propensity of European governments to move towards pay for performance contracts means the measurement of impact is becoming more important for those organisations active in these areas. However, for many organisations, access to independent statistics and the creation of control groups in order to assess displacement,

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deadweight, drop off and attribution is not possible due to the expense and specialist skill-set to carry them out. In these cases we encourage organisations to measure impact by calculating outcomes and acknowledging those factors that may mean that the outcomes are not equal to the impact i.e. can increase or decrease impact. In some cases it may be possible to think about some evidence as to what a control group may look like and could be used for comparison purposes, for example based on research of comparable situations elsewhere.

### *Recommendations for managing impact:*

- For a VPO it is not enough to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO.
- The definition of portfolio level indicators may be required to measure how well a VPO/SI has achieved its objectives as an organisation.
- The VPO/SI should ask the SPO to focus on those indicators that are directly related to the SPO's theory of change and hence in line with their operational process. Any additional indicators required for the VPO/SI to satisfy its impact measurement needs should be collected by the VPO/SI.
- The expected outputs, outcome and impact, and the corresponding indicators should be defined before the investment is made and agreed upon by the VPO/SI and the SPO.
- Clarify at the beginning of the relationship (i.e. during due diligence and within deal structuring) who is responsible for measuring what. This can evolve over time and should be reviewed on an annual basis.

### **Step 4: Verifying & Valuing Impact**

In this step, we need to verify whether the claim we make on having positive social impact is true, and if so, to what extent (i.e. to what value). The responses to these questions will allow us to refine the target outcomes and associated indicators, creating a positive feedback loop in the impact measurement process. This step also helps identify the impacts with the highest social value, which can help an organisation focus their resources towards those initiatives that create most impact on society.

Again, this step needs to occur at two levels: both at the level of the VPO/SI as well as at the level of the SPO.

The VPO/SI must verify (or at least record) the non-financial assistance provided to their investees. They should then confirm with the investees that this assistance was in fact valued. It may also be necessary for VPO/SIs to verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective actions can be undertaken if necessary.

At the level of the SPO, it is important to verify whether the outcomes make sense for the stakeholder i.e. if the outcomes were realised during the timeframe and in the quantities expected.

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**Verifying impact** can be done via:

- **Desk research:** confirming whether the trends detected and interpreted by the SPO can be triangulated with other data (external research reports, databases, government statistics etc.);
- **Competitive analysis:** comparing the results of the SPO with other comparable organisations in terms of similar issues, geographies and populations targeted;
- **Interviews / focus groups:** asking neutral questions to a representative sample of your key stakeholders. This format can be particularly useful when the VPO/SI is assessing the value of its non-financial assistance to the SPO. However it is recommended that a neutral party conduct these interviews so as to ensure SPOs are comfortable providing the most truthful responses).

The next step is to understand if the outcome was important i.e. of value to the stakeholder.

Numerous techniques and methodologies exist for **measuring value** created. We have chosen not to list all the possible techniques preferring instead to cite certain useful references. Two general categories can be identified: qualitative and quantitative (monetisation).

- **Qualitative:** storytelling, client satisfaction surveys, participatory impact assessment groups, progress out of poverty index.
- **Quantitative (monetisation):** techniques for valuing e.g. perceived value / revealed preference and Value Game or techniques for cost / benefit analysis e.g. cost-saving methods and quality adjusted life years calculations.

Whether you select a quantitative or qualitative technique or a combination of both for valuing impact will depend on your rationale for measuring impact in the first place. For example, often governments tend to prefer quantitative approaches whereas the general public may prefer qualitative methods.

### *Recommendations for managing impact:*

- Perform this step at the beginning of an investment (as part of the due diligence), at least once during the investment period (to check that the impact is achieved and valued) and again at the time of exit (as a way to check that the desired impact has been achieved and makes sense).
- Make clear assignments between the SPO and VPO/SI about who is responsible for which parts of the verifying and valuing process.
- Unless you verify whether you have created value through your support of the SPO, you cannot credibly make that statement.
- VPO/SIs should use independent studies to assess the value they provide to the SPOs as directly questioning investees may be a delicate matter, resulting in them not always providing truthful answers.
- VPO/SIs should verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective action can be undertaken if necessary.

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### Step 5: Monitoring & Reporting

The final step in the impact measurement process involves monitoring – tracking progress against (or deviation from) the objectives defined in the first step and made concrete through the indicators set in the third step; and reporting – transforming data into presentable formats that are relevant for key stakeholders. Monitoring and reporting are iterative processes that go hand in hand because what is monitoring to one stakeholder is reporting to another e.g. when a VPO/SI is monitoring the progress of an investee SPO, that SPO is reporting relevant data to the VPO/SI. As in the other steps we must consider the process at two levels: the VPO/SI and SPO.

#### (i) Monitoring

Once an organisation has decided on the indicators to be measured and verified that they make sense to the key stakeholders, they need to start collecting data in a systematic way. In practice, the type of system may be considered upfront but we urge organisations to go through the impact measurement process at least theoretically prior to setting up the system to understand the type of information that needs collection.

The VPO/SI should be collecting and analysing data on:

- Specific indicators that measure its progress towards reaching its overarching social objectives.
- Time invested and/or € provided in non-financial support to its investees.
- The investee SPOs, according to the objectives and indicators previously defined.

There is also a need to evaluate if the SPO is effectively monitoring its activities and outcomes e.g. are the selected indicators appropriate (providing a balanced picture of the situation and picking up potentially positive and negative aspects) and if the VPO/SI has a role to play in improving the impact measurement practices of the investee

The SPO needs to evaluate the outcomes or impacts that are being achieved through the activities of its organisation and the practical lessons that can be learned from the results. With this information it is then possible to decide what actions are needed to increase impact.

#### (ii) Reporting

Once the data has been collected and analysed, an organisation needs to consider how to present this information. The purpose of reporting affects the information that should be included. Depending whether the focus is on an internal or an external audience, the various stakeholders may require different types of reports. The stakeholder analysis conducted in Step 2 should guide the development of reporting, considering the stakeholders' multiple objectives.

One of the challenges of the social sector is that each SPO needs to report in different ways to each funder. Some initiatives (e.g. Social Reporting Standard) are trying to overcome this problem, but there is still a problem of lack of standardisation that leads to inefficiencies.

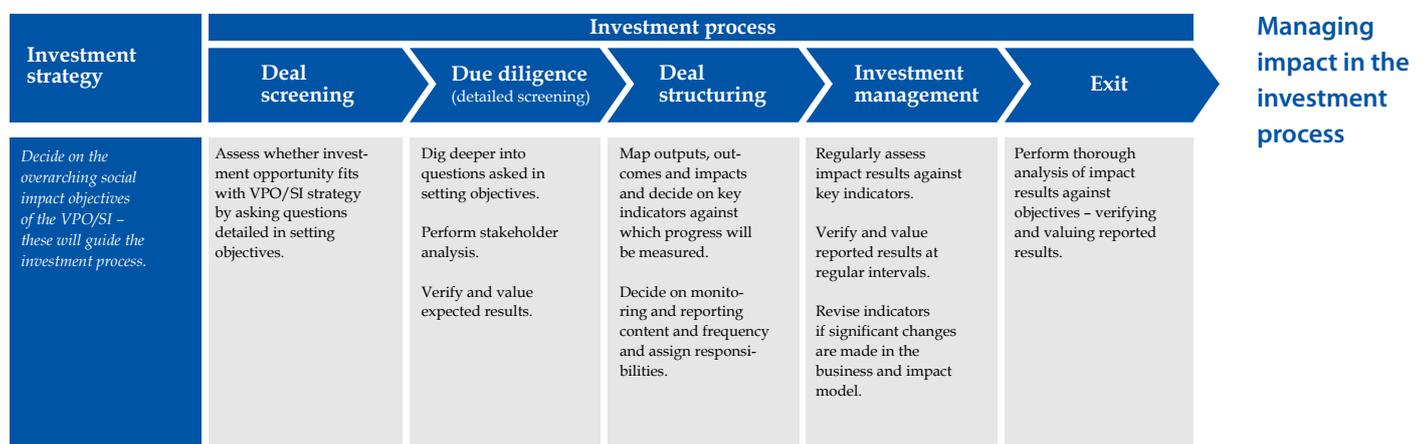
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**Recommendations for managing impact:**

- To remove a reliance on and/or culture of “gut feeling”, VPO/SIs should work with the SPO to develop an impact monitoring system that can be integrated into the management processes of the organisation.
- Check whether the system the SPO already works with is sufficient to meet your requirements – if not, a VPO/SI should be prepared to contribute to improving it through pro-bono partners or other resources (although generally this support doesn’t extend to the actual data collection). The objective should be a system that is of value to the SPO as a management tool.
- The cost to support and maintain a SPO’s impact monitoring system (including personnel time and costs) should be part of the SPO’s budget and hence part of the negotiation with the investor in order to decide how costs should and/or could be split.
- When working with very early stage SPOs and helping them develop business plans, integrate requirements on impact measurement at this stage.
- Agree on reporting requirements upfront with SPO and co-investors to eliminate the burden of multiple reporting on the SPO.
- Manage expectations about frequency and level of detail for reporting, and the way SPOs report; will they just report on numbers or also on verification (and if so, with what frequency).

**Managing Impact**

The impact measurement process outlined in the five steps should allow the VPO/SI to better manage the impact generated by its investments. To manage impact, the VPO/SI should continuously use the impact measurement process to identify and define corrective actions if the overall results deviate from expectations. It will also have become clear that impact measurement is very closely aligned to your investment management process. Given most VPO/SIs are aiming to maximise impact, the corrective actions taken may apply as much to the investment management process as to impact measurement itself.



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Part 1:

# Introduction and Overview

*Source: EVPA*

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## INTRODUCTION AND OVERVIEW

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### 1.0 Introduction and Overview

This manual is targeted specifically at venture philanthropy organisations and social investors (“VPO/SI”), and more generally at impact investors, foundations and any other funders interested in generating a positive impact on society. Throughout the document, we use the term “VPO/SI” to refer to such social sector funders.

The first objective of the manual is to assist investors in improving the way they measure impact, providing practical tips and recommendations for how it works in real-life situations. For that purpose, the manual is a roadmap or guidebook to help VPO/SIs navigate through the current maze of existing methodologies, databases, tools and metrics on social impact measurement. The manual does not recommend a particular tool, but rather attempts to distil best practice from the various ways of measuring and managing social impact. The manual should be useful both for beginners in impact measurement, who are considering how to get started, and for more advanced investors who are struggling with how to better integrate an impact focus into everyday investment management decisions. The manual does not consider how to measure financial impact but focuses solely on social impact (using a broad definition of social that may also include environmental or cultural impact). The second objective is to trigger a movement towards best practice when it comes to measuring and managing impact. We would like the manual to become a working document that evolves with new versions over time as our industry knowledge develops.

The manual focuses on two levels, how to measure the impact of specific investments and how the VPO/SI itself contributes to that impact. It focuses on devising a process of impact measurement for a VPO/SI evaluating the impact of their investment in a SPO. This process is the “how to” of impact measurement and is often what is most needed by VPO/SIs to get started. The ultimate goal is for impact to become an integral part of the investment management process. Within the VPO/SI, the person (or team) assigned to measure impact will be the natural reader/user of the manual, but we also recommend executive directors, boards of directors and investment managers use the manual as a reference for key decisions on topics such as resource allocation, deal selection and investment management.

In order to ensure the inclusion of the opinions and experiences of various stakeholders, EVPA convened an expert group consisting of twenty-seven venture philanthropy practitioners, consultants, academics and representatives of other organisations involved in impact measurement. We have benefited greatly from the collaboration of these experts who freely and enthusiastically contributed their time and knowledge to the development of this document. The members of the expert group are listed in the preface and we are extremely grateful to them. The manual uses plenty of real-life examples from VPO/SIs as well as five longer case studies that were developed by the impact measurement initiative (IMI) expert group members. In this version of the manual, we also include the feedback received during the workshop we organised on the topic with 80 participants and individual feedback collected during a consultation period of around three months following the publication of the first draft.

## INTRODUCTION AND OVERVIEW

This practical guide is presented through a framework of five steps that an investor should go through when measuring impact. The process finishes with a section on managing impact that attempts to integrate the elements of impact measurement into the investment process. We have stayed away from set methodologies and instead tried to provide specific recommendations and practical examples. Five concrete and detailed case studies are provided to further show how real VPO/SIs are dealing with impact measurement. These cases studies are examples of the current state of the field and show how VPO/SIs are addressing the challenges they face in measuring impact. Finally, the document provides a glossary and additional resources.

### 1.1 Background

Venture philanthropy (VP) works to build stronger investee organisations with a social purpose (SPOs) by providing them with both financial and non-financial support in order to increase their social impact. Although we use the word social we include impacts that may be social, environmental or cultural. The venture philanthropy approach includes both the use of social investment (equity and debt instruments) and grants. The key characteristics of venture philanthropy include high engagement, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and performance measurement.

An integral part of the VP approach is the measurement of performance; placing emphasis on good business planning, measurable outcomes, achievement of milestones and financial accountability and transparency. The focus of this manual is social impact measurement.

### 1.2 How is social impact currently measured by social investors and venture philanthropists?

The rationale for undertaking this impact measurement initiative was inspired by the outcome of a workshop on impact measurement organised by EVPA in June 2011, and the results of the 2011 EVPA Survey of European VPO/SIs, collecting data on 50 VPO/SIs based in Europe with investments in Europe and abroad. The general opinion that came out of the workshop was that there was a strong need for further direction on how to approach impact measurement.

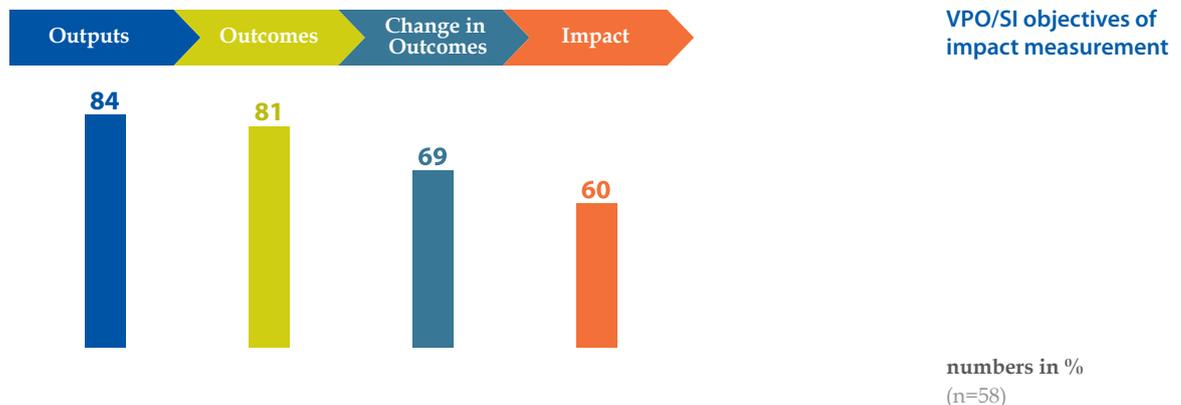
The second annual EVPA survey of Venture Philanthropy and Social Investment in Europe<sup>2</sup>, released on 1st March 2013, collecting data on 61 VPO/SIs also reinforced the importance of social impact measurement.

The key highlights of the survey with respect to impact measurement were as follows:

- *There is increased attention to measuring social impact:* The focus on social impact measurement increased, with 90% of respondents measuring social impact on at least an annual basis during the investment period. Although impact measurement still occurs less frequently than financial performance measurement.
- *VPO/SIs still focus on outputs more than outcomes or impact:* The objectives of the impact measurement system are, in the majority of cases (84%), still based on output measures. Nevertheless we saw an increase in the percentage of VPO/SIs attempting to measure changes in outcome or impact.

<sup>2</sup> Hehenberger, L.; Harling, A. (2013) "European Venture Philanthropy and Social Investment 2011/2012" EVPA

## INTRODUCTION AND OVERVIEW



Source: EVPA

- *Increase in budget assigned to impact measurement:* In fiscal year 2011, the average annual budget for measuring social impact was just over €63k (compared to €18k in 2010), with a median spend of €15k.
- *Lack of standardisation indicates a high degree of fragmentation in the use of impact measurement tools and systems:* In line with last year's survey a majority of VPO/SIs (73%) indicated that they were not using a standardised tool to measure social impact. Among those that did use such a tool, the most frequently mentioned were Social Evaluator and SROI, although a quarter of people did say they were using IRIS indicators or theory of change. Interestingly, when asked whether they used one of the steps of the 5-step process developed herein, between 70-90% of respondents used each of the steps.
- *Impact measurement is not fully integrated into the decision-making process:* 53% never or only sometimes take the social performance into account before releasing new funds.
- *Impact measurement does not inform employee compensation:* Only 12% of the VPO/SIs include social performance in the compensation schemes for their own staff.

The outcome of the workshop and the results of the two surveys reinforce EVPA's opinion that there is a need for additional clarity and guidance on impact measurement.

### 1.3 Five-step framework

Analysis of existing resources on impact measurement and the experience of working with VPO/SIs showed that most methods and tools to measure impact share a general framework. This general framework was the starting point for the discussions on impact measurement.

We see the framework as having five steps, which will be explored in greater detail in the main body of the manual (Part 2). Each of the five steps applies to the VPO and how it should consider its own impact, as well as to the SPO. The five steps are as follows:

1. *Setting Objectives:* setting the scope of the impact analysis (why and for whom), the level (portfolio of social investments/individual social enterprise) and what the desired social change is. Objectives should be set at:
  - Level of VPO/SI (defining scope of impact measurement and the overarching social objectives the VPO/SI wants to achieve)
  - Level of investee (social issue to be solved, inputs/activities, expected outcomes)

## INTRODUCTION AND OVERVIEW

2. *Analysing Stakeholders*: ranking the multitude of potential stakeholders in order of priority, weighing their contribution to the completeness of the analysis against the resources required, and analysing their inputs (if any), activities and potential outputs.

- Level of VPO/SI (employees, board of directors, investors / donors)
- Level of investee (direct and indirect contributors and beneficiaries)

3. *Measuring Results - Outcome, Impact and Indicators*: measuring the output, outcome and impact<sup>3</sup> that derive from your activity for the key stakeholders, and understanding how different types of indicators can be used to map the social result of the social enterprise's and VPO/SI's work.

- Level of VPO/SI (based on the objectives of VPO/SI, you can map results and consider portfolio level indicators)
- Level of investee (outputs, outcomes, impact and indicators relating to the objectives of the SPO)

4. *Verifying & Valuing Impact*: verifying that the impact is not too subjective and whether it indeed was valued by the key stakeholders - considering quantitative and/or qualitative methods (by calculating the social value of an investment or otherwise) and comparing the results of the work against relevant benchmarks.

- Level of VPO/SI (was non financial support provided to investees, valued by the investee etc.)
- Level of investee (verifying and valuing impact for key stakeholders)

5. *Monitoring & Reporting*: collecting data and devising a system to store and manage the data as well as integrating this information into overall operations and reporting the data to relevant stakeholders.

- Level of VPO/SI (what systems are required to collect, store and manage data, reporting formats)
- Level of investee (collection, management and reporting requirements for the SPO)

The manual presents the steps in a sequential order and we recommend that VPO/SIs go through the steps in this order. However within the process it is possible to go back to steps and revise them as you gain more information and more familiarity with the process. Some VPO/SIs may find it useful to go through each of the steps at a theoretical level before implementing them in practice. For example it may be difficult for the SPO to engage with certain stakeholders on a frequent basis, therefore in practice you may need to gain the information required for Steps 2 and 4 at the same time.

Working through impact measurement it will become clear that each step also has ramifications for the investment management process. Given VPO/SIs are interested in maximising impact it is important to identify what may need to change within the investment management process so you are indeed able to maximise impact. Within this manual we call this *managing impact*. For each step in the process, the VPO/SI should consider how it relates to the everyday work of funding and building stronger social purpose organisations.

<sup>3</sup> The definition of these terms are explored in section 1.5

## INTRODUCTION AND OVERVIEW



The 5 steps of social impact measurement

Source: EVPA

### 1.4 Methodology

EVPA proposed a five-step process for how to measure social impact based on our own research on impact measurement and the practical experience of working with VPO/SIs that measure impact. A brief description of the contents of the five-step process was circulated to the Expert group in the spring of 2012. Between April and July of 2012, six webinars were held, each webinar related to a particular step in the process (plus an introductory session). The members of the expert group were divided into five working groups and asked to prepare a presentation, including a case study on a particular step. The experiences and discussions among the participants in these webinars have served to adjust and edit the frameworks put forward in this manual to ensure it is well grounded in the practice of EVPA members and other social investors. The data gathered from the Expert Group members was complemented with more in-depth interviews with selected VPO/SIs.

The first draft of A Practical Guide to Measuring and Managing Impact was released for consultation in November 2012 and the 80 participants of EVPA's impact measurement workshop provided initial feedback. Between November 2012 and March 2013 additional feedback was garnered from VPO/SI practitioners in order to improve the guide. The timeline of the Impact Measurement Initiative is shown below.



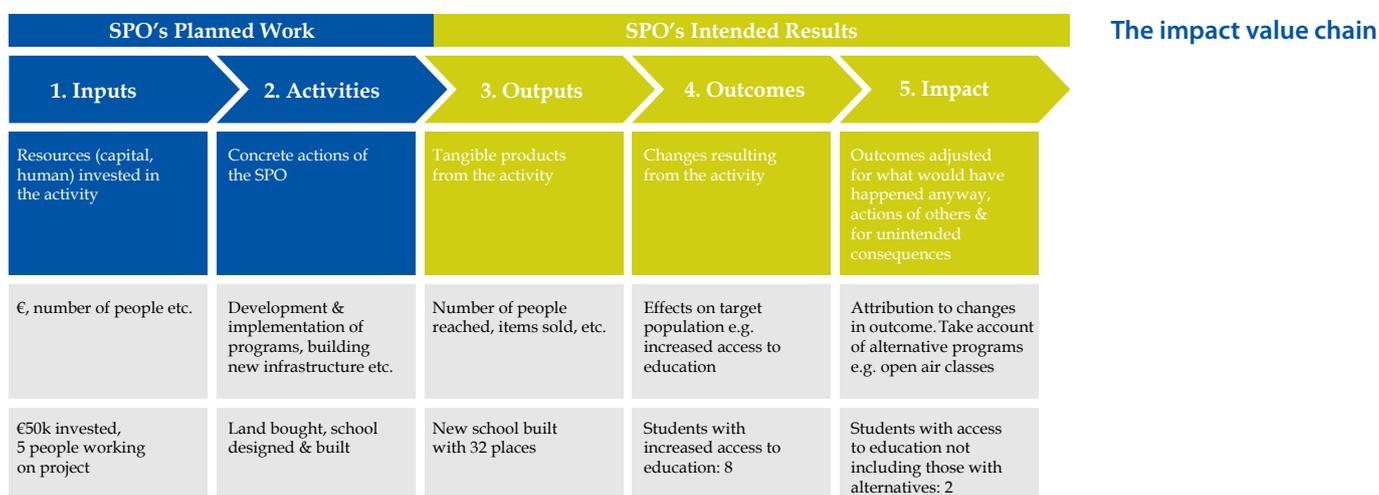
Timeline of the Impact Measurement Initiative

## INTRODUCTION AND OVERVIEW

### 1.5 Definition of social impact

There is currently a large amount of discussion and debate around social impact measurement. However, before diving into the topic it is important to agree the definitions of certain frequently used words in the impact measurement dialogue.

The impact value chain has become a popular starting point for defining social impact as it clearly sets out the differences between inputs, outputs, outcome and social impacts.



Source: Elaborated by EVPA from Rockefeller Foundation Double Bottom Line Project

The impact value chain was also the starting point for the definitions used in this manual. Based on the discussions in the Expert Group, EVPA has agreed the following definitions:

- Inputs:** all resources, whether capital or human, invested in the activities of the organisation.
- Activities:** the concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives.
- Outputs:** the tangible products and services that result from the organisation's activities.
- Outcomes:** the changes, benefits, learnings or other effects (both long and short term) that result from the organisation's activities.
- Social Impact:** the attribution of an organisation's activities to broader and longer-term outcomes.

To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive).

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## INTRODUCTION AND OVERVIEW

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EVPA's recommendation for measuring social impact is to calculate outcomes while acknowledging (and if possible adjusting for) those factors that contribute to increasing or decreasing the impact of the organisation, rather than aiming to calculate very specific impact numbers. This is a general recommendation however we accept that there are certain organisations (for example those who interact with government for pay for performance type contracts) that may be required to produce more scientifically accurate social impact numbers.

As with all definitions, they are most effectively demonstrated through the use of an example<sup>4</sup>. Let us look at an investment in an organisation that focuses on increasing access to education for primary school age children in developing countries. We have introduced the key factors from the case in the impact value chain above to illustrate the difference between input, output, outcome and impact.

The theory of change for this organisation is that lack of access to education is a key factor in preventing the poor from moving out of poverty. Hence to increase access to education the organisation builds educational infrastructure in developing countries. Its inputs are the money invested and the people employed to build the educational infrastructure. Their principal activity (although it may have other complementary ones) is building new schools. One particular output would be a new school built with places for 32 primary school children, although the actual outcome with respect to increased access to education is only 8 as 24 of the other potential primary school children were kept at home to work on the harvest and do other essential work for the family. In fact, the impact is even less when adjusting for the change that would have taken place if the SPO had not performed its activity: of those 8 primary school children, 6 were already receiving some form of education through open air classes and visiting teachers.

This example shows the importance of understanding the difference between impact, outcomes and outputs when considering the social impact of a SPO.

<sup>4</sup> Elaborated from Grabenwarter & Liechtenstein, 2011, "In search of gamma: an unconventional perspective on impact investing."

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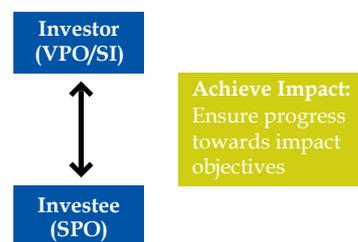
Part 2:

# The Impact Measurement Process

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

In the following sections, we will go through each step in the impact measurement process. For each step, we will explain what it means, how the step is implemented at two levels (i) at the level of the Investor, the VPO/SI, and (ii) at the level of the Investee, the SPO itself; provide concrete recommendations and illustrate by using a real-life example. The reason why the manual contemplates two levels is because a VPO/SI achieves impact indirectly by investing in a SPO that is solving a particular social issue. A VPO/SI needs to consider both levels and how to achieve an appropriate alignment between the two.



The two levels of impact measurement

## 2.0 Step 1: Setting Objectives

### 2.1 What?

This step includes the definition of the scope of impact measurement by the VPO/SI and then the setting of objectives. Setting objectives may appear an intuitively simple task but in practice there is often confusion. Without a clear understanding of objectives it is difficult to proceed with the impact measurement process and this can lead to overburdening the SPO and even the VPO/SI with excessive data collection requests.

The more specific the objectives the better the impact measurement can be prepared.

Objectives should be set at two levels:

- (i) At the level of the VPO/SI; and
- (ii) At the level of the SPO

### 2.2 How to?

#### *Level of VPO/SI*

Before thinking about measuring the social impact of an investee, VPO/SIs should define the scope of their impact measurement and set their own objectives in terms of impact and their relationships with the SPOs. Our conversations with VPO/SIs have highlighted that often VPO/SIs begin with an opportunistic approach to venture philanthropy and social investment. There may also be other issues e.g. the views of potential donors / investors that may condition what you invest in and could risk being outside your specific objectives. Setting and communicating your impact objectives upfront minimises the risk of straying from them due to opportunistic approaches or forceful donors / investors.

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

There are five factors to consider when defining the scope of impact measurement:

#### (i) What is *your* motivation for measuring social impact?

There are many different purposes of impact measurement and these imply different target audiences and outlooks.

A VPO/SI may want to use impact measurement for several reasons. The following list is not exhaustive but provides the main reasons why a VPO/SI should strive to measure impact. Each motivation in turn has implications for how impact is measured:

1. *A tool to assist with investment selection:* allowing the VPO/SI to prioritise where to invest its resources for greatest impact. In this case the target audience of the impact measurement will be internal to the VPO/SI, most likely the VPO/SI portfolio managers, and the outlook will be forward looking.
2. *Evaluation of the progress of a SPO:* again the target audience is internal, however this will also include the management and board of the VPO/SI as well as the individual portfolio managers and, rather than being prospective, monitoring occurs on a continuous basis.
3. *A management tool to ensure that social impact is integrated into strategy and operations:* is of great use to the management of the VPO/SI. This form of impact measurement would also be done on a continuous basis.
4. *Facilitation of aligning of incentives:* can be done either with an internal audience in mind: incentive schemes for portfolio managers based on social impact achieved to steer their work towards achieving maximum impact; or with an external party in mind, specifically the SPO management: setting funding milestones based on social impact objectives achieved. In both these cases there are elements of continuous but also retrospective measurement of impact.
5. *Reporting purposes:* so it can communicate the social impact achieved to external stakeholders in order to facilitate marketing or fundraising efforts. This is almost always done on a retrospective basis.

In practice a VPO/SI is likely to use impact measurement for a combination of purposes.

Even though Ferd Social Entrepreneurs (please refer to case study) has only one owner rather than a large external investor group, they still believe it is important to measure impact. They do so for a number of reasons including demonstrating to Ferd's board and to owner Johan Andresen that it is possible to create social impact in a country with a well-developed welfare state and to motivate other investors to follow a VP approach.

<sup>5</sup> Nelson & Ratcliffe, 2010, "A Guide to Actionable Measurement", Bill & Melinda Gates Foundation

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

The Bill & Melinda Gates Foundation<sup>5</sup> cites 3 different reasons for impact measurement:

- (i) Track their progress i.e. for monitoring: hold themselves accountable for what they do and how they do it by measuring inputs, activities and outputs of their work as well as those of their investments.
- (ii) Inform their strategies i.e. as a management tool: test assumptions and track achievements by measuring outputs, outcomes and impacts as well as understanding how and why they have succeeded or failed.
- (iii) Contribute to the field i.e. for reporting: contribute to accomplishing shared goals by measuring outcomes and impact, sharing results and collaborating with partners to understand what works and why in the populations they serve.

The table below provides an overview of the principal motivations for measuring impact and their associated audiences and outlooks.

Motivation	Target Audience	Outlook
<b>Investment Selection:</b> prioritise where to invest resources for greatest impact	Internal (VPO/SI portfolio managers)	Prospective
<b>Monitoring:</b> evaluate progress of the SPO against milestones, with increased transparency	Internal (VPO/SI portfolio managers, management, board of VPO/SI)	Continuous
<b>Management tool:</b> a framework to integrate social impact into strategy and operations	Internal (VPO/SI portfolio managers and management)	Continuous
<b>Aligning incentives:</b> generates incentive schemes that steer work towards achieving impact, and/or for setting funding milestones with the SPO	Internal (VPO/SI portfolio managers, management and board of VPO/SI) & external (SPO management)	Continuous/ Retrospective
<b>Reporting:</b> communicate impact to external stakeholders for marketing and fundraising purposes	External (other stakeholders)	Retrospective

Source: EVPA

#### Reality Check

The reality is that no two VPO/SIs are the same, and your understanding of your motivation for impact measurement needs to be framed in the context of what is reasonable with your resources, the type of SPOs you invest in, the level of rigour you require in your analysis and the timeframe you are considering for your analysis.

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

#### (ii) What resources can you dedicate to impact measurement?

Resources to be considered include financial, human, technological and time. The more resources available, the higher your expectations can be as to what you can achieve from impact measurement and the greater the rigour and complexity that can be applied in the process. But with limited resources, what you would like to achieve from impact measurement needs to be much more tempered and focused.

In fact there are two parts to this resources question. The first is the resources required to set up the process and the second those required to implement and use the process. Depending on the complexity of your approach, you could expect to spend three to six months establishing the methodology and training the team. To implement and use the process you could expect to have one person dedicated part time to impact measurement. The aim is for impact measurement to become an integral part of the investment process so that it is used by all VPO/SI team members on a daily basis, but it is useful to have someone responsible for the overall process.

A resource called “The Good Investor: A Book of Best Impact Practice”<sup>6</sup> focuses on integrating impact measurement into the investment process. The guide recommends impact investors to include the following functions to make impact measurement an integral part of the investment process:

- An investment team that understands the essentials of impact measurement.
- Some in-house expertise regarding impact analysis (either within the investment team, or active in supporting it).
- A person with a head of impact role (if not a full time position, this responsibility is clearly assigned to someone, and included in their job description).
- An investment committee with diverse membership, including social and investment expertise, with members who are able to read impact reports, understand the key parameters at play, and integrate impact into the making of reasoned investment decisions.

The issue of constrained resources is often heard as a reason preventing VPO/SIs and SPOs from getting started on impact measurement. Sometimes this is more a mental barrier, and we hope this manual provides sufficient practical recommendations in order to get started on impact measurement without incurring high costs. Other times impact measurement is seen as a burden, driven by VPO/SIs and/or to be outsourced to external consultants.

A survey of 1000 SPOs in the UK by New Philanthropy Capital<sup>7</sup> showed that more than half put meeting funders’ requirements as a key driver for impact measurement versus only 5% saying that the main driver was improving services. However the main benefit that SPOs said they found when they did measure their impact was not increased funding but improved services!

<sup>6</sup> Hornsby, A. & Blumberg, G. (2013). “The Good Investor: A Book of Best Impact Practice”. Investing for Good. <http://cdn.goodinvestor.co.uk/wp-content/uploads/2013/01/thegoodinvestor.pdf>

<sup>7</sup> Ní Ógáin, E.; Lumley T.; Pritchard, David. (October 2013) “Making an Impact: Impact measurement among charities and social enterprises in the UK” New Philanthropy Capital

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

On the other point, consultants can indeed provide useful guidance and advice; however allocating internal resources to focus on impact measurement is vital. To perform a good impact analysis it is important to know the organisation well and assigning internal resources to these tasks ensures any learning about impact measurement remains within the organisations so as to inform their strategy, structure, policies and procedures i.e. to improve services.

LGT Venture Philanthropy (“LGT VP”) estimates that it took them six months to establish the methodology and another 3 months to train the team. For them terminology was the main issue as it was important to establish a common dialogue within the team. They selected the logic model as the principal framework, given its clear definitions, guidelines and examples. However despite the clarity in the framework it took a while for the team to get up to speed. LGT VP then mapped the logic model to the Millennium Ecosystem definitions of quality of life. This enhancement of the original model to describe how outcomes improve a specific dimension of quality of life added complications and increased the time needed for the team to become comfortable with the approach.

#### **(iii) What type of SPOs are you working with?**

All SPOs are different. Specifically, the maturity i.e. the stage of development of the SPO will potentially limit the type of information that the SPO can provide. You should also consider what assistance the SPO requires in order to provide you with the data needed to measure impact. In addition, the complexity of the issue that the SPO addresses may also constrain your impact measurement process and should be considered upfront when deciding on the scope of your impact measurement.

#### **(iv) What level of rigour do you require in your impact analysis?**

A point that we develop further in step 2 is the concept of how accountable do you expect your investees to be when assessing their impact? By increasing their accountability you increase the rigour of your analysis and thereby reduce the risk associated with any impact claims made. However the ability to do so depends on the type of SPOs you are working with and the resources that can be dedicated to the process.

#### **(v) What is your time frame for measuring impact?**

In theory time frame should not be the driver for impact measurement as the time period over which you measure impact should be determined by the most important outcomes and the estimated length of time required to achieve them. However in practice VPO/SIs may have external or internal pressures to invest for a certain period of time, which will affect their ability to collect sufficient data to measure impact. We recommend that although there is often a temptation to measure only outputs, especially when looking at shorter investment periods (less than 5 years), all VPO/SIs should aim to go a step further and concentrate on the outcomes of their investments. We discuss the difference between outputs, outcomes and impacts as well as how to select appropriate indicators in step 3.

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

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To set their objectives a VPO/SI should answer, at a minimum, the following questions:

#### **(i) What is the overarching social problem or issue that the VPO/SI is trying to solve?**

Some VPO/SIs decide early on to focus on a particular social issue such as the problem of youth unemployment. Others have a broader social sector focus, which makes it more difficult to clearly define the social problem or issue that they are trying to solve. The response should include information about the nature and magnitude of the problem or opportunity; which populations are affected; whether the issue is changing or evolving and in what way it is changing or evolving. This analysis will allow you to understand the base case and therefore, at a later stage, allow you to see whether there has been any change from this base case. A clearly articulated response is necessary to be able to choose investments in SPOs that can contribute to solving that social issue that the VPO/SI is addressing. For the impact measurement process, the VPO/SI needs to consider this question clearly before starting to make investments, and regularly revise and adapt as its investment strategy develops.

#### **(ii) What objective does the VPO/SI want to achieve?**

The response should look at both their overall impact objectives as well as the relationship to be built with investees. For the overall impact objectives, the VPO/SI should consider what changes it wishes to achieve as opposed to the base case social issue previously identified. The next question will include how to achieve those changes by investing in SPOs whose work is aligned with the objectives of the VPO/SI. The role of the VPO/SI will be to provide the SPO with the support needed to help the SPO achieve those objectives. Sub-questions to assist in answering the question on the VPO/SI – SPO relationship include:

- What is the problem SPOs are facing?
- What solutions are available which are provided by the VPO/SI?
- What is the correlation between these two points?

#### **(iii) What are the expected outcomes?**

This should include what the VPO/SI must achieve in order to be considered successful and will form the basis of the milestones against which the VPO/SI will be measured. For the VPO/SI it is important to evaluate the expected outcome of its investment in the SPO, i.e. the expected outcome of the SPO and how the VPO/SI expects to contribute to achieving that outcome. Given these are likely to evolve over time, it is best to organise by time, ranging from specific (i.e. immediate) to broad (i.e. long-term). It is important to consider potential unintended consequences of the VPO/SI's activities. For example, a VPO/SI that provides a large grant to one of the players in a particular social sector and region may distort the market by creating an unfair competitive advantage (even though that is not its intention). This risk may be mitigated for example by offering other financing instruments.

Tools such as theory of change, logic model or the initial steps of social return on investment ("SROI") may be useful at this stage.

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

In 2011, Noaber Foundation (“Noaber”) changed its strategy completely to focus solely on healthcare. The rationale for this change was that Noaber saw one of its roles as that of connecting people/organisations and creating synergies so as to achieve impact at an aggregated scale. This was more feasible when investees were active in the same sector. With the definition of this new strategy, Noaber had to think of its own impact objectives. For that it created a theory of change for Noaber. Now each time they consider a new investee, they map the investee to Noaber’s theory of change to understand how the new investee adds value to Noaber’s overall objectives and its goal of collective impact.

#### *Level of SPO*

To understand and set the objectives of a particular investment or intervention, a wide range of support systems, methods and tools are available. Tools recommended to assist VPO/SIs in setting their own objectives, such as theory of change, logic model, and particular parts of methodologies such as SROI or balanced score card (which are themselves based on the theory of change) are equally useful when working with SPOs on this step of the process. The manual has extracted the commonalities of the various tools mentioned to come up with a recommended list of questions to go through when defining objectives at SPO level.

At a minimum you should answer these questions about the SPO<sup>8</sup>

#### **(i) What is the social problem or issue that the SPO is trying to solve?**

As per the recommendation for VPO/SIs, the response should include information about the nature and magnitude of the problem or opportunity; which populations are affected; whether the issue is changing or evolving and in what way it is changing or evolving. This analysis will allow you to understand the base case and therefore, at a later stage, allow you to see whether there has been any change from this base case.

#### **(ii) What activities are the SPO undertaking to solve the social problem or issue?**

This should include a description of exactly what the SPO is doing to try to effect a change. It should include a set of specific steps, strategies or actions arranged in a logical sequence demonstrating how each activity relates to another.

#### **(iii) What resources or inputs, as per the impact value chain, does the SPO have and need to undertake its activities?**

This should include the time, talent, technology, equipment, information and other assets available to conduct the activities. Ideally it should also consider whether a mismatch exists between the activities and the resources available to execute those activities. As a VP investor, you should also consider what would be your contribution to helping the SPO to solve the issue (access to networks, capacity building etc.) as a key input.

#### **(iv) What are the expected outcomes?**

As per the recommendation for VPO/SIs, this should include what the SPO must achieve in order to be considered successful and will form the basis of the milestones against which the SPO will be measured. Given these are likely to evolve over time, it is best to organise by time, ranging from specific (i.e. immediate) to broad (i.e. long-term). Some forethought should be given to anticipate potential unintended consequences of the SPO’s activities.

<sup>8</sup> Elaborated from Centers for Disease Control & Prevention, “Framework for program evaluation in public health”

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

Ferd Social Entrepreneurs investing in The Scientist Factory illustrates a complex issue. Their vision is that by providing interesting and exciting after-school science classes to primary school children, more children will be inspired to consider natural sciences as a career path and opt for science classes in high school and at university. Trying to show the impact that these classes have on the children who participate is very difficult given the timeline involved as well as the problem of attributing any decision by the children to later pursue a scientific career path to the influence of the classes.

There may be cases where the SPO is not clear on their own objectives, and input and guidance is required from the VPO/SI. The VPO/SI can work in collaboration with the investee to assist in setting objectives. However the VPO/SI must bear in mind that its own objectives may be slightly different from the objectives of the SPO. As long as the objectives are not opposing it is feasible to move ahead with the relationship, but in the case they are not, then serious questions need to be asked on the appropriateness of the investment as part of the investment selection process.

Jan Lübbering and Katrin Elsemann from Streetfootballworld's Partnership Development team had the following advice when thinking about a SPO's theory of change.

"First of all an organisation needs to be clear about its goals: What would you like your organisation to be recognised for in terms of actual changes? What is the long-term change you want to see as a result of your work? Once these basic questions have been answered it is crucial to think about the pre-conditions that need to be in place for the long term impact: what changes need to happen at what level – within the target group, the community and the society as a whole – to lead to the desired impact? How do external stakeholders influence these changes and how do the organisations' own activities and initiatives contribute to change? What can only be achieved through collaboration and partnerships, and how does that influence your offering?"

They added that,

"It is important to think out of the box when developing a theory of change. While an organisation *explores* how change happens it is tempting to simply explain why it does the respective activities. There is often a certain hesitation to leave the comfort zone of what one already knows. This new thinking requires considering many external factors which lead to the desired change and which one may not have any influence on. But we advise our partner organisations to take time to brainstorm freely. There is no reason to fear the outcomes, as this process is valuable and can only lead to an increased understanding of the underlying reasons for existing or future activities. We consider it as standard good practice for the communities (clients/target groups) to be actively involved in coming up with the theory of change (constituency voice), as well as in all relevant planning steps along the way (not as a one-off effort)."

<sup>9</sup> Doran, G. T. (1981). *There's a S.M.A.R.T. way to write management's goals and objectives*. *Management Review*, Volume 70, Issue 11 (AMA FORUM), pp. 35-36.

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

#### “SMART” Objectives<sup>9</sup>

The concept of “SMART” objectives is now commonplace in management dialogue and business school text books, but the principles should also be applied to objective setting in the context of venture philanthropy and social investment.

An objective is considered as “SMART” if it is specific, measurable, attainable, realistic, and time bound:

- “S” – specific: if it is clearly written so relevant parties easily understand it. The party should be able to define what is to be done, the rationale or benefit related to meeting the outcome or goal and what requirements are necessary.
- “M” – measurable: the objective is measurable if it covers at least one measure of a quality metric, quantity, time and/or cost-effectiveness. Measurable means not just meeting a standard but evaluating to what extent the standard needs to be met. Without a specific measure the party is not able to self-monitor how they are doing relative to the overall objectives of the organisation.
- “A” – attainable: the objective is attainable by the SPO if it is appropriate given the resources (time, human, capital, technology) it has at its disposal. It should allow for some stretch to encourage the organisation to meet its goals.
- “R” – realistic: the objective is realistic if it is within reach of the SPO to achieve given the external context in which the SPO’s activities take place.
- “T” – time bound: the objective is time bound if it can be accomplished within the evaluation period that has been set by the SPO and/or VPO/SI.

“SMART” objectives can be focused on process objectives, such as infrastructure, human resources, systems, policies and procedures or on results objectives such as outputs (or outreach) and outcomes, which usually have a quantitative target with a deadline. An example of a SMART process objective would be, “Create a new loan product to fit the needs of rural women by the end of 2014”. An example of a “SMART” results objective would be, “25% of our clients will move above the poverty line by 2016.”<sup>10</sup> In impact measurement we are generally focused on results objectives when considering the specific objectives of an organisation, however in very early stage organisations it may be relevant to also include process objectives, the attainment of which are vital in order to reach any longer term results objectives.

<sup>10</sup> Examples thanks to Social Performance Management Resource Centre: <http://www.spmresourcecentre.net/index.cfm/translating-your-mission/setting-objectives/>

<sup>11</sup> Thanks go to Beyond Capital Fund for introducing us to this example, which is inspired by and elaborated from Sanergy’s website: [saner.gy](http://saner.gy). The views contained in this document are those of EVPA and not of Beyond Capital Fund

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

#### 2.3 Practical Tips

- Setting objectives is a vital step in any impact measurement process and needs to be considered at both the level of the VPO/SI and the SPO.
- Often VPO/SIs do not spend enough time upfront considering why they want to measure impact, which makes it difficult to take decisions regarding what may be relevant and what not when faced with scarce resources.

#### 2.4 Recommendations for Managing Impact

- A VPO/SI needs to formulate clearly what is its overarching social problem or issue so as to be able to choose investments in SPOs that can contribute to solving that social issue.
- Understanding the current and expected social impact of an organisation early in the decision process is extremely valuable: it creates a common understanding of the impact of an organisation among all stakeholders; allows the VPO/SI and SPO to “speak the same language” and assess at a later stage whether impact has been achieved.
- A VPO/SI should convince the SPO of the value of impact measurement, provide assistance where possible and define with them the responses to the essential questions to help them express their objectives.
- Decisions have to be made about the amount of time and resources that a SPO should dedicate to impact measurement.

#### 2.5 Worked Example<sup>11</sup>

Throughout the manual we will be illustrating the various steps in the process through the use of a worked example. The worked example focuses on a VPO/SI that is investing in early-stage SPOs in Africa.

In setting the scope of impact measurement they needed to consider that their rationale for impact measurement was driven by three reasons:

- Investment selection: to ensure they are selecting investments that are not only financially viable but also having significant impact in their area of focus.
- Ongoing monitoring: facilitating their offering of technical assistance.
- Reporting: to existing shareholders as well as to assist in raising additional funding from other parties.

In addition, like many VPO/SIs, the investment team is small and resources are tight, which frames how much time and money they can dedicate to impact measurement. However they do have a de facto head of impact and are keen to pursue a rigorous process focusing on outcomes even if they may not be able to accurately determine impact (according to the technical definition) in all cases. Their investment approach includes a focus on providing technical assistance and measuring impact as well as the other inherent characteristics of a venture philanthropy approach. Their timeframe for each investment is generally five to seven years.

The VPO/SI's overarching objective is to improve the lives of people living under the poverty line in Africa. They believe this objective is best fulfilled by investing in early-stage for profit social enterprises operating in the region. They have performed substantial research and decided that focusing investments in the sectors of water, sanitation and health will most effectively and efficiently allow them to fulfil their objective. Given their focus on early-stage

<sup>12</sup> Source: Sanergy website - [Saner.gy](http://Saner.gy)

## THE IMPACT MEASUREMENT PROCESS

### STEP 1: SETTING OBJECTIVES

SPOs, technical assistance, particularly access to networks and mentoring, is expected to contribute significantly to the success of their investees.

In this worked example we consider one of their investments in a for-profit organisation that is aiming to build and scale viable sanitation infrastructure in Kenyan slums, beginning with Nairobi.

The objectives for the SPO can be considered as follows:

- *Social problem or issue*<sup>12</sup>: 2.6 billion people do not have access to adequate sanitation and this number is not decreasing despite billions of dollars of aid. The resulting disease and water pollution cause 1.7 million deaths and a loss of \$84 billion in worker productivity each year. In Kenya's slums, 8 million people lack access to adequate sanitation causing disease and death.
- *Activities*: the model involves 4 parts: (i) building a network of low-cost sanitation centres in slums; (ii) distributing them through franchising to local entrepreneurs; (iii) collecting the waste produced; (iv) processing the waste into electricity and fertiliser.
- *Resources or inputs*: equipment (sanitation centres, vehicles for collection, digesters to convert faeces to fertiliser and to generate electricity); staff (qualified personnel on the ground in Kenya to supervise building of sanitation centres and selection of franchisees, employees to collect waste products and transport to digesters, operators of digesters to produce electricity and fertiliser); partners (implementation partners for education about sanitation, technical partners in the design of toilets, digesters / composters, microfinance organisations to support franchisee purchases); funding (grants and investments from foundations and social investors).
- *Expected outcomes*: positive expected outcomes at a local level include increased access to sanitation facilities for slum dwellers, increased employment levels among slum dwellers, improved health for toilet users and overall slum; increased income for toilet operators; improved environmental situation (less waste in open waterways). At a national level, positive outcomes could include a decrease in the number of power shortages, a decrease in carbon emissions, a decreased reliance on imported fertilisers and a decrease in the use of chemical fertilisers leading to positive environmental effects. Potential negative outcomes could be displacement with respect to existing operators of toilets in the slum; zero job creation through people leaving one organisation to work with this one; reductions in sales and hence livelihoods of existing producers of fertiliser.

## THE IMPACT MEASUREMENT PROCESS

### STEP 2: ANALYSING STAKEHOLDERS

#### 3.0 Step 2: Analysing Stakeholders

##### 3.1 What?

There is a strong link between setting objectives and analysing stakeholders for both VPO/SIs and SPOs as, depending on your scope of impact measurement and your objectives for social impact, the stakeholders to be considered will be different.

VPO/SI investments generate value for a variety of stakeholders. We will analyse the stakeholders at two different levels (VPO/SI and SPO), however we can define a stakeholder so that it is relevant for both levels of analysis:

*“Any party effecting and/or affected by the activities of the organisation.”*

There are different categories of stakeholders (which are not necessarily mutually exclusive). Some contribute with inputs in the process, others contribute to or benefit from the results and/or impacts, and others only contribute to or benefit from the outcomes. These stakeholders can be considered direct or indirect and as beneficiaries or contributors. Beneficiaries can be positively or negatively affected by impact and contributors can enhance or decrease impact.

Stakeholder analysis is an important part of impact measurement because:

- We need to *understand the expectations* of the stakeholders, their contribution to and the potential impact our work will have on them. If these expectations are in opposition to each other then it is likely that the VPO/SI or SPO will have severe difficulties in achieving its social impact objectives.

A SPO that focused on getting long-term unemployed people back into employment based on a variation of “welfare to work” programmes is a good example. For two years these people received a salary from the SPO (subsidised by the government) rather than from the employing company. Other than the participants themselves, two important stakeholders were the government (subsidising the salaries for two years) and the employing company (accepting to take on the long-term unemployed for two years). For the government, the expectation was that after the 2-year period, the people receiving subsidised salaries would be offered a permanent job and taken onto the payroll of the company. However, the company saw this as an opportunity to have free labour for 2-years and did not intend to hire the participants at the end of the 2-year period. Unsurprisingly the SPO did not achieve its impact objectives and eventually closed.

- The *co-operation of the main stakeholders* in the impact measurement process is critical.

LGT VP interviews during its due diligence process people who have already benefited from the products or services of an organisation. For them these real case studies provide an important source of information regarding the organisation’s impact on less advantaged people.

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## THE IMPACT MEASUREMENT PROCESS

### STEP 2: ANALYSING STAKEHOLDERS

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#### 3.2 How to?

Applying to both the VPO/SI and SPO level, there are two important aspects of stakeholder analysis: stakeholder identification and stakeholder engagement

##### (i) Stakeholder identification

Under stakeholder identification we have identified three separate but equally important tasks: (a) stakeholder mapping, (b) stakeholder selection and (c) understanding stakeholder expectations.

##### (a) Stakeholder mapping

To perform the stakeholder mapping we need to keep in mind the objectives that have been set in step 1 at the level of the VPO/SI and the SPO.

##### *Level of VPO/SI*

At the level of the VPO/SI we need to remind ourselves what is the overall scope of the VPO/SI's impact measurement and who is the target audience for impact measurement. This will ensure that when the VPO/SI reaches Step 5 it is in a better position to customise its data analysis and prepare the various reports.

More immediately we need to consider the impact objectives of the VPO/SI and who are the relevant stakeholders contributing to achieving those objectives and ultimately who is affected by the intervention.

##### *Level of SPO*

At the level of the SPO, we have already answered questions around the issue being addressed, the activities of the SPO, the available resources and the expected outcomes. These answers should guide us as we list the direct and indirect contributors as well as the direct and indirect beneficiaries from the SPO's actions.

As an example we can consider a SPO that supports ex-offenders in seeking employment with the aim of reducing re-offending rates. In this case we can highlight certain stakeholders within this framework. The direct contributors are the staff at the SPO, the indirect contributor is the family of the ex-offender, the direct beneficiary is the ex-offender who is the focus of the SPO and the indirect negative beneficiaries are those people who do not receive job offers because the ex-offender was employed instead (an effect also known as job displacement).

## THE IMPACT MEASUREMENT PROCESS

### STEP 2: ANALYSING STAKEHOLDERS

The matrix below classifies the various types of stakeholders.

	Direct	Indirect
Contributor	Direct contributor e.g. Staff at SPO	Indirect contributor e.g. family of ex-offender
Beneficiary	Direct (positive) beneficiary e.g. ex-offender who is the focus of the SPO	Indirect (negative) beneficiary e.g. those people who do not receive job offers due to the ex-offender being employed

Source: EVPA

#### (b) Stakeholder selection

##### *Level of VPO/SI*

For a VPO/SI the stakeholder selection process as it relates to the scope of impact measurement and eventual reporting in Step 5 should be relatively straightforward. For example, if your focus of impact measurement is investment selection then your key stakeholders will be the staff of the organisation (portfolio managers especially) and the board of directors (or which ever entity approves investments). However if your objective of impact measurement is external reporting and communication then you will select those stakeholders mostly affected by this activity i.e. investors / donors.

However, for each specific investment, the VPO should identify the key stakeholders of the intervention. The key stakeholders contributing would be donors/investors in terms of financial resources, as well as staff, consultants, volunteers of the VPO, and also the broader networks in terms of providing human and social capital. The benefiting stakeholders would be the SPO and its ultimate beneficiaries. To mitigate the risk of unintended consequences one would need to consider other organisations or communities that might be affected by the intervention. That should be part of the due diligence process.

##### *Level of SPO*

To mitigate potential selection bias when asking the SPO to provide a list of stakeholders for you to contact you can:

- Explicitly ask the organisation to include some parties where the outcomes were not ideal.
- Reach out to parties through your own network who were not necessarily identified by the SPO but who are familiar with its work.
- Always ask the stakeholders to discuss the successes and failures they have experienced.
- At the end of the interaction with the stakeholders ask them to identify other parties with whom they think you should speak in order to build a balanced view of the SPO's work.

At this stage it is likely that you will have a long list of stakeholders. Informed by the objectives of the VPO/SI and those of the SPO you should be able to rank those stakeholders in order of importance. Our suggestion is not to try to measure everything so you

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## THE IMPACT MEASUREMENT PROCESS

### STEP 2: ANALYSING STAKEHOLDERS

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should *select the top five to ten stakeholders* to be the focus of the rest of the analysis. At this point concerns regarding resources (time, manpower, capital) come to the fore, as you must decide what level of accountability (further described below) you want to accept in order to perform a valid analysis.

Two important questions you can ask to help reduce the number of stakeholders are:

- (i) How material are the benefits and inputs provided by these stakeholders?
- (ii) How relevant is the stakeholder group to my primary mission?

One common question asked is how to decide which stakeholders experience material outcomes in advance. Clearly this entails risks that should be acknowledged and can be framed as per the question of how accountable the SPO should be. Additionally by focusing on stakeholder groups relevant to the primary mission and not including certain stakeholders in the analysis we may miss large positive or negative outcomes that would affect our overall impact analysis. However it is important to keep in mind that this is a learning process and as you go through the impact measurement process you can reassess the list of stakeholders and make adjustments.

- (c) Stakeholder expectations

#### *Level of VPO/SI*

Once you have selected the stakeholders you should understand their expectations. It is important that key stakeholders buy in to the impact objectives of the VPO so that their expectations are managed and their contributions are aligned. For example, this means that donors/investors should be clear about the objectives of the VPO when they commit money, staff and consultants should know what the goals are that they are trying to achieve with their work, and SPOs should know what the VPO is expecting them to change. If for example certain investors/donors have very different expectations to yours, then you may need to consider how appropriate an investor/donor they are for your VPO/SI, so as to avoid potential issues at a later stage.

In your engagement with SPOs it is also important to understand what they expect from the relationship, for example in terms of non-financial support, to ensure alignment on these topics.

#### *Level of SPO*

With the list of 5 to 10 stakeholders you should then understand their expectations. Even if the stakeholders share a common objective, the expectation of how impact materialises for each of them in a tangible way may differ considerably. For example, in the UK a social impact bond linked to an organisation that aims to reduce the re-offending rate of ex-prisoners has the UK government and the entrepreneur of the SPO among its stakeholders. The objective of both these stakeholders is to reduce the re-offending rate of ex-prisoners, however the UK government's expectation for impact is in the reduced problems (particularly budgetary and prison over-crowding) caused by re-offenders, whereas the entrepreneur sees impact more in increasing the quality of life of the ex-prisoner so they have no desire to re-offend.

## THE IMPACT MEASUREMENT PROCESS

### STEP 2: ANALYSING STAKEHOLDERS

Importantly there is a distinction between differing expectations, something that is natural and inherent in venture philanthropy and social investment, and opposing expectations, which as we demonstrated earlier, can be disastrous for the success of a VP investment. If it is found that stakeholders do have opposing expectations, then you should take action in the form of assessing how this may impact on the success of the investment and decide whether or not to continue or not with the investment. Generally the recommended way to find out the expectations of your stakeholders is to ask them. We discuss how to do so in more detail in the section on stakeholder engagement below.

#### **Mapping stakeholders with respect to accountability: a more in depth way of thinking about stakeholder relevance**

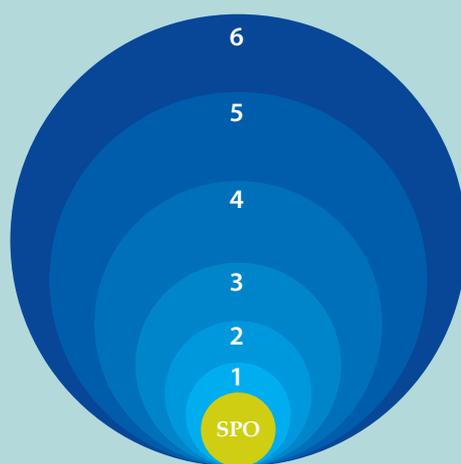
A more in-depth way to consider mapping and then selecting the most relevant stakeholders is to determine the level of accountability of the SPO in question. For example should the SPO be accountable for just the intended outcomes on the target beneficiaries or for the outcomes on all stakeholders (positive and negative). We have identified a spectrum of levels of accountability between these two concepts and illustrate them through an example of an organisation that wants to help people find employment:

- (i) Accountability for the intended outcomes on the main beneficiaries. For example you would focus on the employment outcomes.
- (ii) Accountability for material but only positive outcomes on the main beneficiaries, generalised for the whole group. For example we would consider the trainees who gained employment but we would not consider the extent to which family support was critical.
- (iii) Accountability for material but only positive outcomes on the main beneficiary group but analysing this for sub-groups. For example you would consider those trainees who gained employment and who had family support.
- (iv) Accountability for material positive and negative outcomes on the main beneficiary group and sub-group. For example you would also consider those trainees who gained employment who had family support and those that did not.
- (v) Accountability for material positive and negative outcomes on a selection of the stakeholders (i.e. not just focusing on the main beneficiary group and sub-groups) For example you would consider the trainees with family support, those without, the families of the trainees and the employees of the organisation but you would not consider all stakeholders.
- (vi) Accountability for material positive and negative outcomes on all stakeholders e.g. SROI. For example you would consider the trainees with family support (positive outcome, may gain employment), trainees without family support (negative outcome as they did not gain a qualification or employment, in fact they became more depressed meaning they are less likely to gain employment in the future), families of the trainees, employees, suppliers, funders etc.

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### STEP 2: ANALYSING STAKEHOLDERS

It is evident that focusing solely on level 1 will bring a quicker estimation of social impact. However there is higher risk that the impact is misstated and that the SPO could even be having an overall negative social impact. Level 6 is certainly a slower and more resource intensive way of considering the social impact of the SPO, however there is less risk that impact is misstated as social impact on all potential stakeholders is considered. This trade-off is a decision for the VPO/SI and should be based on its motivation for impact measurement, its resources (human, capital, time) as well as the relationship with the SPO and its resources and motivations.



1. Accountable for SPO intended outcomes on main beneficiary
2. Accountable for material but only positive outcomes on main beneficiary generalized for whole groups
3. Accountable for material but only positive outcomes on main beneficiary groups & analysing these for sub-groups.
4. Accountable for material outcomes on main beneficiary group & analysing these for subgroups (positive & negative)
5. Accountable for material outcomes on some stakeholders (positive & negative)
6. Accountable for material outcomes on all stakeholders (positive & negative)

**Stakeholder mapping and selection based on the concept of accountability**

Source: EVPA<sup>13</sup>

#### (ii) Stakeholder engagement

Engaging in communication with the selected stakeholders is recommended to be able to understand their expectations and, later in the process, verify if their expectations have been met, which is discussed in more detail in step 4.

For VPO/SIs, this means engaging regularly with donors/investors, staff and other human resources, as well as with the investee SPOs so that you are aware of their expectations and can correct any misalignment before further harm is done.

At the SPO level, based on the outcomes of the stakeholder identification process, there will be a number of stakeholder groups identified as key. Engaging with them will be part of the due diligence process of a VPO/SI.

Within each particular stakeholder group you should aim to construct a sample that is of an appropriate size and diversity, for example a mix of male and female, older and younger people. The size of the sample will depend on the reach of the SPO. However what is

<sup>13</sup> Inspired by conversations with Jeremy Nicholls, SROI Network

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### STEP 2: ANALYSING STAKEHOLDERS

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important is ensuring a good sample selection that is non-biased and random. Discussions on scientific (econometric) sampling methods suggest that a good rule of thumb is about 20 – 120 respondents for the sample to be credible, depending on the size of the population. After that the increased sample size merely decreases the standard error of the findings.

The communication channel selected should be appropriate for the stakeholder, and may require different methods for different stakeholders. For example, an elderly population will need to be approached via face-to-face interviews, while a group of youths can be polled via internet surveys. One point to keep in mind in any interaction however is the importance of “neutral” questioning, so that the stakeholders can give their answer without overt direction or pressure from the VPO/SI.

In some cases it may appear difficult if not impossible to communicate with a stakeholder (for example the families of the ex-offenders). Our recommendation is that if a stakeholder is to be included in the analysis then a method of communication should be found, even if this is via an intermediary. Without engaging with the stakeholders it is impossible to understand their expectations and then verify whether those expectations have been met.

#### 3.3 Practical Tips

- Begin stakeholder analysis focusing on a small number of relevant stakeholders and expand from there, rather than trying to measure everything in one go. This guide is not set up to advise you to measure everything!
- Screen the list of stakeholders for the materiality of the benefits or contributions of these stakeholders and the relevance of the stakeholder to the SPO’s achievement of its mission (with the understanding that this is a learning process so over time the risk of missing large positive or negative outcomes decreases).
- As you become more experienced in impact measurement you can consider those stakeholders who contribute to or benefit from the side effects (negative or positive) of the SPO’s work.
- Engaging with stakeholders on multiple occasions may not be feasible. Assess when is the optimal time to engage and then ensure all possible preparation has been completed prior to such time in order to get the most out of the interaction.

#### 3.4 Recommendations for Managing Impact

- Engagement with a VPO/SI’s key stakeholders (donors/investors, staff/human resources, SPOs) should happen upfront by making sure they understand and support impact objectives, and any major changes in these objectives should be properly communicated.
- Regularly engage with the VPO/SI’s key stakeholders to ensure that objectives continue being aligned, and otherwise implement corrective measures.
- When a VPO/SI makes an investment in a SPO, stakeholder analysis should be part of the due diligence phase.
- To avoid wasting resources, increase the intensity (i.e. more stakeholders, more involvement from the same stakeholders and higher numbers involved from each group (up to the number required for a non-biased and random sample) of the analysis as you increase your confidence that you will pursue an actual investment.
- As the investment period proceeds, regularly get back to the stakeholders to verify that their expectations are being met (more details on how to do this in step 4).

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### STEP 2: ANALYSING STAKEHOLDERS

- Consider upfront when would be the appropriate time to revisit stakeholder analysis with the investee SPO. For example this could be when significant developments occur, such as a change to outcomes being achieved, major new funding streams, new business lines being entered, changes to policy environment etc.

#### 3.5 Worked Example

In our example we focus on the stakeholders of the SPO. The stakeholders are the toilet users, the toilet operators, the waste collectors, the broader slum dwellers, the employees of the SPO, other health & sanitation organisations working on educational initiatives, microfinance organisations, the government, existing fertiliser producers, existing power companies, farmers and the VPO/SI itself. These are classified as direct or indirect and contributor or beneficiary in the table below.

	Direct	Indirect
Contributor	Toilet operators SPO's employees VPO/SI	Government Health & sanitation organisations Microfinance organisations
Beneficiary	Toilet users Toilet operators Waste collectors	Slum dwellers SPO's employees Government Farmers Existing fertiliser companies (-ve) Existing power companies (-ve).

Source: EVPA

The VPO/SI would rank the importance of these stakeholders as follows: toilet users, toilet operators, broader slum dwellers, waste collectors, SPO employees, farmers, existing fertiliser producers, existing power companies, government. Given the resources and time that the VPO/SI has available, the early-stage nature of the SPO and the view that these stakeholders are most relevant for the VPO/SI to decide if it is achieving its mission; the VPO/SI decides to focus its analysis on the first three stakeholders: toilet users, toilet operators and broader slum dwellers.

You can consider the expectations of these stakeholders as follows:

- Toilet users: pay an amount of money to use a clean toilet, they therefore expect the toilet to be clean and may expect to have fewer health problems.
- Toilet operators: earn income from the toilets and pay the franchise fee. They expect to have a steady stream of customers for their toilets and the necessary franchisor support from the SPO in case of any problems with the toilet.
- Broader slum dwellers: if the installation of toilets results in less human waste in the slums then all slum dwellers may have fewer health problems. However it is unlikely that slum dwellers will necessarily have this expectation.

Although these expectations do differ, none of them are opposing, therefore we can assume that the SPO will not have difficulties in this area. To understand the expectations, you should engage with the specific stakeholder, remembering the neutral questioning techniques and the advice on sampling detailed above.

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#### 4.0 Step 3: Measuring Results: Outcome, Impact, Indicators

##### 4.1 What?

To transform the objectives set in Step 1 into measurable results we need to consider outputs, outcomes, impact and indicators.

In section 1.5 we defined, through the use of the impact value chain and the example of the SPO building schools in Africa, the first three of these concepts:

**Outputs:** the tangible products and services that result from the organisation's activities.

**Outcomes:** the changes, benefits, learnings or other effects (both long and short term) that result from the organisation's activities.

**Social Impact:** the attribution of an organisation's activities to broader and longer-term outcomes.

To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive).

Many VPO/SIs and SPOs may be tempted to focus their measurement on outputs, but often, simple output measures say very little about the actual outcomes. Imagine a nature conservancy organisation whose mission is to conserve natural species, which measures membership numbers (an output measure) as a measure of its effectiveness. From 1980 to 2010, membership numbers increase significantly, hence they conclude that they are being effective and achieving their mission. However, the membership numbers might have increased due to the escalating problem of depleted biodiversity. Indeed, if they were to look at the number of species present in the geographic area where they are active during the same period they would see that this number has decreased significantly. By focusing on an output measure, which was not aligned with their mission of conserving species, they were unable to measure the true impact of their work. On the other hand, output measures may be sufficient when there is research that specific outputs do result in specific outcomes. For example if their mission had been to increase awareness of the nature conservancy issue then membership numbers (despite being an output measure) could have been one of the relevant indicators.

The difference between outcomes and impact can very quickly become theoretical when considering concepts such as attribution, deadweight, drop-off and displacement. In reality there is no tool or methodology to accurately measure these aspects. The types of studies, which would stand up to scrutiny (e.g. randomised control trials etc.), are very costly, time consuming and may also open up ethical questions when it comes to excluding potential beneficiaries from the SPO's solution for the sake of the study. Part of the rationale for this manual is to be a practical guide hence **we recommend that for VPO/SIs and SPOs to measure impact that they calculate the outcomes of their investments while acknowledging** (and where possible adjusting for) where other programmes could have contributed (e.g. the effect of the welfare state in developed countries) or where there may be negative effects. **i.e. those factors that increase or decrease impact.** In some situations comparing to

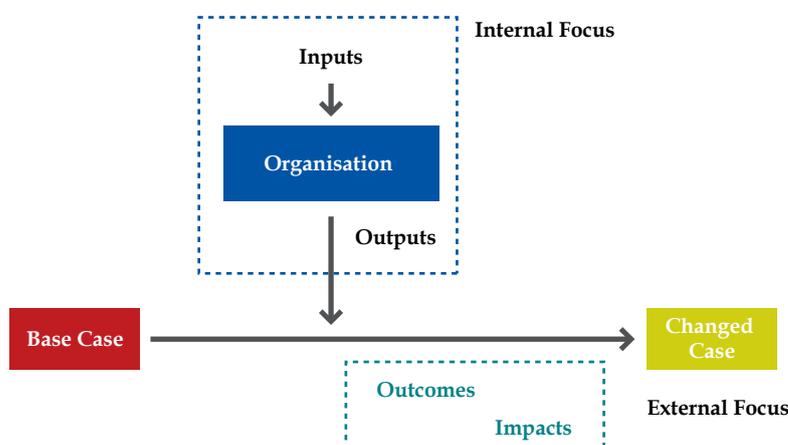
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potential control groups (for example based on research of comparable situations elsewhere) may also be feasible.

One could argue that impact should be very closely related to outcome, as venture philanthropists and social investors should already be aware of the other parties working in their sector of focus. If there is already a large amount of activity we could question whether investing in that sector is the best use of the VPO/SI's funds or whether they should be targeting different areas where they can really add value. In practice, a rule of thumb could be to focus on outcomes and impacts that the organisation can actually influence. If outcomes and impacts become too detached from the operations of the organisation, the organisation will lose ownership of the impact analysis.

Reverting back to step 1: setting objectives, you can consider outputs as directly related to the activities of the organisation i.e. what is done to effect change in the base case. These outputs are internal to the organisation and hence easy to measure whereas outcome and impact are related to the expected and unexpected effects of the activities of the organisation i.e. what effects the activities of the organisation have on the base case. These are by definition, outside the scope of the organisation's activities (but within their scope in terms of accountability) and hence more difficult to measure.



Source: EVPA

**Internal vs external focus:**  
the use of outputs,  
outcomes or impacts

VPO/SIs and SPOs identify and use indicators to manage outputs, outcomes and determine impacts.

We define output indicators as “Specific and measurable actions or conditions that assess progress or regression against specific operational activities.”

We define outcome indicators as, “Specific and measurable actions or conditions that demonstrate progress towards or away from specified outcomes.”

An indicator can be expressed in different ways, for example as numbers, as a ranking of systems or as changes in the level of user approval and further be used to express qualitative

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and/or quantitative information. Quantitative indicators are numerical. Qualitative indicators are those based on individual perceptions, for example responses to interview questions. The types of indicators that exist can also be described at a more granular level e.g. sector specific, leading, lagging etc. We do not go into more detail in the manual on the different types of indicators as no one type of indicator is better than another; its suitability depends on how it relates to the result it intends to describe.

For example<sup>14</sup>, if a VPO/SI is investing in a SPO focused on increasing access to clean water then two output indicators could be the number and type of wells installed. The specified outcome could be a reduction in ill health and mortality and a relevant outcome indicator could be the increase in the number and proportion of the target population with sustained availability of clean water for domestic use.

If instead we consider a SPO focused on women's empowerment through the use of micro-finance, a target outcome could be improved economic control, choice and status with respect to men. An output indicator could be the number of loans given and repaid as agreed. Two outcome indicators could be the % of women with increased disposable income; and the expansion of their options towards diverse social and economic roles.

The United Nations Millennium Development Goals are lofty goals<sup>15</sup>, however the UN has identified specific indicators to demonstrate progress towards those goals. For example goal 1 is to eradicate extreme poverty and hunger, specifically to:

- (i) Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
- (ii) Achieve full and productive employment and decent work for all, including women and young people.
- (iii) Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

For each of these outcomes between 2 and 4 of indicators have been identified. These are then monitored on a country-by-country basis. The indicators selected are:

- 1.1 Proportion of population below \$1 (PPP) per day
- 1.2 Poverty gap ratio
- 1.3 Share of poorest quintile in national consumption
- 2.1 Growth rate of GDP per person employed
- 2.2 Employment-to-population ratio
- 2.3 Proportion of employed people living below \$1 (PPP) per day
- 2.4 Proportion of own-account and contributing family workers in total employment
- 3.1 Prevalence of underweight children under-five years of age
- 3.2 Proportion of population below minimum level of dietary energy consumption

#### 4.2 How to?

##### *Level of VPO*

Although the explanation above focuses predominantly on the SPO; the VPO/SI, via the objectives set in Step 1 and the stakeholders analysed in Step 2, should consider its own outputs, outcomes and impacts and set indicators. The principles of how to select outcomes and indicators described for SPOs below are equally valid for VPO/SIs.

<sup>14</sup> Inspired from Ruby Sandhu-Rojon, UNDP, "Selecting Indicators for impact evaluation"

<sup>15</sup> <http://www.mdgmonitor.org/goal1.cfm>

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Measuring impact at the portfolio level is a hot topic in impact measurement at the moment and there is no common practice yet. VPO/SIs should be aware that the following practices exist and are being tested by leading VPO/SIs:

- *Aggregation of output data* e.g. lives touched. VPO/SIs can view the Impetus Trust Impact Report 2010 - 2011<sup>16</sup> as an example. The TONIIC Institute also recently published an E-guide<sup>17</sup> recommending the use of certain IRIS indicators (client individuals, jobs maintained in financed enterprise, earned revenue, net income, new investment capital) at a cross-portfolio level.
- *Measurement of success in achieving defined goals* i.e. different indicators per investment but with an additional overlay of assessing whether or not the goals have been achieved per investment e.g. Grabenwarter & Liechtenstein's "Gamma" factor. Further details can be found in the paper: Grabenwarter & Liechtenstein, 2011, "In search of Gamma: an unconventional perspective on impact investing." Based on this general idea, the European Investment Fund is currently experimenting with an approach that uses an "impact multiple" to compare an impact objective against an outcome. The result is a relative measure that can be aggregated. For example, if you make an investment in the education sector and use rate of attendance as the indicator that reflects your objectives. If the objective is to improve the attendance rate from 50% to 65% and you attain 70%, the relative multiple is 70/65. This multiple can be used to aggregate across the portfolio.
- *Definition of indicators that reflect the outcome objectives of the VPO/SI.* For example, Noaber Foundation ensures that it aligns the outcomes targeted through its own theory of change to the outcomes selected by the SPO. If these outcomes are not aligned it does not go ahead with the investment. Rather than aggregating all individual SPO indicators, the VPO/SI can measure how well those general outcome objectives have been achieved.
- *Selection of common outcomes at the portfolio level.* For example Big Society Capital<sup>18</sup> has defined with the UK government, venture philanthropists, social investors and SPOs a number of outcomes in each sector in which it operates. Their focus will be on ensuring that reporting from investees focuses on these outcomes. However they do clearly state that although outcomes can be used as a mapping tool to show a VPO/SI where they are active, an outcome map can only be used for aggregation purposes if truly like-for-like numbers and contexts are involved and issues such as double-counting have been dealt with.

For a VPO/SI, it is not enough to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO. As set out in the Good Investor<sup>19</sup>, in practice the impact of the VPO/SI on the SPO is apparent in four areas:

- *Scale of the investment:* the percentage contribution of the investment to the SPO forms a baseline for the extent to which a VPO/SI can link impacts achieved by the SPO back to the investment e.g. 25% of SPO capitalised by the VPO/SI translates to 25% of the impact attributable to the VPO/SI's investment.
- *Growth and strength of the SPO:* growth in financial turnover, increase in strength or resilience of the SPO, growth in impact generating activities and delivery of services, growth in outcomes and impact.
- *Access to other and further capital:* here we consider the "deadweight" of the VPO/SI i.e. without access to other sources of finance, the impact of the VPO/SI's investment is at its highest.

<sup>16</sup> Accessed from [www.impetus.org.uk](http://www.impetus.org.uk)

<sup>17</sup> "TONIIC E-Guide: Impact Measurement" (Fall 2012) TONIIC Institute

<sup>18</sup> More information on the outcomes matrix can be found at: <http://www.bigsocietycapital.com/outcomes-matrix>

<sup>19</sup> Hornsby, A; Blumberg, G. (2013) "The Good Investor, A Book of Best Impact Practice." Investing for Good

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- *Expertise and networks*: this is the important area of non-financial support that needs to be tracked and valued.

These areas would need to be evaluated in addition to the objectives that are directly to the activities of the SPO when a VPO/SI considers its own impact.

The key point for VPO/SIs to remember is that the SPO should report on those outcomes and indicators that are in line with its objectives. If the VPO/SI requires further information in order to fulfil its own information requirements then it should be the VPO/SI that invests the resources to achieve this. It is important not to overburden the SPO.

#### *Level of SPO*

Output and outcome measures are different and should be used in different circumstances.

Output measures are suitable when the focus is on the operational aspects of the SPO (e.g. as a management tool or for day to day monitoring). However they may also be useful in determining outcomes when they point in the same direction as the specified outcome or when there is research that a particular output does result in a particular outcome. For example if the objective of the SPO were to raise awareness through advocacy then the number of participants at an event organised by the SPO (an output measure) would be an appropriate measure to use. However if the objective were to change people's opinions about a certain issue, then counting the number of participants would not be appropriate as it says nothing about whether the event had any effect on the opinions of those participants.

When focusing on output measures, there are a few databases that include a large number of output indicators e.g. IRIS and Wikivois. Where possible we would recommend that if you do require an output indicator that you first see if an appropriate indicator exists within one of these databases and only if it does not, develop your own indicator. Indeed a number of VPO/SIs follow this policy.

Standardisation of output indicators serves two important purposes:

- Ensuring that you and the SPO are aligned on the specifics of the indicator (the indicators in databases are very clearly defined).
- Reducing the burden on the SPO, as if all VPO/SIs can request the same output indicators then this reduces the multiple reporting burden of the SPO.

LGT Venture Philanthropy and Bamboo Finance try as much as possible to use IRIS indicators. In case indicators do not exist in IRIS then they define their own in close collaboration with the SPOs.

Outcomes should be your key focus as soon as your rationale for impact measurement moves beyond the operational towards investment selection, external reporting etc. Whether you then consider output or outcome indicators as relevant for showing your progress towards your outcomes will depend on the nature of the business and the outcomes you are targeting. Output indicators may be sufficient if the operations of the SPO are very directly generating impact or if there exists independent research showing that specific outputs do result in specific outcomes.

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This focus on outcomes is reflected in other impact measurement initiatives that are taking place at the European level.

Big Society Capital (“BSC”), the UK government’s social investment initiative, has spearheaded a project to agree with leading venture philanthropists and social investors the outcomes for various target social sectors in the UK<sup>20</sup>. The resulting outcomes matrix provides an overall framework for outcomes in relation to beneficiaries. Each cell within the matrix houses a list of the high level outcomes that can be achieved within that outcome area for the defined beneficiary group. These high level outcomes break down further into detail outcomes, and the indicators that can be used to measure them. The full outcomes matrix, with the complete list of indicators is not yet complete but will soon be available for download, it will be integrated into the wikiVOIS platform, and will sync with IRIS indicators.

Given our recommendation to VPO/SIs to focus on outcomes and then select appropriate indicators, the next paragraphs provide guidelines on how to do this in practice.

#### (i) Defining outcomes

As a starting point to transform objectives into more concrete and measurable results, an organisation may state outcomes in a number of different ways<sup>21</sup>. The desired outcomes should be in line with the objectives set in step 1 and the organisation should be aware that different stakeholders seek different outcomes.

We identify three main types of outcomes:

- *Outcomes focused on change*: including the increase, maintenance, or decrease in behaviour, skill, knowledge or attitude e.g. increase immunisation among young children.
- *Outcomes focused on targets*: stating specific levels of achievement e.g. immunise 80% of 2 year old children in the community according to recommended public health schedules.
- *Outcomes focused on benchmarks*: including comparative targets, generally related to other time periods or organisations e.g. increase the current 70% immunisation rate for children aged 0 – 24 months to 90% by the year 2015.

The following tables can help you define specific types of outcomes.

#### (i) Outcomes focused on change

The change or desired effect	In what	For whom
Such as: increase, decrease, maintain, improve, reduce, expand	Attitude, perceptions, knowledge, skill, behaviour, condition, agency, organisation, community	Population group, programme participant, client, individual, family, neighbourhood
Example: Increase	Awareness of environmental protection activities	Among community members

<sup>20</sup> Hornsby, A. ; Blumberg, G. (2013) “The Good Investor, A Book of Best Impact Practice.” Investing for Good

<sup>21</sup> Organisation Research Services. “Outcomes for Success!” A product of the Evaluation Forum, Jane Reisman, Judith Clegg, 2000, pg 3-22 (inclusive)

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(ii) Outcomes focused on targets

The amount of change	For whom	In what
Such as: Percentage, rate, ratio, amount	Population group, programme participant, client, individual, family, neighbourhood	Attitude, perceptions, knowledge, skill, behaviour, condition, agency, organisation, community
Example: 55%	Of community members	Will increase their involvement in environmental protection activities

(ii) Outcomes focused on benchmarks (converted from a target statement)

The amount of change	For whom	In what	Against what standard
Example: 55%	Of community members	Will increase their involvement in environmental protection activities	As compared to the 2010 rate or To exceed the national standard of 50%

There is however an issue when using any form of percentage statements in that without a proper context you cannot know whether the change you are seeing is positive or negative. For example if the % of community members who are active in environmental protection increases from 55% to 60% but the community itself reduces in size, then the % increasing on its own does not tell you much about whether more or less people are involved in environmental protection activities.

#### (ii) Selecting outcomes

Outcomes are often lofty and abstract, so how do you set a concrete target for whether the desired outcome has been achieved or not? This is where indicators come into play because if you claim you have an outcome you need to be able to measure it.

Having gone through the process you may have a number of outcome statements, but it is important to select only the relevant outcomes as informed by your mission, rationale for impact measurement and the stakeholders you are focusing on. Some methodologies aim to assign outcomes per stakeholder. However we prefer to use stakeholders as a filter to select among outcomes. To assist in the selection you can ask yourself the following questions<sup>22</sup>:

- Which outcomes are most important to achieve (this will depend on the prioritisation you assign to the stakeholders)? Which are most closely related to the core business of the organisation?
- Are the outcomes material? Is the change or benefit something that makes a real difference for the key stakeholders?
- Which outcomes are most useful? Which will provide the best information for management

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decision-making, investment selection, reporting or whatever other purpose you have for impact measurement?

- Which outcomes are most feasible? Which are most likely achievable with the resources available? Which are likely achievable within the designated evaluation period? It is important to reiterate that this question relates to achievability of the outcomes and not the feasibility of their measurement.

The Global Reporting Initiative<sup>23</sup> uses the principles of materiality, stakeholder inclusiveness, sustainability context and completeness, when identifying the topics that are of relevance. These principles can also be applied in social impact measurement:

- *Materiality*: information should cover topics that (a) reflect the organisation's significant (i.e. require active management or engagement by the organisation) economic, environmental and social impacts, or that (b) would substantively influence the assessments and decisions of stakeholders.
- *Stakeholder inclusiveness*: the reporting organisation should identify its stakeholders and explain how it has responded to their reasonable expectations and interests. Failure to identify and engage with stakeholders is likely to result in reports that are not suitable and therefore not fully credible to all stakeholders.
- *Sustainability context*: the report should present the organisation's performance in the wider context of sustainability i.e. discussing the performance of the organisation in the context of the limits and demands placed on environmental or social resources at the sectoral, local, regional or global level.
- *Completeness*: Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.

#### (iii) Selecting indicators

Having selected the outcomes you need to select appropriate indicators. The key challenge with indicators is to ensure their quality and integrity. Indicators should generate data that are needed as well as useful because if they are not used carefully they can consume extensive resources and generate data with little or no value.

A guiding principle for selecting indicators is that if you are looking at a sub-optimal situation e.g. low self-esteem of adolescents then there must be some measurable evidence of this within that group versus the norm e.g. not finishing school and/or not paying debts. It is that type of evidence that needs to form the basis of the indicator. We recommend that you select the top three issues that demonstrate that a situation is sub-optimal. These issues should form the basis of your indicators.

We have identified four factors that constitute a "good" indicator:

- Indicators should generally be aligned with the purpose of the organisation. Although if a potential unintended outcome has been identified, relevant indicators for this outcome may by definition not be aligned with the purpose of the organisation.

<sup>22</sup> Organisation Research Services. "Outcomes for Success!" A product of the Evaluation Forum, Jane Reisman, Judith Clegg, 2000, pg 3-22 (inclusive)

<sup>23</sup> "Sustainability Reporting Guidelines"; Version 3.1; Global Reporting Initiative

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- (ii) Indicators should be SMART: specific, measurable, achievable, relevant, time-bound.
- (iii) Indicators should be clearly defined so that they can be reliably measured, and ideally, comparable with those used by others so that performance can be better benchmarked and understood in a broader context.
- (iv) Indicators i.e. more than one should be used, with a preference for two to three. For example if your objective is to increase women's empowerment and one outcome is that they take better care of their health, then an appropriate indicator could be the number of times they visit their doctor in a certain period. However whether this number goes up or down, it is very difficult to draw a conclusion as to whether they are taking better care of their health. At least one other indicator is required and a conclusion can only be drawn about whether the outcome is achieved by seeing if they all point in the same direction.

Grameen Foundation's Progress Out of Poverty Index ("PPI")<sup>24</sup> estimates the likelihood that an individual falls below the national poverty line, the \$1/day/PPP and \$2/Day/PPP international benchmarks. The PPI uses 10 simple indicators that field workers can quickly collect and verify. These indicators are derived from the most recent national household income or expenditure survey or the country-specific World Bank Living Standards Measurement Survey, depending upon which dataset has the most complete information, for each country. All indicators on the national household survey are ranked according to how strongly they predict poverty levels. The full list of 400-1000 indicators is narrowed to the 100 most powerful ones. Using both statistics and expert judgement a 10-indicator scorecard is constructed. Each possible response is assigned a point value on the original national survey responses. The total score (summing from 0 to 100) is then linked to the probabilities of falling above or below the poverty lines.

Jan Lübbering and Katrin Elsemann from Streetfootballworld's Partnership Development team had the following advice:

- Define measurable indicators for the key outputs and outcomes that are useful and meaningful to the organisation.
- Choose a mixture of both quantitative and qualitative indicators and refer to already existing indicators from other players in the same field.

One helpful question is: why do we need this information and do we have the capacity to collect it ourselves or is somebody else collecting this already? Is there an easier way to get the relevant information/feedback from the stakeholders/beneficiary/community etc.?

#### (iv) What do you need to consider if you are aiming to measure impact?

To move from outcome measures to understand if the organisation is having an impact, five factors need to be considered:

- *Drop off*: relates to the fact that over time the importance of impact decreases. Impacts don't last forever so you need to make some estimation as to the time period for the impact. The organisation should also be aware of which beneficiaries are dropping off and if there are commonalities among them, so as to be able to improve services.

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- *Displacement*: relates to the fact that with some interventions the positive effect that is seen in a certain group can be offset by the negative effect seen in a different group (which was not the target beneficiary of the organisation). For example, a new business opening in a community may bring about the closure of another business already active in the community.
- *Deadweight*: relates to a consideration as to what would have happened anyway i.e. in the absence of the organisation's activities. It includes the progress that beneficiaries would have made without the organisation's activities (reducing the impact of the organisation) as well as the negative consequences of no intervention (increasing the impact of the organisation).
- *Attribution*: relates to understanding how much of the change that has been observed is the result of the organisation's actions or of the actions of other organisations / government etc. taking place at the same time.
- *Unintended consequences*: are those effects that come about as a result of the organisation's activities, but are not part of the desired effect.

**Unintended consequences:** By defining outcomes in line with objectives implies that an organisation's focus is on intended consequences. For an organisation to have a more accurate calculation of impact they should consider the unintended consequences of the organisation's activities, which may be positive or negative. Some unintended consequences may be foreseen because, although the results of the activities on a particular community or group were not intended, they are a clear result of the organisation's activities and hence they should be factored into the defined outcomes and assigned indicators. However others may only manifest themselves once the activities of the organisation are underway e.g. beneficiaries responding in an unexpected way, or effects on more peripheral stakeholders than direct beneficiaries. To pick up these unintended consequences an organisation should review its activities periodically as part of the monitoring and evaluation process (further discussed in step 5) and then assess what this means for their overall impact objectives and activities.

The ability of an organisation to measure impact will depend very much on the sector and geography in which it is operating. For example, in the UK, the development of the first Social Impact Bond by Social Finance was made possible by the involvement of the government, access to public sector statistics on costs for reconvictions, the ability to create a control group through the Propensity Score Matching method and the involvement of organisations such as QinetiQ and the University of Leicester to independently assess the method and outcomes (more details in the Esmée Fairbairn Foundation case study in section 9.4). In fact the propensity of European governments to move towards pay for performance contracts means the measurement of impact is becoming more important for those organisations active in these areas.

However, for many VPO/SIs and SPOs access to independent statistics and the creation of control groups in order to assess displacement, deadweight, drop off and attribution is not possible due to the expense and specialist skills needed to carry them out. In these cases the resources required to estimate these aspects in a rigorous manner are beyond the scope of most VPO/SIs and SPOs. Therefore we recommend that social impact should be measured

<sup>24</sup> For more information refer to [progressoutofpoverty.org](http://progressoutofpoverty.org)

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by calculating outcomes, while acknowledging those factors that could serve to increase or decrease impact. In some cases it may be possible to think about some evidence as to what a control group may look like and could be used for comparison purposes, for example based on research of comparable situations elsewhere. To gain an idea of what is involved in measuring impacts in an academically rigorous manner we would recommend reviewing the study undertaken of Grameen Danone Foods Ltd<sup>25</sup> in Bangladesh by the NGO GAIN and John Hopkins university and MIT’s Department of Economics working paper<sup>26</sup>, “Up in Smoke: the influence of household behaviour on the long-run impact of improved cooking stoves.”

Øyvind Sandvold, Business Development at Ferd Social Entrepreneurs shared that, “We try to be as cost effective as possible in our measurement of impact but still show meaningful results. Since we are only working within Norway, a country with a well-functioning welfare state, it is difficult to isolate the direct impact for each SPO because there are so many ways impact can be influenced. What we try to do is to assign indicators that show the effect and if those numbers were greater or lesser (depending on the context) compared to average numbers for a comparable group we would claim it is appropriate to assume that there is an impact. At the same time we always collect good stories from the SPOs to provide the context behind the numbers, so we have “witnesses” to strengthen the results. We know that this is by no means “bullet proof” evidence, but it provides us comfort in our impact beyond reasonable doubt.”

LGT Venture Philanthropy’s (“LGT VP”) investment in a ready to use food (“RUF”) producer in Haiti called MFK illustrates the challenges in moving from outputs to outcomes and then to impact. MFK dries, stores, roasts and then grinds peanuts into a paste, before mixing them with proteins, vitamins and minerals. The resulting mixture is packed into sachets and sold to institutional clients who distribute them for free to malnourished children in Haiti. LGT VP use the logic model to understand the SPO’s objectives and map their inputs, outputs, outcomes and impacts. They then overlay the five dimensions of quality life, inspired by the UN Millennium Ecosystem Assessment.

#### Logic Model applied to MFK<sup>27</sup>

Model	
Resources	Organisation Activities
<p><b>Equipment:</b> peanuts processing factory, transportation vehicles</p> <p><b>Supplies:</b> peanuts / peanut paste, vitamins &amp; mineral mix</p> <p><b>Staff:</b> qualified personnel with medical and technical expertise on the ground in Haiti, trained labour force to run factory, international support team in the USA</p> <p><b>Partners:</b> institutional programmes / demand for RUFs, international support for agricultural development operations</p> <p><b>Funding:</b> philanthropic support to combat malnutrition</p>	<p><b>Production of medicines known as RUFs:</b> MFK produces 75MT of fortified peanut based foods (RUFs) p.a. in its current factory and expects to be producing 800MT p.a. by 2015 in an upgraded facility.</p> <p><b>MFK Agricultural Development:</b> MFK conducts 3-5 workshops p.a. with Georgia University to teach subsistence peanut growers how to increase yield and quality of harvests, MFK manages 5 demonstration plots and sources 40% of its peanuts locally</p>

<sup>25</sup> Found at [www.danonecommunities.com](http://www.danonecommunities.com)

<sup>26</sup> Rema Hanna, Esther Duflo, Michael Greenstone, Working Paper 12-10, April 16 2010, Reviser April 30 2012, “Up in Smoke: the influence of household behaviour on the long-run impact of improved cooking stoves.”

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Intended Results		
Resources	Organisation Activities	Impact (systemic)
<p><b>Products:</b> MTs of RUFs produced p.a.: 75 (2011), 800 (2015e) # of products: 2 (2011), 5 (2015e) MTs of local peanuts purchased p.a.: 40MT (2011), 400MT (2015e)</p> <p><b>Services:</b> # of farmers trained in agricultural skills and provided with a stable market at fair prices: 100 (2011), 1000 (2015e)</p>	<p><b>Improve physical wellbeing:</b> ● In 6-8 weeks, a child treated with RUF has 80% likelihood of recovery. Once severe malnutrition has been treated the child can survive on a local diet. Children cured of severe malnutrition before age 5 perform better at school and develop to be healthier and stronger. # patients treated p.a.: 80,000 # patients treated against severe acute malnutrition: 20,000 # children saved from becoming malnourished: 60,000</p> <p><b>Improve social well-being:</b> 🟡 Preventing a child's illness and eventual death leads to avoiding negative impacts, severe trauma and emotional shock for the family circle</p> <p><b>Improve material well-being:</b> 🟡 Parents of malnourished children treated with RUFs can go on with their lives normally as the medicine does not require medical supervision, cooking or cooling. Farmers supported by MFK's agricultural operations are provided with technical support and access to a stable market</p> <p><b>Improve security:</b> N/A ●</p> <p><b>Improve freedom:</b> N/A ●</p>	<p><b>Eradicate malnutrition in Haiti</b></p> <p><b>Build food security in Haiti</b></p>

#### Quality of Life Assessments ("QOL")

- 🟡 No impact
- Low impact
- 🟡 Medium impact
- 🟡 Strong impact
- Very strong impact

<sup>27</sup> Source: LGT Venture Philanthropy

## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

For LGT VP the most difficult part of defining their impact measurement process was to find a rating method that described the contribution of an organisation towards the improvement of quality of life. For example MFK improves the health of children. On average, the families of healthy children have more money than those of sick children (less spent on medicine etc). Hence, MFK contributes to the material well-being of the families of the healed children. But how large is that contribution towards the improvement of their quality of life? Answering this question remains a challenge. They try to find a pragmatic though reliable way to rate the impact but it's still the most challenging exercise.

#### 4.3 Practical Tips

- It is not advisable to “pick and mix” indicators from existing databases without the background work associated with following the impact measurement process. It may save some time upfront, but you are more likely to conclude that you are wasting resources collecting data on irrelevant points if you have not gone through the process.
- You should first reflect on the relevant indicators and only then check the existing databases to see whether some are aligned to yours.
- Don't just select indicators that are likely to show short-term positive impact. For example if the theory of change of a SPO states that providing language training to economic migrants will empower these people, making them less dependent on government provided services and therefore reduce costs for the government; then a potential indicator would be the number of people from this community using government services. In the short term this number may increase as enhanced language skills mean the people can now ask for these services, however in the long-term the number may reduce.
- Always try to include at least one non-self-reported indicator for each outcome.
- Don't get too “bogged down” in calculating an accurate number for impact (unless working with specific governments that have this as a pre-requisite!) Focus your impact measurement on calculating outcomes and acknowledging those factors that could increase or decrease impact.
- To pick up unintended consequences review your activities periodically as part of the monitoring and evaluation process (further discussed in step 5) and then assess what this means for their overall impact objectives and activities.

#### 4.4 Recommendations for Managing Impact

- A VPO/SI needs to consider whether to define portfolio level indicators to measure how well it has achieved its objectives as an organisation. Measurement of impact at the portfolio level is a hot topic in impact measurement at the moment and there is no common practice yet.
- For a VPO, it is not enough to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO.
- The VPO/SI should ask the SPO to focus on those indicators that are directly related to the SPO's theory of change and hence in line with their operational process. Any additional indicators required for the VPO/SI to satisfy their impact measurement needs should be collected by the VPO/SI.

## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

- Clarify at the beginning of the relationship (i.e. during due diligence and within deal structuring) who is responsible for measuring what. The responsibilities of who measures what could and probably should evolve over time as the SPO grows and develops and should be reviewed on an annual basis. The expected outputs, outcome and impact, and the corresponding indicators should be defined before the investment is made and agreed upon by the VPO/SI and the SPO. The indicators can be revised if significant changes are made in the business and impact model of the SPO during the investment process.

#### 4.5 Worked Example

Having a clear idea of the VPO/SI's and SPO's objectives and the key stakeholders, we are in a position to consider outputs, outcomes and impacts, as well as the appropriate indicators. The table below shows the SPO's theory of change and highlights the various outputs, outcomes and impacts.

Business Model	
Inputs	Activities
Equipment: sanitation centres, vehicles for collection, digester to process faeces to fertilisers to generate electricity	Installing toilets
Staff: qualified personnel on the ground in Kenya to supervise building of sanitation centres and selection of franchisees, employees to collect waste products and transport to digester, operators of digester to produce electricity and fertiliser	Recruitment of franchisees
Partners: implementation partners for education about sanitation, technical partners in design of toilets and digesters / composters, microfinance partners to support franchisee purchase	Sale of sanitation services (via franchisee)
Funding: grants and investments from foundations and social investors	Waste removal, collection and processing
	Electricity generation
	Fertiliser production

## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

Expected Effects		
Outputs	Outcomes	Impact
Number of toilets installed \$ revenue from toilet sales	Increased access to sanitation facilities for slum dwellers	Improved physical well-being (reduce disease)
Number of toilet operators	Increased employment levels among slum dwellers	Improved material well-being
Number of users (per toilet & total) Number of visits to toilets \$ income of toilet operators	Improve health for toilet users and overall slum Increased income for toilet operators	Improved physical well-being Improved material well-being
Kg waste collected (assuming kg processed = kg collected)	Improved environmental situation in slums (less waste in waterways)	Improved physical well-being
kWh of electricity produced \$ revenue from electricity sales	Decreased number of power shortages / outages Decreased carbon emissions	Improved energy security Improved environment
Kg of fertiliser produced Kg of fertiliser sold \$ revenue from fertiliser sales	Decreased reliance on costly imported fertilisers Decreased reliance on chemical fertilisers	Improved material well-being Improved environment

Given one of the objectives of impact measurement for this VPO/SI is to monitor the operations of the SPO, we need to set certain output indicators. These output indicators need to be in line with the theory of change shown above and to promote standardisation we will look where possible to use the IRIS indicators.

## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

Output	IRIS Indicator
Number of toilets installed	PI9601: Number of units installed by the SPO during the reporting period
\$ revenue from toilet sales	PI1775: Revenue from the sales of the product or service during the reporting period
Number of toilet operators	PI2758: Number of micro-entrepreneurs distributing the SPO's products/services during the reporting period
Number of visits to toilets	PI8783: Average number of client visits to facilities during the reporting period
Number of users of toilets (per toilet & total)	PI4060: Number of individuals who were clients during the reporting period
\$ income of toilet operators	PI4881: Total earnings generated by the micro-entrepreneurs from selling the SPO's products / services
Kg of waste collected	Not within IRIS so indicator created as: Number of kgs of waste collected from the toilets during the reporting period
kWh of electricity produced	PI8706: Energy produced during the reporting period
\$ revenue from electricity sales	PI1775: Revenue from the sales of the product or service during the reporting period
Kg of fertiliser produced	PI1290: Amount of product or service produced by the organisation during the reporting period
Kg of fertiliser sold	PI1263: Amount of the product or service sold by the organisation during the reporting period
\$ revenue from fertiliser sales	PI1775: Revenue from the sales of the product or service during the reporting period

## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

Despite being important for monitoring the operations of the SPO, these output indicators do not necessarily tell us whether the SPO is making progress towards its outcomes. To do that firstly we need to select the outcomes that are relevant for the VPO/SI to focus on. Given the VPO/SI's objective is to improve the lives of people living in poverty we would naturally focus on those outcomes related to physical and material wellbeing, over and above those related to the environment. We mentioned previously that the stakeholders of focus were the toilet users, toilet operators and slum dwellers. With this filter we should therefore focus on the following outcomes arranged according to the themes of material and physical wellbeing.

Improved physical well-being:

1. Increased access to sanitation facilities for slum dwellers
2. Improved health for toilet users and overall slum
3. Improved environmental situation in the slum (less waste in waterways)

Improved material well being:

1. Increased employment levels among slum dwellers
2. Increased income for toilet operators

Given the technical equipment needed to test the level of sewage in the slum waterways the VPO/SI decided to focus on the remaining four outcomes. With each of these you need to think of the two to three issues that evidence the situation is sub-optimal at present in order to select appropriate indicators.

For increased access to sanitation facilities, two appropriate outcome indicators can be found among the output indicators detailed above:

- Number of toilet units installed by the SPO during the reporting period.
- Number of individuals that were clients in the reporting period.

However an important indicator to add to these two would be to understand how the sanitation situation has evolved generally:

- Increase (versus the beginning of the SPO's operations) in the number of toilet type (including latrines etc.) units installed (by the SPO or by any other organisation) during the reporting period.

For the improved health of the toilet users and slum dwellers, the users may have to be surveyed so as to collect data on the following indicators:

- Number of days a toilet user has not been able to be up and about during the reporting period due to some stomach related illness (deliberately left broad to include the possibility of diarrhoea, intestinal worms etc.).
- Number of outbreaks of typhoid or cholera in the slum area served by the toilets during the reporting period.
- Average Number of days a slum dweller has not been able to be up and about during the reporting period due to some stomach related illness.

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## THE IMPACT MEASUREMENT PROCESS

### STEP 3: MEASURING RESULTS: OUTCOME, IMPACT, INDICATORS

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For the increased employment levels among slum dwellers, it is important to track the following indicators:

- Proportion of community with some form of regular income through full time and part time work as at the end of the reporting period.
- Number of employees (toilet operators, waste collectors etc.) of the SPO, including full-time and part-time (but not temporary), as at the end of the reporting period that reside in the community where the toilets are situated.

For the increased income of the toilet operators, another of the output indicators can be used as well as two indicators that point towards increased wealth:

- Total earnings generated by the micro-entrepreneurs from selling the SPO's products / services.
- Proportion of toilet operators with all their children attending school.
- Proportion of toilet operators with their house's outer walls made from strong materials (e.g. iron, aluminium, tile, concrete, bricks, stone, wood).

Of the eleven outcome indicators selected, three are also used as output indicators and one other (SPO employees from the slum) should be relatively easy for the SPO report. However the remaining seven, which are required to show the progress (or not) towards the target outcomes, require further investment of time and resources (e.g. information gathering via surveys) on the part of the SPO. Given the SPO is claiming these outcomes they should be willing to spend the time necessary to collect the data. However in very early stage entrepreneurs it is important for the VPO/SI and SPO to agree when this level of reporting should begin, although the VPO/SI should not be too accommodating in this respect.

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

#### 5.0 Step 4: Verifying & Valuing Impact

##### 5.1 What?

A focus on verifying and valuing companies' products and services has been present in management for a long time. The initial focus of this research and within commercial organisations was on the quality of the product offered i.e. the process of how the product was made or the service was provided. Management then realised that quality alone was not enough to satisfy the customer so the focus moved to client satisfaction. Today the focus has moved again, to demonstrating the value the customer gets from the product or service. The importance of putting customer value at the centre of your assessment is not just relevant for commercial organisations but also for social entrepreneurs, their organisations and VPO/SIs.

Verifying & valuing impact is a step that occurs at 2 levels: that of the VPO/SI and the SPO.

- (i) VPO/SI level: as a VPO/SI you believe you are creating value by providing non-financial assistance. Unless you verify whether this has occurred and how much the SPO values this assistance, you cannot credibly make that statement. It may also be necessary for VPO/SIs to verify at regular intervals that the expectations of other stakeholders (donors/ investors and human resources) are met so that corrective actions can be undertaken if necessary.
- (ii) SPO level: When we set objectives, identify the stakeholders and select the relevant outcomes and indicators (steps 1-3), we need to know whether we are really making progress towards the desired change and the desired outcomes. We need to know whether we are achieving our objectives, and if so, whether we are achieving them in the expected amounts.

The focus of this step is predominantly on the second level, the SPO, given there are generally more challenges in this area. However VPO/SIs should not overlook the importance of verifying and valuing their own impact on the SPOs and we do discuss this briefly.

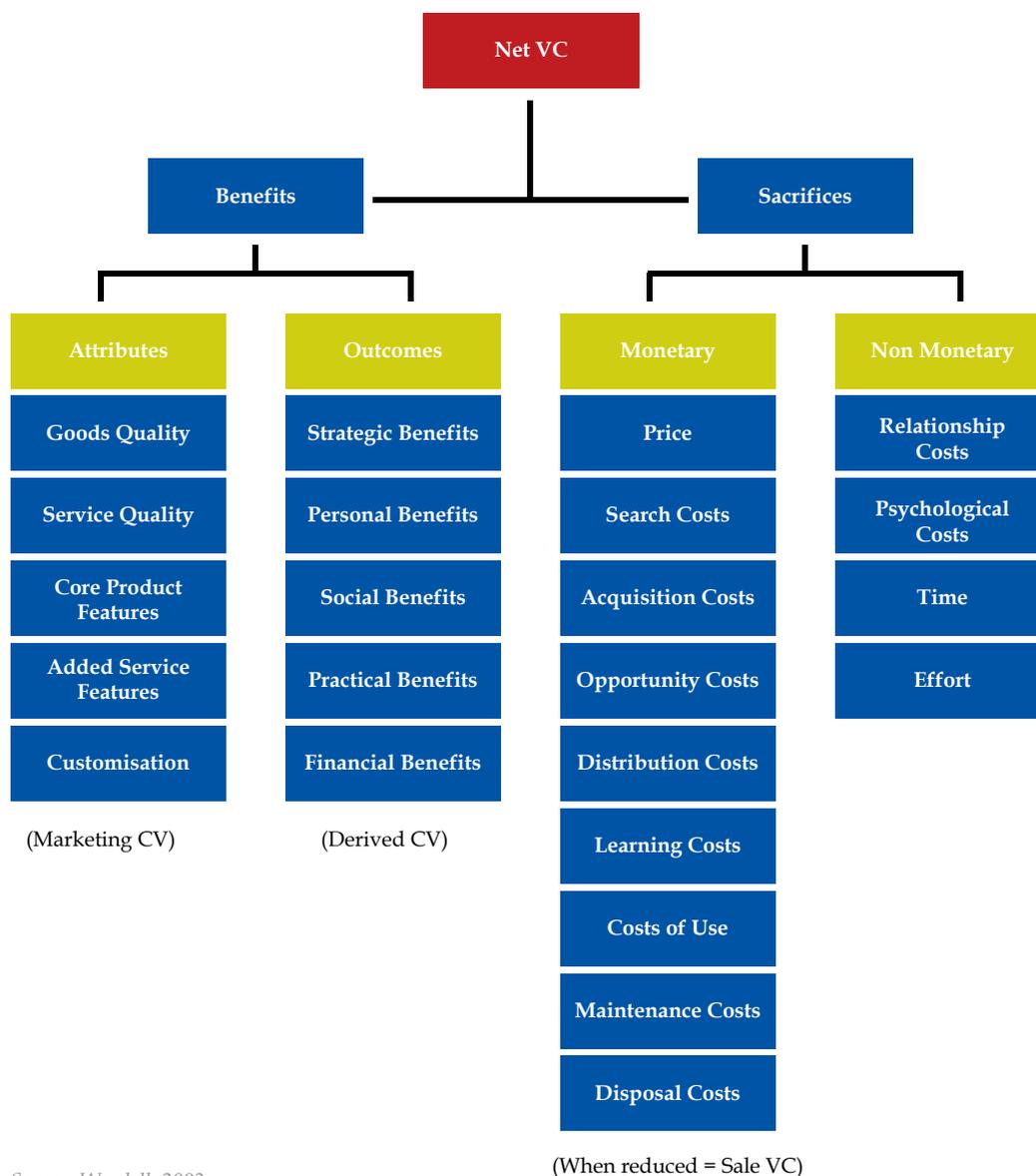
Given that, with respect to the SPO level, we may have different stakeholders with different expected outcomes; we need to verify the results at the level of these stakeholders. This can be a time consuming activity, so it is preferable to start with your most relevant stakeholder group(s), which in many cases are the beneficiaries of the intervention.

In addition, when we verify whether the outcome makes sense for the stakeholders and if the expected outcomes are realised (within the timeframe and quantity expected) we also need to verify whether this outcome was important i.e. valuable to the stakeholder(s). The latter is what we call "valuing impact". In other words: we need to verify whether the claim we make on having positive social impact is true, and if so, to what extent (i.e. to what value). The responses to these questions **will allow us to refine the target outcomes and associated indicators, creating a positive feedback loop in the impact measurement process and enabling us to effectively manage impact.**

Clearly at this point we are assuming that the SPO is a going concern and given the work done in developing the services that the SPO already knows that the outcomes are of some value. Otherwise one would question why the SPO has implemented the products or services in the first place.

## THE IMPACT MEASUREMENT PROCESS STEP 4: VERIFYING & VALUING IMPACT

Value is *weighing the benefits versus the costs/sacrifices for the stakeholder* (whoever that may be). VPO/SIs and SPOs normally incur costs, to create value for other stakeholders (i.e. the direct or indirect beneficiaries). And it is common that the direct or indirect beneficiaries reap the benefits, without incurring (financial) costs themselves. In other words costs are incurred by one stakeholder in order to create value for another. This is one of the reasons why the impact of venture philanthropy and social investment is difficult to value. How value creation ("VC") is linked to benefits and sacrifices is illustrated in the chart below.



Source: Woodall, 2003,  
"Conceptualizing Value for the Customer"

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

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This step is also important in assessing whether the SPO has improved its product or service delivery post VPO/SI intervention (this is why it would be important to make such an assessment at the beginning and the end of the intervention). The choice of method depends on the mind-set of the VPO/SI, the characteristics of the investors (whether more or less focused on numerical or emotional value), and resources available.

Additionally, verifying and valuing impact helps identify the impacts with the highest social value, which can help the SPO and VPO/SI focus their resources towards initiatives that create most impact on society.

Verifying and valuing results should not only be done at the last phase of an investment: it should be repeated as a “reality check” at several points during the investment and value creation process of a VPO/SI. We recommend that this step be performed at the beginning of an investment (as part of the due diligence), at least once during the investment period (to check that the impact is achieved and valued) and again at the time of exit (as a way to check that the desired impact has been achieved and makes sense).

One question that is often raised is who is responsible? At the level of the VPO/SI, it must be the VPO/SI that takes responsibility for verifying and valuing the impact of their non-financial assistance on their investees. At the level of the SPO, a SPO may claim they are too busy or do not have the time or the incentives to do it. VPO/SIs often do not want to “burden the investee”. It is up to the VPO/SI to encourage the SPO to dedicate the time and the resources to this step, given it adds more credibility to any information provided. Unfortunately in practice, many investors in the social sector tend to “trust their gut feeling” rather than invest in the verifying and valuing process. We hope that this step “demystifies” what is required to verify that expected outcomes are actually realised and that the outcomes are valuable to the key stakeholders.

#### 5.2 How to?

##### Verifying results

What we need to verify is what has been developed through the rest of the impact measurement process.

##### *Level of VPO*

With respect to the VPO/SI, this is the added value provided to the SPO from the VPO/SI’s non-financial support. It is recommended that VPO/SIs use independent studies to assess the value they provide to their SPOs as directly questioning investees may be a delicate matter not always providing truthful answers.

##### *Level of SPO*

With respect to the SPO these are the outcomes that the SPO plans to or claims to be delivering i.e. how the key stakeholders are / were affected by the work of the SPO.

In other words, in both cases, we are triangulating the information we have received by verifying it against other sources.

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

There are three principal approaches for this:

#### (i) Desk research

By looking at external research reports, databases, government statistics etc. it is possible to confirm the trends that the organisation has detected through the outcome indicators. This can be done by the VPO/SI and/or SPO or can be outsourced. For the VPO/SI this desk research can and should occur at various points in the investment process. Prior to investment this information provides data on the size and importance of the issue and establishes a base case. During the investment this data is useful for triangulation purposes.

#### (ii) Competitive analysis

We can compare the data of the organisation with the data of other comparable organisations operating in similar geographies on similar issues. We can ask the question of whether the activity has been tried before and what were the results and learnings. Competitive analysis helps with setting objectives and with judging the outcomes. But the danger with this method is that organisations may only share “good” results and not always the information about projects that failed or were less successful.

#### (iii) Interviews / Focus groups

Probably the best way to verify expectations and results is to ask the stakeholders: by personal interviews or in the form of focus groups. In both cases you ask your stakeholder about the results of the intervention. This is particularly the case when the VPO/SI is assessing the value of its non-financial assistance to the SPO.

One of the most crucial issues is to ask questions in a neutral way so as to prevent “leading questions”. For example, if a project manager asks a participant “Do you like my project?” there is the risk that the participant will answer the way the project manager would prefer. It is preferable to have a neutral interviewer (i.e. relative outsider) asking open questions such as “What do / did you need?” “What has changed?”

Don’t worry about criticisms on the subjectivity of this method. At this stage we are looking for people’s opinions to triangulate with data we already have. However what is important is ensuring that the sample is representative.

We highlight a few references that we believe are useful for this method:

- <http://www.roguecom.com/interview/overview.html>
- <http://techinlibraries.com/cowgill.pdf>

#### Valuing results

There are numerous methods and techniques to measure the value created. They can be divided in two categories:

- Qualitative
- Quantitative (monetised)

The objective of this manual is not to list the full plethora of tools available for measuring value, instead we focus on a number of the most commonly used methods and describe them briefly. We have also provided specific websites and reports where you can find out more about a particular technique.

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

#### (i) Qualitative

- *Storytelling*

Almost all organisations use storytelling in one way or another. These stories can be found in annual reports, project reports, and magazines, etc. In fact storytelling is a structured approach which describes the outcomes of an intervention / investment from the point of view of a stakeholder. Through structured interviews, stakeholders are asked about their experiences with the organisation. Every interview is executed with the same framework of questions. Finally a picture (story) will emerge about the change that the particular stakeholder experienced. A number of frameworks are available on the internet to help create a structured interview and hence effective story.

Website: <http://www.eldrbarry.net/roos/eest.htm>

The reason why storytelling is popular is that numbers do not always tell a story, and it is often easier to communicate the value of an outcome through a story. The downside of storytelling is that it is generally unclear how many people are having or have had, that particular experience i.e. the story may not be representative. We recommend the use of storytelling as one component of valuing; not as the only way of valuing.

- *Client satisfaction survey*

This is an often-used method to measure the level of satisfaction among one's (target) stakeholders. On the internet you will find a large numbers of alternatives for this type of research, including online questionnaires, interviews, focus groups, etc. Often this will be done by an outside organisation.

VPO/SIs may find this technique especially useful for assessing the value of non-financial support provided to their investees.

One Foundation commissions independent feedback from their grantees through a quantitative survey, carried out by Centre for Effective Philanthropy every second year. The Grantee Perception Report® (GPR) shows an individual philanthropic funder its grantee perceptions relative to a set of perceptions of other funders whose grantees were surveyed by CEP.<sup>27</sup>

Using client (or customer) satisfaction research can deliver important information on the value of the product or service to the stakeholders. However do note that "satisfaction" does not always imply the issue at stake is (very) important to the specific stakeholder. You should therefore include questions focused on value, for example: how important is the change for the beneficiary?

Many organisations ask the question, "How many interviews or how much feedback is required? 40%? 80%?" In general it really depends on availability of resources. In reality the representativeness of the research population is much more important than just the number of interviews. It is better to have 20% coverage of a good representative group, than 50% of a non-representative group.

<sup>27</sup> More information can be found at [www.effectivephilanthropy.org](http://www.effectivephilanthropy.org)

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

- *Participatory impact assessment (focus groups)*

This method is popular in developing countries with target groups that cannot read or write as it makes it possible to rank preferences among stakeholders through the use of pictures. Participants are shown a number of pictures (or in some cases they first make these pictures themselves) of products that are relevant and significant to them. A new item (the offer from the SPO or VPO/SI for example) is inserted. Participants receive small stones as “money” and can rank their preferences by paying more or less stones to the different products.

- *Progress out of poverty index (Grameen Foundation)*

We have already described this method in step 3 where the focus was on selecting appropriate indicators. In Step 4 we would use the PPI as a measure of the effectiveness of the SPO at moving people out of poverty and therefore the value of the SPO’s work to the group in question.

#### **(ii) Quantitative (monetisation)**

Different stakeholders are likely to require different techniques. We identify two principal techniques:

- Perceived value
- Cost-savings / cost reallocation

Please also note that social return on investment or cost / benefit analysis are not techniques in themselves, rather frameworks using one of the two techniques.

For individuals and/or target populations cost-savings are hardly ever relevant as it is not generally the individual or broader population who is bearing the cost. For them, perceived value methods should be used. On the other hand, governments, institutions and organisations generally prefer cost-saving methodologies, given this is their focus.

In the case study of Esmée Fairbairn Foundation investing in the social impact bond managed by Social Finance it is clear that the bond focused on cost-savings given this was the government’s focus and the buy-in from government was crucial to the whole structure.

One benefit assigned to monetisation techniques is the ease of aggregating values across the portfolio. But be aware that this can only be done if in each case you are looking at either values or costs i.e. they are genuinely like-for-like quantities.

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#### (a) Perceived value

- Perceived value / revealed preference

These techniques infer prices from related market-traded goods. The idea is that people are “revealing” their preferences every time they make a trade. In scientific literature these methods may be referred to as contingent valuation methods. Basically they address two main questions to infer:

- (i) Willingness to pay
- (ii) Willingness to accept

Because these methods use “money” in the research, the answers of the respondents may be biased: either they give strategic answers (lower value when they are afraid their willingness to pay will lead to a higher real price); or, if they can’t afford the service anyway, they may give unrealistically high answers.

Useful references in order to find out more about this technique are:

- Mitchell, R. and R. Carson (2005). Using surveys to value public goods; the contingent valuation method. Washington USA.
- Champ, P., Koyle, K. and Brown, T. (2003). A Primer on nonmarket valuation. Dordrecht (NL): Kluwer.
- The Value Game  
A specific form of the revealed preferences method is the ValueGame. The ValueGame combines participatory impact assessment (as described above) and the willingness to pay-method, without the “money-component” of willingness to pay. Participants rank pictures with relevant products, and a picture of the service/activity/impact with unknown value, in order of their preference. The ranking gives information about the rating of the service and can be compared to the (money) value of the surrounding products.

More information on ValueGame can be found at [www.valuegame.org](http://www.valuegame.org)

#### (b) Cost-savings

- Cost-saving methods / stated preferences

Stated preference methods use real financial data to assess the value of the outcome by using information about prevented costs, spending, and changes in financial income. The most commonly used methods are:

- Prevention costs method: for example when a new hospital treatment results in a shorter stay in hospital for the patient, hospital costs will be prevented.
- Travel cost method: for example the costs people are incurring to get to a service. These costs indicate the minimum price they are paying to receive the service.
- Hedonic pricing model: is measuring the value of a change, resulting from changes in the environment. For example: a house has a value of 1 million euros. When an airport is built right beside the house, the value may drop down (although the house is still the same).
- Well-being valuation: a recently developed technique for valuing the effect, in monetary terms, of a health problem on an individual’s well-being. The method involves calculating the compensating variation necessary to maintain the same level of well-being after suffering from a particular health problem, and is hoped to offer a solution

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

to the problems of revealed preference and contingent valuation methods. Ref.: [www.ncbi.nlm.nih.gov/pubmed/17380470](http://www.ncbi.nlm.nih.gov/pubmed/17380470)

These methods give a good indication of the volume of value created, and are popular in cost / benefit analysis. Originating from the infrastructural and environmental sectors, these methods are increasingly finding their way into social sectors.

- Quality Adjusted Life Years (“QALY”) is a form of cost / benefit analysis  
The basic idea of a QALY is straightforward. It takes one year of perfect health-life expectancy to be worth 1, and regards one year of less than perfect life expectancy as less than 1. The QALY is based on the number of years of life that would be added by an intervention. Each year in perfect health is assigned the value of 1.0 down to a value of 0.0 for death. If the extra years would not be lived in full health, for example if the patient were to lose a limb, or go blind or have to use a wheelchair, then the extra life-years are given a value between 0 and 1 to account for this.

Although one treatment might help someone live longer, it might also have serious side effects. For example, it might make them feel sick, put them at risk of other illnesses or leave them permanently disabled. Another treatment might not help someone to live as long, but it may improve their quality of life while they are alive (for example, by reducing their pain or disability). The QALY method helps to measure these factors so that we can compare the cost of different treatments for the same and different conditions. A QALY gives an idea of how many extra months or years of life of a reasonable quality a person might gain as a result of treatment.

QALYs have been criticised because there is an implication that some patients will be refused or not offered treatment for the sake of other patients and, yet such choices have been made and are being made all the time. However big the pot, choices still have to be made.

Further information on QALY can be found at: <http://www.medicine.ox.ac.uk/bandolier/painres/download/whatis/QALY.pdf>

The above list is not and is not meant to be conclusive. We have highlighted some of the often-used methods that we think are most prevalent and most useful. More information on these techniques (and many others) can be found in the TRASI database: <http://trasi.foundationcenter.org/>

Pieter Oostlander from Shaerpa shared that, “What we do in relevant cases is:

- Search for academic research that supports claims that are made on impact in the analysis;
- Interview stakeholders and beneficiaries to verify whether claims made by the project or organisation are actually acknowledged by those groups;
- Search for statistical information and academic research to underpin the values of indicators on impact and, if need be, organise focus groups with beneficiaries and stakeholders to assess the perceived value with them.”

## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

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#### 5.3 Practical Tips

- Take this step (more) seriously as it may prevent poor investments, and can create a learning and entrepreneurial environment.
- Be clear about what needs to be verified: different processes and timings will apply to verify the results of the SPO to the beneficiaries, and the VPO/SI's role to the SPO (for example: learning and growth of SPO).
- Desk research is a good starting point for verification but may not be sufficient.
- The decision for a VPO/SI to go out into the field and be fully confident in its impact verification must weigh the size of the investment with the cost of getting to the field.
- Your choice of quantitative or qualitative techniques or a combination of both to value the impact should be driven by the objectives of your impact measurement process and by the prioritisation you assign to different stakeholders.
- The amount of time you will need to verify and value impact should be budgeted upfront in your time plan for the year (VPO/SIs in the expert group suggested 5-7% of time) as it is vital to talk to people to ensure that impact is being achieved.

#### 5.4 Recommendations for Managing Impact

- For a VPO/SI, verifying and valuing results should not only be done at the last phase of an investment: it should be repeated as a “reality check” at several points during the investment and value creation process of a VPO/SI.
- Make clear determinations between the SPO and VPO/SI regarding who is responsible for which parts of the verifying and valuing process.
- Unless you verify whether you have created value through your support of the SPO, you cannot credibly make that statement.
- VPO/SIs should use independent studies to assess the value they provide to their SPOs as directly questioning investees may be a delicate matter not always providing truthful answers.
- VPO/SIs should verify at regular intervals that the expectations of other stakeholders (donors/investors and human resources) are met so that corrective actions can be undertaken if necessary.

#### 5.5 Worked Example

The VPO/SI in our worked example wants to verify and value the technical assistance it has provided to the SPO and the outcomes of the SPO. To achieve the first the VPO/SI ensures that it tracks all the pro-bono assistance it provides to the SPO in terms of type, hours, and where possible assigning a \$ value to how much that assistance would cost if it were to be purchased on the market. On an annual basis it surveys all its investees to understand the value the SPOs see in the technical assistance. The first such survey was developed with the help of an external consultant. However it now does the surveying and the necessary tweaking itself to reduce costs.

At the same time the VPO/SI collects as much data for the verifying process as possible by using desk research combined with competitive analysis. For example it tracks government data on disease outbreaks in and around Nairobi as well as keeps an “ear to the ground” on the activities and results of any similar companies working in a similar setting (although not necessarily the same country).

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## THE IMPACT MEASUREMENT PROCESS

### STEP 4: VERIFYING & VALUING IMPACT

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The VPO/SI is not yet working with the SPO to value the outcomes of the SPO's activities, given they do not have sufficient resources to support either of the two techniques that they would consider (perceived value or Progress out of Poverty Index). Given the early stage nature of the SPO they feel the time is better spent on refining the business model and consolidating its sales. Additionally the required outcome indicators already take up a significant amount of time and the VPO/SI does not want to overburden the SPO with other requests at this early stage.

## THE IMPACT MEASUREMENT PROCESS

### STEP 5: MONITORING & REPORTING

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#### 6.0 Step 5: Monitoring & Reporting

##### 6.1 What?

The final step in the impact measurement process involves monitoring - tracking progress against (or deviation from) the objectives defined in the first step and made concrete through the indicators set in the third step; and reporting - transforming data into presentable formats that are relevant for key stakeholders. Monitoring and reporting are iterative processes that go hand in hand because what is monitoring to one stakeholder is reporting to the other, e.g. when a VPO/SI is monitoring the progress of an investee SPO, that SPO is reporting relevant data to the VPO/SI. When considering monitoring and reporting we again consider the step at two levels: the VPO/SI and SPO.

##### (i) Monitoring

Once an organisation has decided on the indicators to measure and verified that they make sense to the key stakeholders, they need to start collecting data in a systematic manner to track performance against objectives. In practice, the type of monitoring system may be considered upfront, however we urge organisations to go through the impact measurement process at least theoretically prior to setting up the system so as to understand the type of information that needs collecting and therefore avoid technological related issues at a later stage.

A VPO/SI needs to systemise the data it tracks (from the SPO as well as independently) across its portfolio to assess whether it is meeting its own impact objectives.

The SPO needs to collect and track data related to the indicators set in Step 3 and the relevant information defined in Step 4 for verifying and valuing impact.

A VPO/SI should also gain an understanding of the ways its investees are already gathering data and assess whether or not the relevant data is collected in a systematic way. VPO/SIs need to monitor the information received from the SPO (timeliness, completeness, quality of information provided etc.). In fact some VPO/SIs go a step further and look beyond what a SPO can monitor today and try to conjure up a few criteria they would like to strive to monitor in the future, if the SPO is able to develop according to their strategic plan.

A VPO/SI also needs to monitor data about its own activities as a high engagement investor. This involves keeping track of all non-financial and financial support provided to each investee and the total costs thereof. It also involves tracking how the support is used by the SPO and where the gaps are.

Using the data collected to track progress against objectives means that the data needs to be processed, performing the necessary analyses to gain a better and more complete understanding of the impact achieved. The main objective of monitoring is to learn from the data collected and analysed so that changes can be identified and corrective actions implemented. The organisation uses the data collected to analyse the results against the initial objectives and decides which strategies and interventions worked and which did not. It is important

## THE IMPACT MEASUREMENT PROCESS

### STEP 5: MONITORING & REPORTING

also to analyse the unintended consequences of the organisation's activities and if they are significant enough to warrant a change in strategy.

The VPO/SI needs to analyse its role in the change process asking questions such as: Is the support offered to the SPO adequate and sufficient? What can be done differently and are there resources available to implement such corrective actions?

#### (ii) Reporting

Once the data has been collected and analysed, an organisation needs to consider how to present this information. The purpose of reporting affects the information that should be included. Depending whether the focus is on an internal or external audience, the various stakeholders may require different types of reports. The stakeholder analysis conducted in Step 2 should guide the development of reporting, considering their multiple objectives.

One of the challenges of the social sector is that each SPO needs to report in different ways to each funder. Some initiatives (for example the Social Reporting Standard) are trying to overcome this problem, but there is still a problem of lack of standardisation that leads to inefficiencies.

#### Social Reporting Standard

An initiative to deal with multiple reporting requirements is the Social Reporting Standard (SRS)<sup>28</sup>. Apart from providing guidelines on reporting, it provides the following framework for impact-oriented reporting of SPOs:

1. Problem to be solved
2. Scale of the problem
3. Contribution of the organisation to a solution and expected impact
4. Actual social impact
  - resources used (input)
  - work performed (output)
  - impact (incl. outcome)
5. Plan and outlook
6. Organisation
7. Finances

#### 6.2 How to?

A single system can be used that includes functionality for both monitoring and reporting, so that the monitoring system is set up to produce reports, or different tools can be used for each part.

#### (i) Monitoring

##### *Level of VPO/SI*

The VPO/SI should be collecting and analysing data on the specific indicators that measure its progress towards reaching its overarching social objectives, and also monitoring the time invested and/or € provided in non-financial support to its investees.

<sup>28</sup> [www.social-reporting-standard.de](http://www.social-reporting-standard.de)

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Monitoring at the VPO/SI level is not yet well developed in many cases, whereas the monitoring of individual investments is a much more widespread practice. Depending on how the VPO/SI measures impact at portfolio level, the data collection needed and the necessary analysis will be different. It is important that the approach used is coherent. For example, if the overall objectives of the VPO/SI are related to improving the long-term conditions of a certain population, data should be collected at regular intervals to assess changes in that particular population, and an evaluation should be made as to the contribution of the VPO/SI to that change. Implementing the monitoring into the standard internal processes of the VPO/SI and assigning a person responsible for this aspect should go some way to addressing the problem.

Auridis, for example, has developed an investee database using Microsoft Access. It collects information such as financial data, grant history, essential documents such as grant agreements, investees' progress reports, and the milestones. At a portfolio level, Auridis does not aggregate output, outcome, or impact data because the indicators are not comparable across the portfolio. Some very basic aggregate indicators such as "number of lives touched" can be aggregated across its investments.

PULSE<sup>29</sup> is a numeric metric data collection and reporting tool and was created between Acumen Fund and engineers from Google.com and developed with help from the Skoll Foundation, the WK Kellogg Foundation, the Lodestar Foundation and Salesforce.com Foundation. A VPO/SI that works with multiple organisations, and has metrics to track and report back to your stakeholders, can use PULSE to facilitate the process.

VPO/SIs need to collect and analyse data from their investee SPOs, according to the objectives and indicators previously defined. An important step for a VPO/SI is to gain an understanding of the data already collected by the SPO and assess whether the data is of sufficiently high quality and enables the VPO/SI to evaluate whether the SPO is achieving its impact objectives. Many times SPOs have systems in place to collect data on output indicators, but not on outcomes.

The key recommendation for any VPO/SI is not to ask the SPO to collect data that will not be useful to the management of the SPO itself. The danger is to start asking the SPO for long lists of data that take time and effort to collect, when in the end only some of this data is truly relevant. This is why it is so important for both VPO/SIs and SPOs to go through the entire impact measurement process and spend some time on setting objectives and defining relevant indicators, before starting to collect data. If an organisation discovers at this stage that it is impossible to gather data on a specific indicator, it makes sense to go back to step 3 and reconsider the indicators to align them with the real situation at hand.

There is a need to evaluate if the SPO is effectively monitoring its activities and outcomes e.g. are the selected indicators appropriate (providing a balanced picture of the situation and picking up potentially positive and negative aspects) and if the VPO/SI has a role to play in improving the impact measurement practices of the investee. If the VPO/SI asks the SPO

<sup>29</sup> <http://pulse.app-x.com>

## THE IMPACT MEASUREMENT PROCESS

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to implement major changes in its information management system, it must also be willing to contribute some of the resources (financial and non-financial support) required. Using the VPO/SI's network of pro-bono consultants can also be valuable to provide key resources.

In the case of Papilio, the investee of Auridis highlighted in the case study on step 5, the investee itself developed an information system to collect relevant data. The Papilio team previously used a mix of Excel sheets, Word lists, and paper lists spread all over the team, which made it very difficult to manage the data and gain a quick overview of how the organisation was progressing. Supported by Auridis and another major funder, the Papilio team started to develop their own information management system. The recommendations when implementing an information management system are as follows:

- Usability is the key success factor of any system.
- The underlying processes are more important than technology, which is why the system has to be well planned.
- Unless the SPO has relevant technological skills, it is advisable to hire a separate IT consultant to implement the system.
- The whole SPO team and some of the other (external) users need to be integrated in the development process, as they will be the main beneficiaries of the system. It has to be useful for them.

The development of an information management system needs an iterative process and a lot of end consumer testing and reversing.

#### *Level of the SPO*

The SPO needs to evaluate the outcomes or impacts that are being achieved through the activities of the organisation and the practical lessons that can be learned from the results. With this information it is then possible to decide what actions are needed to increase impact.

For example, in the social balanced scorecard developed in the UK for social enterprises<sup>30</sup>, a performance measurement schedule is used to evaluate performance against objectives, including the initiatives that lead to achieving the objective and who is responsible. It provides a template to be used as a management tool for the social enterprise. An example is included in the table below:

Outcome: Promote financial sustainability							
Objective	Indicators	Targets Q1	Targets Q2	Targets Q3	Targets Q4	Initiatives	Owner
Increase trading income	% of income from new products & services	1% of overall budget	2% of overall budget	3% of overall budget	4% of overall budget	Launch of online shop	Director of marketing

<sup>30</sup> [http://www.sel.org.uk/uploads/Ali-Somers\\_BSC-Paper\\_FINAL.pdf](http://www.sel.org.uk/uploads/Ali-Somers_BSC-Paper_FINAL.pdf)

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For Streetfootballworld, it is important to harmonise all monitoring and evaluation activities with the theory of change and the strategic priorities of an organisation. There is no point in collecting data that is not used either for reporting or for learning and improvements. They have often encountered data overload on the one hand and a lack of relevant data that helps organisations respond to internal or external questions about their programmes on the other hand. If an organisation has a clear theory of change and has identified its strategic objectives, this informs the data it needs to assess if the organisation is still on track towards achieving them. In addition, it is essential to consider community and investor requirements from the start to avoid adding additional data collection, which often results in isolated forms and reports rather than synchronised work streams. Involving stakeholders (communities/target groups, investors, board etc.) in the development of the theory of change and the resulting monitoring and evaluation system is a very good practice to ensure backing and support for what you want to measure anyway. Sometimes this can clash with specific reporting requirements to investors or partners who want to know different things about the programmes, and what communities/customers consider effective and necessary."

#### (ii) Reporting

For a VPO/SI, reporting can be external or internal, but generally it is related to reporting to donors or investors. This reporting has different levels of detail depending on the stage of the investment process. At a deal screening phase, the report to investors includes a low level of detail, whereas much more information will be reported on after a due diligence has been conducted. Once the investment has been made, the agreed-upon impact targets should be communicated to investors. During the investment period, reporting should allow investors to determine whether impact targets are being met, and at the end of an investment, a detailed report should be completed with more long-term impacts included and how the VPO/SI has helped the SPO achieve those. A VPO/SI should also consider how to report the progress of its entire portfolio.

VPO/SIs and SPOs should agree before the investment the level of reporting required.

Considerations include:

- *What to report on:* which information should be included in the report?
- *Format of reporting:* which format can easily be used by the SPO based on the management system they have developed, and is clear and transparent for the VPO/SI?
- *Ownership:* who is responsible for reporting within the SPO?
- *Frequency and time horizon of reporting:* how often (monthly, quarterly, annually, etc.) should the reporting take place and what should be the time frame included for comparison (one year, three years)?

If the VPO/SI co-invests with other funders, they should consider the possibility of developing common reporting frameworks so that the SPO is spared the burden of multiple requirements. As long as the funders are able to extract the necessary information from the report, they should not necessarily push their own format.

Some indicators may be reported more frequently than others. Typically, output indicators can be captured more frequently than outcome indicators that might require more time and

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effort to collect relevant data. The SRS recommends that the reporting period should be the calendar year and relate to the prior financial year. It is recommended that the SPO completes the report by the end of the first quarter of the financial year following the reporting period, in parallel with your annual financial statements.

LGT VP's social impact reporting tool was developed in-house using a combination of Excel and Word. SPOs can add their latest outcome figures. In addition, LGT VP introduced Pulse in their Salesforce tool to capture the key indicators. Investee organisations can use their reporting tool if the information provided fits LGT VP's requirements. If this is not the case, investees are kindly asked to use LGT VP's tools. The standard frequency of reporting is every 3 months. Social impact might be reported less often, as many of the indicators are not easy to capture. Effort/benefits to capture reliable data frequently must be balanced.

Ferd Social Entrepreneurs ("Ferd") do not expect the social entrepreneurs to report every month - only once or twice a year, and then maybe spending a couple days at a maximum each time. For them it is crucial to keep the amount of time as low as possible (for many SPOs the gathering of output data is more or less automated). For Ferd, they spend time collecting data perhaps 3-4 weeks a year, as well as a lot of time working with the system and defining the right measures, which probably takes much more time. Standard reporting formats for both SPOs and VPO/SIs may help a little, but Ferd believes they need to tailor the reporting for each of the SPOs to make it as relevant as possible for their business."

PhiTrust does not ask for social impact reporting on a monthly basis, but rather some top-line criteria every six months and a more in-depth look at the impact performance of its investees on a yearly basis. They find that social impact reporting is a very time intensive process for some of their investees (notably those who deal with an array of stakeholders) and the information is not always easily collected. PhiTrust have seen that many of their investees have or are moving towards creating internal reporting 'standard' formats in the form of monthly or quarterly reports on financial and operating metrics and at least annual social impact/performance. The internal format allows them to both take on the process formally in-house with all of the internal buy-in necessary as well as produce one document that they can share with all of their investors. For investees choosing to develop these internal formats, PhiTrust have worked closely with the entrepreneurs in the development of documents to ensure that both the presentation format and content is as relevant as possible to their own needs."

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For Streetfootballworld, agreeing on common standards for good reporting is definitely the right way to support investees and investors, beneficiaries and other stakeholders in their collaboration and collective efforts. For them good reporting should always include a reference to the organisation's theory of change, its activities, and the related progress made towards their desired outcomes, as well as key lessons learnt. While they strongly believe in standardising reporting requirements, they also see some limitations regarding flexibility with the current reporting standards and formats. Rigid formats and fixed templates pose a challenge when reporting to different audiences, such as the target beneficiaries, the community, the board of the organisation or the different funding partners. Ideally, standardised reporting formats remain flexible to be modified in its form and cover a high percentage of the basics, so that only a small amount of additional information needs to be adapted for other stakeholders. At Streetfootballworld they use SRS as a basis for reports to Ashoka and the Schwab foundation. They have also observed an increasing openness by investors to accept existing (standardised) reporting formats rather than asking for burdensome additional information and strongly encourage existing and new investors to support such proposals."

The Global Reporting Initiative<sup>31</sup> cites the following principles for defining report quality:

- *Balance*: the report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.
- *Comparability*: Issues and information should be selected, compiled and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyse changes in the organisation's performance over time, and could support analysis relative to other organisations.
- *Accuracy*: the reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.
- *Timeliness*: Reporting occurs on a regular scale and information is available in time for stakeholders to make informed decisions.
- *Clarity*: Information should be made available in a manner that is understandable and accessible to stakeholders using the report.
- *Reliability*: Information and processes used in the preparation of the report should be gathered, recorded, analysed and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

#### 6.3 Practical Tips

- Early stage SPOs may not be ready to implement a complex monitoring and reporting system – start with simple (e.g. Excel) and increase the level of sophistication as the organisation matures and can free up resources.
- For the VPO/SI, it can be challenging to aggregate results across the portfolio with many different systems and types of impacts. Some tools such as Pulse may be helpful.
- Try to share the development of systems with others, and do not invest on your own in expensive systems e.g. a specific IT system. One of the main problems of specific IT systems is that they are generally standalone and cannot communicate with common file formats e.g. Excel.

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### STEP 5: MONITORING & REPORTING

- As a sector, we should move towards standardisation on reporting to remove inefficiencies. The Social Reporting Standard is a positive step in that direction.

#### 6.4 Recommendation for Managing Impact

- To remove a reliance on and/or culture of “gut feeling”, the VPO/SI should work with the SPO to develop an impact monitoring system which can be integrated into management processes of the organisation, defining timings for each indicator (as not all impact happens at the same time), tools to be used and responsibilities.
- Check whether the system the SPO already works with is sufficient to meet your requirements – if not, be prepared to contribute to improving it through pro-bono partners or other resources. The objective should be a system that is of value to the SPO as a management tool!
- The cost to support and maintain a SPO’s impact monitoring system (including personnel time and costs) should be part of the SPO’s budget and hence part of the negotiation with the investor in order to decide how costs should and/or could be split.
- When working with very early stage SPOs and helping them develop business plans, integrate requirements on impact measurement at this stage.
- Agree on reporting requirements upfront with SPO and co-investors to eliminate multiple reporting for SPOs.
- Manage expectations about frequency and level of detail for reporting, and the way SPO’s report: will they just report on numbers, or also on verification (and if so, with what frequency)?

#### 6.5 Worked Example

In our example, given the SPO is at a very early stage it is sensible to begin collecting data through the use of spreadsheets. The VPO/SI can take the initiative with other investors and create a template for reporting that the other investors are also happy to receive. This can therefore reduce the burden on the SPO. Given the VPO/SI’s objective is also to provide technical assistance to the SPO, one such assistance could be the use of pro-bono consultants to help the SPO develop a more robust (vs. Excel) internal monitoring system to facilitate the monitoring of the output and outcome indicators alongside standard financial information.

The VPO/SI itself should have some form of internal system for collecting and aggregating data (where feasible). Given the VPO/SI is also a young organisation, this system can begin as an access database, but given the VPO/SI has plans in the short term to implement a “Salesforce” style CRM system, moving the monitoring to a system based on Pulse may be a good medium term option.

<sup>31</sup> “Sustainability Reporting Guidelines”; Version 3.1; Global Reporting Initiative

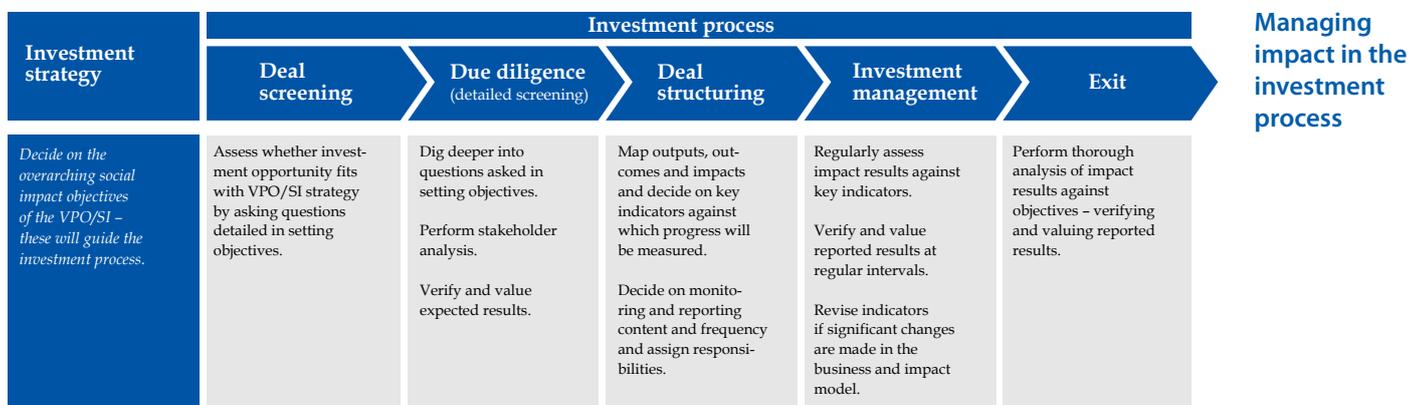
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#### 7.0 Managing Impact

The goal of impact measurement is to manage and control the process of creating social impact in order to maximise or optimise it (relative to costs). The impact measurement process outlined in the five steps should allow the VPO/SI to better manage the impact generated through its investments. To manage impact, the VPO/SI should continuously use the impact measurement process to identify and define corrective actions if the overall results deviate from expectations. This involves revising and readjusting the steps in the impact measurement process as lessons are learned, additional data is collected, or the feasibility of objectives set is questioned. It is important to see impact measurement as a learning process.

Throughout the document, the impact measurement process has been related to the investment management process of the VPO/SI. Given that most VPO/SIs are aiming to maximise impact, the corrective actions taken may apply as much to the investment management process as to impact measurement itself. In the table that follows, the components of the impact measurement process have been integrated into the overall investment process of a VPO/SI. The objective of the table is to assist VPO/SIs that are trying to make impact measurement integral to their investment process. Such an approach may facilitate the end goal of maximising impact:



Source: EVPA

Several VPO/SIs that have worked many years on impact measurement, such as Noaber Foundation and LGT Venture Philanthropy, have fully integrated impact analysis into their investment process. Although the aim is for the impact measurement to become an integral part of the investment process so that it is used by all VPO/SI team members on a daily basis, it is useful to have someone responsible for the overall process. Drawing from the recommendations on managing impact developed for each step in the impact measurement process, the following elements should be taken into account when developing an investment strategy and for the investment process as a whole.

#### Investment strategy

The first question the VPO/SI needs to answer is what the overarching social problem or issue is that the VPO/SI is trying to solve. A clearly articulated response is necessary to be able to choose investments in SPOs that can contribute to solving the social issue that the

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VPO/SI is addressing. For the impact measurement process, the VPO/SI needs to consider this question clearly before starting to make investments, and regularly revise and adapt as its investment strategy develops. Next, the VPO/SI needs to define its overall impact objectives as well as the relationship to be built with investees. For the overall impact objectives, the VPO/SI should consider what changes it wishes to achieve as opposed to the base case social issue previously identified. The next question will include how to achieve those changes by investing in SPOs whose work is aligned with the objectives of the VPO/SI. The role of the VPO/SI will be to provide the SPO with the support needed to help the SPO achieve those objectives.

For the VPO/SI, it is important to get the buy-in of key stakeholders (donors/investors, staff/human resources, SPOs) to the impact objectives of the VPO so that their expectations are managed and their contributions are aligned. Therefore, engagement with a VPO/SI's key stakeholders should happen upfront by making sure they understand and support impact objectives, and any major changes in these objectives should be properly communicated. It is useful to regularly engage with these key stakeholders to make sure that objectives continue being aligned, and otherwise implement corrective measures.

To better manage its overall impact, a VPO/SI needs to consider whether to define overall indicators to measure how well it has achieved its objectives as an organisation. Measurement of impact at the portfolio level is a hot topic in impact measurement at the moment and there is no common practice as of yet.

#### Deal screening

The impact objectives of the VPO/SI will guide the deal-screening step in the investment process, narrowing down the type of SPO that will be considered for investment. For each potential investment, it is important to evaluate the expected outcome of its investment in the SPO, i.e. the expected outcome of the SPO and how the VPO/SI expects to contribute to achieving that outcome.

#### Due diligence (detailed screening)

At the due diligence stage, it is vital to gain a detailed understanding of the current and expected social impact of the SPO. It not only reduces the risk of making the wrong investment, but also creates a common understanding of the impact of an organisation among all stakeholders and allows the VPO/SI and SPO to "speak the same language". Stakeholder analysis should be an integral part of the due diligence phase. To avoid wasting resources, it is advisable for VPO/SIs to increase the intensity (i.e. more stakeholders, more involvement from the same stakeholders and higher numbers involved from each group (up to the number required for a non-biased and random sample)) of the analysis as it becomes more likely that the investment will be realised.

If a SPO is claiming a certain outcome then they need to prove it. If the SPO cannot deliver the data then the VPO/SI must consider whether they will bring in the expertise and provide the necessary support so the system for data collection can be set up (although not necessarily assisting the SPO in collecting the data per se) or question whether the SPO is an appropriate investment at all.

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It is useful as part of the due diligence phase to check whether the impact monitoring system the SPO already works with is sufficient to meet the requirements of the VPO/SI. Otherwise, the VPO/SI may need to contribute to improving it through pro-bono partners or other resources – and those costs should be factored in before making an investment decision.

#### Deal structuring

The resources of any SPO are limited and decisions have to be made about the amount of time and resources that a SPO should dedicate to impact measurement. An important role of the VPO/SI is to convince the SPO of the value of impact measurement, provide assistance where possible and define with them the responses to the essential questions to help them express their objectives. Defining in the initial stages of the relationship with a SPO exactly what they want to deliver makes it much easier at a later stage to assess whether this has been achieved.

It is important to clarify in the deal structuring phase who is responsible for measuring what. The responsibilities of who measures what could and probably should evolve over time as the SPO grows and develops and therefore should be reviewed on an annual basis. The expected outputs, outcome and impact, and the corresponding indicators should be defined before the investment is made and agreed upon by the VPO/SI and the SPO. The VPO/SI should ask the SPO to focus on those indicators that are directly related to the SPO's theory of change and hence in line with their operational process. Any additional indicators required for the VPO/SI to satisfy its impact measurement needs should be collected by the VPO/SI. Also make clear determinations between the SPO and VPO/SI regarding who is responsible for which parts of the verifying and valuing process – and when would be the appropriate time to revisit stakeholder analysis during the investment period.

To remove a reliance on and/or culture of “gut feeling”, it is essential that the VPO/SI works with the SPO to develop an impact monitoring system which can be integrated into management processes of the organisation, defining timings for each indicator (as not all impact happens at the same time), tools to be used and responsibilities. The cost to support and maintain such a system (including personnel time and costs) should be part of the SPO's budget and hence may be part of the negotiation with the investor in order to decide how costs should and/or could be split.

The objective should be an impact measurement system that is of value to the SPO as a management tool! When working with very early stage SPOs and helping them develop business plans, it is useful to integrate requirements on impact measurement.

Reporting requirements should be agreed upfront between the VPO/SI and the SPO, if possible involving co-investors in the decision-making process to eliminate a multiple reporting burden for the SPO. Managing expectations about frequency and level of detail for reporting, and the way SPO's report will reduce the risk of problems later on in the process.

#### Investment management

Monitoring of progress against objectives needs to be conducted regularly during the investment process. Some indicators may be reported by the SPO more frequently than others. Typically, output indicators can be captured more frequently than outcome indicators

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that might require more time and effort to collect relevant data. VPO/SIs usually require their investees to report against the predefined indicators every quarter, every six months or on an annual basis during the investment period. For a VPO, it is not enough to just consider the impact achieved by the SPO, it is also important to assess the impact of the work of the VPO/SI on the SPO. It is recommended that VPO/SIs use independent studies to assess the value they provide to their SPOs, as directly questioning investees may be a delicate matter not always providing truthful answers.

Stakeholder analysis may need to be repeated either at predefined intervals during the investment period or when significant developments occur, such as a change to outcomes being achieved, major new funding streams, new business lines being entered, changes to policy environment etc. It is advisable to get back to the key stakeholders to verify that their expectations are being met. Verifying and valuing results should be repeated as a “reality check” at several points during the investment and value creation process of a VPO/SI. We recommend that this step be performed at least once during the investment period to check that the impact is achieved and valued.

The main objective of monitoring is to learn from the data collected and analysed so that changes can be made and corrective actions implemented. The VPO/SI together with the SPO should use the data collected to analyse the results against the initial objectives and decide which strategies and interventions worked and which did not. The indicators set at the deal structuring stage can be revised if significant changes are made in the business and impact model of the SPO during the investment process.

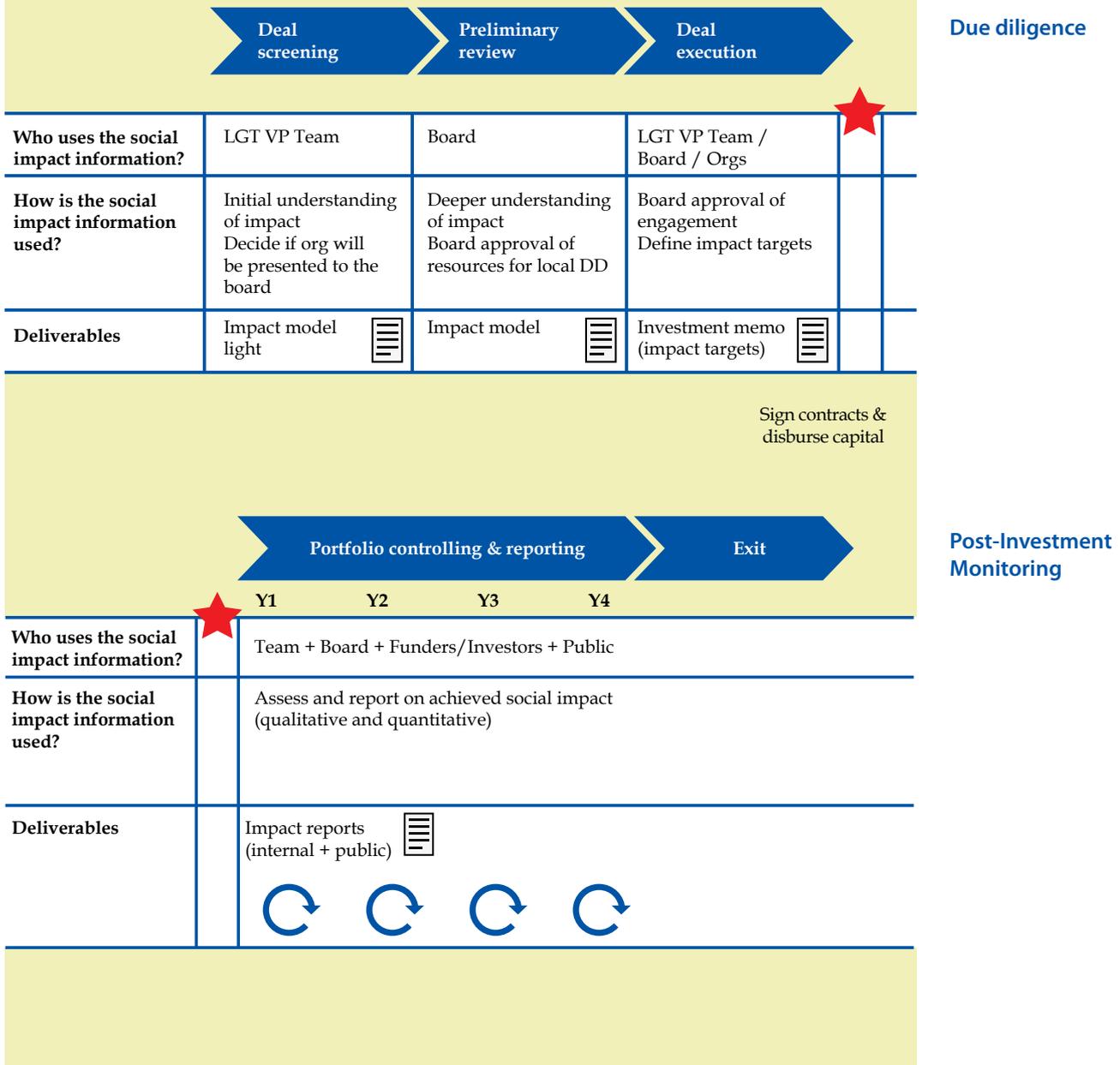
For NESsT, managing impact takes place at the SPO and VPO/SI level. At the SPO level, the objectives, indicators and regular measurement are used as a management tool by the SPO and as signals for both the SPO and NESsT for required intervention if things don't go according to plan. That intervention can be done by either the SPO or the VPO/SI with their particular “toolboxes”. At the VPO/SI level, they track portfolio performance and if targets are not being reached they intervene to adjust the investment strategy so as to better reach their goals. The most important question for NESsT is how to decide when to intervene: how far off track to you need to go? What processes can be put in place? Can this be supported in investment documentation? The NESsT approach is to review performance data three times a year and that is when discussions about intervention take place. They also relate their decision to scale or exit a SPO based on performance and impact data.

#### Exit

At the time of exit, a VPO/SI should aim to measure the outcomes of the investment against initial objectives. The outcomes should be verified using the various methods recommended in step 4. The resulting information will be useful for the VPO/SI itself to assess its success as a “high-engagement” investor and take away learnings for future investments. It will also be used to report back to donors and investors on the “social return” on their investment. The impact of the SPO itself may also be a selling argument when “handing over the baton” to future social investors.

## THE IMPACT MEASUREMENT PROCESS MANAGING IMPACT

The chart below illustrates how LGT VP integrates social impact into the overall investment process and who is involved and what is produced. Prior to an investment, during the due diligence process, the principal users of the social impact information are internal to LGT VP both at a team and board level. However once the deal is in execution the SPO itself also needs to be on board with regards to the definition of social impact targets. Post investment, monitoring and reporting assesses how the SPO has performed relative to the social impact targets. Here there are two principal audiences, internal and external, and LGT VP produces different reports for each group.



## THE IMPACT MEASUREMENT PROCESS CONCLUSIONS

### 8.0 Conclusions

The first objective of this manual was to provide a guide on how to measure social impact for VPO/SIs and other funders interested in generating a positive impact on society. For that purpose, we researched the various existing approaches, interviewed several VPO/SIs to find out how impact measurement is currently done in the field, and convened an Expert Group that helped us develop practical case studies. Importantly, we tried not to be partial to any existing approach, but rather attempted to provide practical recommendations to social sector funders. The second objective was to trigger a movement towards best practice on impact measurement. We envisage further work during coming years to provide more high-level guidelines on impact measurement and reporting following this hands-on practical guide. To support the implementation of our recommendations in the manual, EVPA will launch a training centre.

A survey<sup>32</sup> of 1000 charities by New Philanthropy Capital in the UK in 2012 cited a number of barriers preventing SPOs from using impact measurement to its full potential. Among these barriers was the point that SPOs do not know how to decide outcomes or where to find tools, an issue hopefully addressed in part by this practical guide. Another key barrier was the fact that different investors ask SPOs for different types of information - over two thirds asking their investees for information tailored to them. We believe that within this manual we have the foundations of a shared measurement system for venture philanthropists and social investors. The next step in EVPA's impact measurement initiative is to build on the content of the practical guide to create a code of good practice, which can then be disseminated further across the sector.

At EVPA, we encourage our members to work hard to measure, monitor and report impact, but also to increasingly integrate an impact approach into each important decision along the investment process, from deal selection to exit. This is why managing impact is at the core of the impact measurement process. For each step in the process, one should consider how this relates to the everyday work of funding and building stronger social purpose organisations. Our aim is for this practical guide to encourage more and better work on impact measurement within EVPA's membership and beyond.

<sup>32</sup> Pritchard, D; Ní Ógáin, E; Lumley, T. (2012) "Making an impact: impact measurement among charities and social enterprises in the UK" New Philanthropy Capital

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Part 3:

# Case Studies

## CASE STUDIES

## 9.1 Step 1: Setting Objectives

### Case study: Ferd Social Entrepreneurs investing in The Scientist Factory (“TSF”)

This case study first introduces the social issue at hand and how the social purpose organisation TSF supported by the venture philanthropy organisation Ferd Social Entrepreneurs is trying to solve the issue. It then discusses the impact measurement undertaken by the social purpose organisation and finally moves into how the VPO/SI can go about setting objectives for its own impact measurement as well as for the particular case.

#### Introduction – social issue

The challenge in question in this case study is that we live in an era where natural sciences and technology develop at a very rapid rate. The gap between what children learn in school and what is happening in the real world grows bigger every year. At the same time, research within natural sciences and technology is central and vital for the development of society. The issues we face in the years to come include climate change, food production and distribution, and medicine and health. These issues cannot be solved without the use of natural sciences and new technologies. TSF was founded in 2002 to meet the educational challenges related to natural sciences and technology. TSF’s main goals were to increase the number of students who choose an education in natural sciences, and to develop an interest in research and technology among children and young people.

Ferd Social Entrepreneurs (FSE) was established in 2008 and TSF was the first investment we did. Ferd itself is part of the Norwegian industrial group of the same name. Ferd recognizes its corporate social responsibility as an integral part of its business activities. We also consider it natural to play a role beyond this, principally by supporting social entrepreneurs who reflect Ferd’s vision to create enduring value and leave clear footprints. Ferd therefore supports selected organisations, projects and individuals who work to help ensure that people - and particularly children and young people - can realise their opportunities and ambitions. The due diligence process with TSF was initiated by the CEO of Ferd at the same time as he hired the CEO of FSE.

The investment decision of FSE was based on a “gut feeling” regarding the impact that TSF would have and a belief in the work of the entrepreneur Dr. Hanne Finstad. After interviewing her and visiting some of the classes, FSE believed this project would create added value for the participants (learning, motivation, fun) and hopefully in a longer term create a change in the way natural science is taught in Norwegian schools.

#### How TSF assesses impact: starting point

Our starting point for measuring the impact of TSF before participating in the EVPA initiative was to check what the organisation itself was already doing. In the autumn of 2011, after TSF had been running for 10 years a web-based survey was launched to seek answers to what we considered to be the most important question: does TSF matter? The survey was answered by 75 out of 229 participants who followed a TSF course in the period 2002-2003 (a response rate of 32%, which is considered high for this type of survey).

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The following results were found:

- all respondents have positive memories of the course
- 93% are still interested in natural sciences
- 18 respondents (25%) state that the TSF courses were an important factor when they decided to choose natural science in their secondary education
- a positive correlation between the level of motivation and the interest in natural science
- a positive correlation between the number of courses pupils attended and the focus on natural science in their secondary education

Motivation and interest in the natural sciences among children are the main goals of TSF, and are therefore important factors that they have in mind when creating the courses. At the same time, the courses centre on the most important concepts in the fields of chemistry, physics and biology. The participants perform experiments and receive a few facts about the different assignments before, during, and after each course session. Furthermore, TSF always asks the pupils if they feel that they have learned something from the course. 99% of the participants say that they learned a lot, or something, and many of them can talk about the topics they have learned in their own words. Therefore, Ferd has reason to believe that the courses provide a good learning platform where children gain knowledge, in addition to giving them exciting and motivating experiences in natural sciences.

In the context of impact measurement the important question for us is whether the survey provides information about the impact created by TSF.

To consider whether impact is measured with this survey we would have to ask certain critical questions:

- Can we establish a base case? i.e. What percentage of children generally choose a natural sciences-focused education later on (secondary/tertiary)?
- What percentage of participants of TSF classes chose a natural science focused education?
- How many of the participants in TSF were already interested in natural sciences?
- How many of them would have chosen to focus on the natural sciences anyway (a concept that in some methodologies is called dead weight)?

Although the survey can provide us with some information about the % of participants of TSF classes that choose a natural sciences focused education, it cannot provide answers to the latter two questions. However some comparison of the TSF group to the general population of Norway can probably be made.

One of the suggestions of the expert group, and particularly relevant for this step was the importance of accurately describing the situation at the start of the period under analysis i.e. the situation 10 years ago and then thinking through the outcome objectives or social changes that TSF would like to achieve.

One of the biggest problems for us is that the typical starting age of participants in TSF classes is 10-12 years (5/6 graders). The reason for targeting children of this age was that children find science interesting and are curious about nature, so it is essential to maintain their interest and curiosity and not lose it on the way to higher education. However when the survey was conducted the original children were just about to finish their secondary

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education (high school) or were at the beginning of their tertiary education (college/university). Given so many changes occur during this time of their life it was difficult for them to remember their views back in 2002/2003 and think about whether TSF was responsible for any change in opinion or increase in motivation towards the natural sciences.

### Input from the Expert Group – Setting Objectives

From our discussions in the expert group we decided to take another look at TSF and how we could potentially understand and measure their social impact.

Firstly we realised that it was vital to understand why we (as Ferd Social Entrepreneurs) wanted to measure the impact of TSF. Ferd is different from many VPO/SIs as it has just one owner, so our focus does not need to be directed to a larger external owner group. Nevertheless we believe it is important to measure impact for a number of reasons:

1. To demonstrate to Ferd's board and to Johan Andresen that it is possible to create social impact in a country that has a well-developed welfare state. And in addition, that small amounts of money (as a proportion of the total welfare spend) can achieve quite some impact.
2. To encourage the social entrepreneurs themselves to measure social impact so they can improve their sales message and more effectively compete for government contracts or sell their products / services.
3. To more effectively manage our portfolio. Our focus is on how we scale social impact (versus scaling the economics per se) so we need to have a very clear understanding of what elements of a social entrepreneur's work generates the most impact so we can ensure any scaling strategy focuses on these areas.
4. To select investments. Although we have not yet fully implemented social impact analysis into our investment process we know this is important. We have scarce resources (in terms of people and available funds) so we need to be sure we are spending our time and funds with the social entrepreneurs that are generating the most social impact.
5. To motivate other investors to follow a VP approach. We feel that if we can demonstrate our own social impact then it will be easier for other organisations to work with social entrepreneurs and more generally in the field of social innovation. At the moment, although we are not entirely alone in the VP landscape in Norway we are definitely a dominant player and it would be good to have some other organisations doing the same.

Quote from Johan Andresen<sup>33</sup> to illustrate Ferd's approach: *"An advantage of focusing on a significant social problem is that when you find a solution that works, it is worth investing in it to allow as many people as possible to benefit from it. There is a need, but also an enormous challenge, to try to measure impact in order to document that real social value is created, a value that someone, private, business, or government should be willing to pay for"*.

In the context of the TSF case study we were specifically interested in finding evidence to prove that TSF's approach was an important factor in motivating younger people to choose education within the field of natural sciences. In the longer term we would like to know whether TSF is creating a system change in the way in which natural sciences are taught at primary schools in Norway. It was basically a retrospective evaluation of TSF, which would allow us to better consider any future investments in TSF and also work with the entrepreneur on their scaling strategy.

<sup>33</sup> <http://www.forbes.com/sites/rahimkanani/2012/09/16/johan-andresen-of-ferd-on-social-entrepreneurship/>

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Secondly, from the Expert Group discussions, it was decided to use the theory of change to better understand the objectives of TSF and how they are working towards achieving them. The rationale for this choice was that it is a simple framework that can guide you as you think about the overall objectives of an investee especially when the impact of that investee is potentially difficult to measure, intangible and only observable after significant period of time. We generally spend a lot of time (in person) with our entrepreneurs so we gain a good understanding of what they are doing and why. We found that the theory of change was a good technique / methodology for helping an entrepreneur “get down on the paper” the key points of what they are trying to achieve. However, it is important to highlight that in these initial stages we are just “building the foundation” for the rest of the impact measurement process. The elements of the theory of change will need to be renewed and refined throughout our journey with the entrepreneur, as things will and do change.

With regards to TSF we asked ourselves the following questions:

- What is the social issue TSF is trying to solve and why is it important?
- What is TSF doing to try and find a solution to this issue?
- When can TSF be considered successful?
- What would happen without TSF?

Our responses were as follows:

- **Social issue:** There is a lack of young people who choose an education in natural sciences (chemistry, physics, biology), which creates unfulfilled vacancies in the workforce. This is caused by the way education is delivered: many teachers in primary school are not able to motivate and stimulate children in natural science because of a lack of confidence and equipment. This has a negative affect on the self-image among children regarding this topic therefore not enough children choose/focus on natural sciences in their secondary education.

As we made this statement, we realised that there were even more questions that we needed answered upfront especially to try and understand why this topic is important. On the one side we can make the statement that research within natural sciences and technology is central and vital for the development of society. As stated above, we believe that the issues society faces (climate, food production, distribution, medicine and health) can't be solved without the use of natural science and new technologies. However we were encouraged to provide sources and support for this statement, which led to more questions.

These questions are as follows but we still don't have answers to all of them. We accept that the macro level questions can probably be answered from generally available statistics but the mezzo and micro levels would require us to conduct surveys from a large enough sample group and we do not have the resources (human or financial) to do that at the moment.

### Macro level:

- How many young people choose an education in the natural sciences (at the moment)?
- How many unfilled vacancies are there in the workforce?
- i.e. how large is this gap?

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**Mezzo level:**

- How many (attending) teachers have a lack of confidence and equipment?
- And how does a lack of confidence show?
- And what kind of equipment?

**Micro level:**

- What is the level of interest of the participating children in natural science?
- How many children have a negative self-image regarding this topic?
- And what causes a negative self-image regarding this topic?

**TSF Solution:** The (after-school) courses provided by TSF are designed to create a long-lasting inner motivation for natural sciences for children from 9 till 13 years old. There are 4 to 6 courses within a school year and each course (2-3 hours) focuses on a different topic. The courses aim to create positive experiences, through fun and creative teaching situations (socially interactive, practice and theory and experiments to stimulate the five senses). Alongside the courses for children TSF also offer, “teach the teacher” programmes.

**Success:** We decided that there were two ways of considering whether TSF had been successful. First the implementation of the teaching principles of TSF within the primary education system of Norway, and second the increase in the number of students who choose an education in natural science (secondary and beyond).

**What would happen without TSF:** Despite acknowledging the importance of this question for us to be able to truly measure impact, we think that this is a question is almost impossible to answer due to the age of participants. What children want to be when they grow up when asked at the age of 10 is in most cases not what they end up being. One could try to set up randomized control groups to provide more information and data but we believe this would be a waste of resources. We therefore will be focusing on comparing the % of participants in TSF classes who elect natural sciences at the level of higher education to the average in Norway.

**Conclusions**

Some of the challenges of measuring the impact of TSF are due to the difficulty of setting the goals and then isolating the findings from other sources of influence. We can state our main objective as, “The percentage of TSF participants choosing natural science in higher education should be higher than the average in Norway”. But, again, it is difficult to tell if TSF is the key differentiator or not. The participant children may have parents or siblings with this interest, they may have an exceptional teacher, choose a role model with that type of background, watch a video clip on YouTube, etc. and one of these events may be the true trigger. However if the proportion of children from TSF classes choosing natural sciences in higher education is significantly greater than the average and in the surveys the children state that the TSF courses were important to them – then it is safe to make the assumption that TSF works. And that is the best answer we think we can get and for us it is good enough!

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### Recommendations

From our experience and the expert group discussions we have a number of recommendations for other VPO/SIs:

- Setting objectives is an absolutely vital step in any impact measurement process. Understanding why you want to measure impact is an obvious step. And if you can define exactly what the social entrepreneur wants to deliver then it is much easier at a later stage to assess whether this has been achieved. It may be easier to follow a “gut feeling” but it is much better to be more specific.
- If possible the discussion on objective setting should begin within the due diligence process as this then sets the tone for your future collaboration with the entrepreneur. The theory of change can help the entrepreneur better express their goals, aided by the VPO/SI.
- The investor should convince the social entrepreneur of the value of considering impact measurement and using the theory of change methodology, even if it means they have a few hours less sleep some nights!

## 9.2 Step 2: Analysing Stakeholders

### Case Study: Impetus Trust Investing in Blue Sky

This case study considers stakeholder analysis through the lens of Impetus Trust’s investment in Blue Sky Development and Regeneration (Blue Sky).

#### Introduction – social issue

There is substantial evidence that employment is the single most effective way to enable an individual to escape the cycle of re-offending. Blue Sky offers ex-offenders “a proper job with a proper company,” employing individuals with criminal records in entry-level positions in the grounds maintenance and recycling sectors for up to six months. The ex-offenders work in small teams and are supervised by an ex-offender team leader, who serves as a mentor, and the Blue Sky team provides additional pastoral support (for example, help to secure a bank account or to find accommodation, etc.). Four months in, employees are given a training budget that they may use to pursue a qualification of their choice. As employees near the end of their six months with Blue Sky, they are offered help in finding onward employment.

In 2008, Impetus invested in Blue Sky, a social enterprise that helps reduce re-offending by employing ex-offenders and supporting them into sustained onward. Impetus Trust works to break the cycle of poverty by investing in ambitious charities and social enterprises that fight economic disadvantage using its highly effective venture philanthropy model. Impetus Trust pioneered the venture philanthropy model of long-term financial support plus specialist business support delivered on a pro bono basis plus careful hands-on investment management in the UK. Since its launch in 2002, Impetus has invested in 24 charities and social enterprises, helping them achieve average annual growth in income and people helped of 23% and 30%, respectively.

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### Working Definition of Stakeholder Analysis

For the purposes of this case study, we have defined a stakeholder to be “any person or organisation who is effecting and/or affected by the venture philanthropy investment.” The primary stakeholders are the intended direct beneficiaries of the project (in Blue Sky’s case, these are the ex-offender employees), but there are also indirect beneficiaries, other parties that contribute to the change experienced by the ex-offenders, as well as stakeholders who either indirectly contribute to or are affected by the project. From our perspective, as an investor, the investee is also a stakeholder, one with which it is important for the investor to build and maintain a positive relationship. When we think about stakeholder analysis, it involves both stakeholder identification as well as stakeholder engagement.

### Impetus’s Approach to Stakeholder Analysis vis-à-vis the Blue Sky Investment

The Impetus team considered stakeholder analysis at three stages during its investment in Blue Sky: as part of our pre-investment due diligence, as part of our ongoing investment management, and during a one-off impact evaluation project.

**Pre-investment due diligence:** We do not necessarily need, at this stage, a perfect understanding of all the stakeholders – just a working picture of how the organisation creates impact and an opportunity to speak to some of the most critical stakeholders to confirm that our assumptions have validity.

Stakeholder analysis is important during this phase because we cannot develop a picture of the impact that is created by the organisation without identifying and then speaking to the individuals who are affected by Blue Sky’s intervention and without understanding who else, besides Blue Sky, plays a role in creating the change that is experienced by stakeholders.

A key consideration at all stages but which is of particular importance during the pre-investment stage is stakeholder selection: in order to form an accurate view of the impact created by the organisation, we need to ensure that the stakeholders we interview have not been “cherry picked.” The need for a balanced view from stakeholders is complicated by the fact that we often have to rely on the potential investee to identify and provide access to its service users and other parties who are closely familiar with its work, and the potential investee obviously has an interest in presenting as positive a view of its work as possible. In addition, an organisation is often, almost by definition, less likely to be in a position to maintain contact with individuals who drop out of their programme. To mitigate the potential for selection bias, we have a number of strategies:

- When developing the list of service users / other partners to be interviewed, we explicitly ask the organisation to include some parties where the outcomes were not ideal.
- Using our own contacts, we reach out to parties who were not necessarily identified by the potential investee, but who are familiar with its work.
- In all interviews, we ask stakeholders to discuss both successes and failures that they and others have experienced, and we ask them to identify any other parties with whom they think we should speak in order to build a balanced view of the potential investee’s work.

Also of critical importance to Impetus at the pre-investment stage is effective resource allocation: we don’t want to commit too much time to organisations in which we don’t ultimately make an investment. We therefore seek to employ a method of stakeholder analysis that

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involves increasing intensity only as we increase our confidence that we will pursue the investment. We typically invest c. two to three days of staff time in total in stakeholder analysis during due diligence, and this was the case with Blue Sky. This is largely managed in-house, although we do on occasion commission external consultants on a pro bono basis, always led by an Impetus investment executive, to assist with due diligence.

We begin with conversations with the senior management team probing the theory of change and developing a picture of who are the key stakeholders who would need to be interviewed prior to making an investment decision. Our discussions led us to the following conclusions:

- Key social change the organisation is trying to achieve: reducing re-offending through the employment of ex-offenders.
- Primary beneficiaries of this change: Ex-offender employees (who benefit from employment and from support in turning their lives around) and government/local communities (which save money through fewer crimes and related costs).
- Other parties that might contribute to this change: We understood that families, probation officers, and other support workers might be involved in helping the employees turn their lives around, and we wanted to investigate further how much of the observed change could be attributed to these groups.
- Other parties who might be impacted by Blue Sky's work (either positively or negatively): we were interested in understanding what happens to employees who drop out of the programme and also whether the programme creates any job displacement.

The next step involved desk research and interviews with key stakeholders identified in step one. We focused our work at this stage on three groups:

- *Employees*: We interviewed some current and former Blue Sky employees to understand better what changes for them and how Blue Sky contributes to this. We also wanted to know if there were any negative changes experienced and the extent to which the employees felt that other parties were responsible for helping them turn their lives around. Finally, we wanted to understand more about the employees, in particular, how similar they are to an "average" person coming out of prison, so that we could develop an understanding of how much change we might expect to have occurred even without Blue Sky. Through our due diligence, including interviews with employees, reference checks with other agencies familiar with Blue Sky's work, and analysis of the Blue Sky employee database (and comparison with publicly available datasets), we got comfortable that Blue Sky's employees were not particularly "easy to reach" relative to other people coming out of prison. We also satisfied ourselves that while there might be other groups of stakeholders who played some part in an individual's journey towards turning his/her life around (people like probation officers, family, etc.), that the Blue Sky intervention was very decisive and without it, the change would not have happened. This gave us confidence that we didn't need to discount significantly the outcomes achieved by the Blue Sky employees significantly for deadweight or for the contribution from other stakeholders. As such, we did not conduct significant further interviews with these other stakeholders at this time.
- *Government / local communities*: We did undertake some reference checking with local authorities that were familiar with Blue Sky, but they were primarily able to comment on the quality of the work performed by the employees rather than the social impact created. As such, we amplified the findings of these conversations with desk research looking at the potential for cost savings when positive outcomes are achieved.

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- *Potentially displaced employees:* Our interviews with SMT around the profile of employees they hire, plus further desk research on the labour market, gave us confidence that permanent job displacement was *de minimus*, so we also did not consider this further at this time.

**On-going Investment Management:** Having committed to invest in Blue Sky, our primary objective during the investment management phase is ensuring that the organisation continues to meet the social impact objectives agreed at the time of our investment. Our investment management model involves

- Monthly meetings with the CEO to review progress against investment milestones and to get an update on developments within the organisation.
- Biannual reviews with CEO and Chair to reflect on “bigger picture” issues.
- Periodic site visits, including informal interviews with employees, and preparation of further case studies each year to help keep our understanding of the work “on the ground” fresh.
- Quarterly reporting by Impetus to our Board on progress against investment milestones.
- Biannual published reports to Impetus’s external stakeholders on the impact achieved within our portfolio; more regular reporting to particular stakeholders, such as investors in our various initiatives or co-investors in particular organisations, on a case-by-case basis.

As the core business model doesn’t change that much, we do not have to revisit our stakeholder analysis often. Significant developments that might lead us to return to stakeholder analysis include:

- A change to outcomes being achieved: we would want to understand what is driving this new outcome and whether there are any stakeholder groups that need to be considered
- Major new funding streams, particularly if the funder has specific objectives: we would want to consider the impact that these have on Blue Sky’s work.
- New business lines being entered: we would want to look at whether these involve different market dynamics and therefore increased displacement or other positive or negative impacts that we would need to consider.
- New recruitment practices: we would want to understand whether this changes the make-up of the employee group, either increasing or decreasing what we should assume about deadweight and attribution.
- Changes to the policy environment: we keep an eye on the overall environment around ex-offenders and employment of hard to reach groups to understand the impact that other actors might have on the Blue Sky employees and our assumptions around deadweight and attribution.

Given our relatively light-touch and by exception approach to stakeholder analysis during the on-going investment management phase, stakeholder engagement usually takes up no more than a day or two of staff time per year and is managed entirely in-house.

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**One-Off Impact Analysis:** Mid-investment, we decided to undertake an in-depth review of the impact created by Blue Sky. Our objective was to deepen our understanding of and to quantify the social value created by the Blue Sky intervention using a methodology that would be externally recognised as rigorous. We chose to conduct a social return on investment (SROI) analysis that was capable of achieving assurance by the SROI Network, which meant closely following the principles laid out in their guide to SROI.

The stakeholder analysis and engagement undertaken during this phase was similar to, but more in-depth than the process adopted during due diligence, as we needed to justify and document all the assumptions we had made regarding stakeholders. As an initial step, we identified a very long list of potential stakeholders (including groups considered earlier and many more). We then screened this list for relevance (how relevant is the stakeholder group to Blue Sky's primary mission of reducing re-offending through employment) and significance (how significant are the benefits and inputs provided by these stakeholders). Once we had identified the groups of stakeholders to be interviewed, we then created lists of individual stakeholders within these groups to consult, taking care to reflect the range of stakeholder experiences by constructing a sample that was of an appropriate size and diversity. For example, when selecting which employees to interview, we went for a mix of male and female, current and former, older and younger employees, and we also explicitly sought out some employees who had left the programme early. Next, we conducted detailed stakeholder interviews focused on understanding how they experience and contribute to the social change delivered by Blue Sky. Finally, we "played back" our conclusions to the stakeholders to ensure that we had accurately reflected their views and to see whether there were any additional points that we needed to consider. We engaged a team of about four people from Blue Sky and Impetus to carry out the stakeholder engagement, and in total, we invested about eight to ten days of staff time to select the stakeholders, develop the interview questions, set up and carry out the interviews, and then to follow up with the stakeholders once the SROI analysis was complete. Although there were some arguments in favour of engaging a third party to conduct the stakeholder engagement during this phase, we ultimately opted to conduct this work in-house in order to proceed quickly and to conserve resources (we had a very limited budget for this project and, going into the project, were unclear as to how much time it would consume).

The SROI Network's principles emphasise the importance of evidence collected from stakeholders. This led to an interesting debate within the team working on the analysis as to how to treat the families of ex-offenders. We knew that in the relatively small number of instances where employees' families had proactively contacted Blue Sky to share their stories that the intervention had made a very significant difference in their lives, one which could have had a material impact on our calculation of the overall value created and which therefore should be captured as part of the analysis. We could point to a number of third party studies that enumerated in detail the positive impact on families of the ex-offender turning his life around and of the negative impact that an offender's return to prison has on families. However, the SROI Network's principles would have required us to interview Blue Sky families directly to substantiate these claims, and the Blue Sky team felt strongly that this would be inappropriate. Their position was that an important part of their intervention is that they treat their employees as would any other employer, and we did not think that asking to interview a random selection of employees' families was something that would happen at

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other companies. This left us in the unsatisfactory position of knowing that there was material value that we were not able to capture and include in the analysis. Because we wanted to have our study externally assured, we excluded the value of changes that we believe are experienced by this group of stakeholders.

Another challenge we encountered was around extracting from the stakeholder engagement the evidence we needed for our SROI analysis in a manner that preserved the integrity of the process and of our relationships with the stakeholders. For instance, we needed the employees to share with us as much detail about what had changed, both positively and negatively, in their lives as a result of working with Blue Sky. However, even though we made it clear that we wanted employees to be as open and honest with us as possible, we could not get around the risk that some current employees might be nervous about saying something that wasn't positive about their employer. We tried to focus on open-ended questions, but some employees were understandably reluctant to open up with us about a time in their life that has been challenging, meaning that some of their answers to our open-ended questions were quite brief and not very illuminating; we, therefore, had to find a way to ask for additional information gently and without leading the employees towards a particular answer. The part of the process where we played back our findings to stakeholders was particularly challenging: while it was straightforward to confirm that we had accurately captured the employees' stories of change and had concentrated our analysis on the outcomes that were most meaningful to them, we found it difficult to talk about how we translated those stories of change into financial proxies in a way that was meaningful to them. Consistently, employees told us that the most meaningful change they had experienced was that they had managed to secure and hold onto their freedom, and they also consistently told us that it was impossible to put a value on this – that it was literally priceless. While we could reflect those conversations in the paper, we ultimately had to try to assign some type of financial value to each of the significant outcomes detailed in the paper, and finding a way to talk about this constructively was challenging. There are some resources that provide suggestions on how to engage with stakeholders (see Resources, below), which we found helpful. Ultimately, though, each situation is unique and will require an exercise of judgment to balance the requirements of the analysis with the need to preserve the dignity of the stakeholders and the integrity of your relationship with them.

### **Lessons Learned / Tips for Other Venture Philanthropy Organisations**

In the end, the results that we achieved from the more rigorous, structured examination of stakeholders that we performed as part of our SROI analysis did not lead us to materially different conclusions as those achieved during our due diligence: the more rigorous examination did not uncover stakeholders who were either significant beneficiaries of or contributors to the social change achieved by Blue Sky that had not been considered earlier. This confirmed our view that stakeholder analysis is an area where experienced investors may safely rely on intuitive processes that work for them. For newer investors or ones who are more comfortable operating within a defined framework, there are a number of options available for both stakeholder identification and engagement (see Resources in the Appendix). VP investors will also need to think about how much time and resources they have to devote to the project.

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In all three stages of Impetus's engagement with Blue Sky, we found direct engagement with primary stakeholders to be quite useful and would encourage any VP organisation to make this a regular part of their investment procedures. However, our experience with the SROI analysis we conducted also led us to conclude that direct engagement with stakeholders may not be the only way to understand value creation; we believe there is a place for considering available third party research with similar stakeholders, particularly if there are resource constraints that would prevent an organisation from conducting their own stakeholder engagement or if there are ethical issues involved, as was the case with Blue Sky.

Our top tips in approaching stakeholder analysis are to:

- Make it meaningful: Link your stakeholder analysis to your investment objectives at each particular stage.
- Put it in proportion: Stakeholder analysis is an area that could, in theory, consume as much resource as an organisation is willing to invest in it. Be thoughtful about how much is required for your current stage of investment.
- Keep it current: Stay in touch with your stakeholders regularly and be clear about what would trigger a need for a major refresh of your initial work.
- Sample soundly: Try to construct stakeholder samples that are of an appropriate size and reflect the diversity of your service users and partners.

### 9.3 Step 3: Measuring Results – Outcome, Impact and Indicators Case Study: Oltre Venture investing in PerMicro

#### Introduction – social issue

Oltre Venture started its activity in 2006 and has been investing in social enterprises since then; bringing capital, managerial skills and knowledge to the social sector. Its purpose is to assist companies that have a social impact to create value through the creation of sustainable businesses, offering a positive financial return to those who have invested in the fund. In this way, value created is not only human and social but also economic and financial, proving that traditional financial tools can also be used in a new and innovative sector that is positioned between the for-profit and non-profit sector, by creating for-profit companies that seek primarily a social impact. The challenge is to attract private capital in a sector that has historically benefited from public funds, through a balance between financial and social return.

On one hand we aim to provide investors with an IRR equal to inflation plus 2%, on the other hand we aim to create a durable positive impact on communities involved in the project. The current fund amounts to €8m and was raised with the contributions of several private investors, some corporations and one bank foundation (Fondazione CRT). Currently Oltre focuses its investments on microcredit institutions (20%), social housing (25%), health services (39%), and job creation enterprises (16%).

Our approach to venture philanthropy and social investment is tailor made for the market in which we are investing: Italy. We truly partner with the organisations we invest in and this is made very clear from the outset. For us understanding impact begins right at the start. Any organisation that we consider must have financial and social outcomes **embedded in their**

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**mission**, for example offering services at a price at least 50% lower than the market rate to customers who would not usually have access (e.g. low cost dental care to poor families) or working within a sector that by definition is social (e.g. microfinance). We generally invest in very early stage or start-up organisations so our **key focus is ensuring their financial sustainability**. Unless the organisation is successful there can be no impact and if the organisation cannot reach financial sustainability during our investment period (7-10 years) then it is unlikely to survive after we exit meaning any potential social impact is then lost. In addition the investors in our fund expect at least the return of their capital and this can only be achieved if we help build financially sustainable companies.

### PerMicro Case

An example of one of our investees is PerMicro. PerMicro is a microcredit institution founded in 2007. Its mission is to give the opportunity of social and financial inclusion to “non-bankable” populations through microcredit, providing loans directly to businesses and individuals. Operating initially in the multi-ethnic neighbourhoods of Torino, PerMicro has grown to national level by opening 12 branches throughout Italy. PerMicro’s activity is based on the concept of network credit: the social network of reference is the intermediary between PerMicro and the clients, providing a moral guarantee and supporting them before and after the loan disbursement. PerMicro is the first Italian microcredit provider. Its business model has been recognised and rewarded also at European level and won the “Fondazione Giordano dell’Amore” award. Since its inception, PerMicro has screened about 10,700 candidates and distributed more than 2,000 microloans, for a total financing amount of € 11,4m. The average duration of a loan is 36 months, the average size of a loan is €4,000 for family loans and €7,300 for business loans. Oltre Venture currently owns 12% of PerMicro’s equity, which has recently benefited from the entrance of BNL (BNP Paribas group) among its shareholders as its industrial partner.

### Current approach to measuring results

PerMicro’s objective is to create improvement in overall life conditions for its customers by distributing microloans and thus positively affecting the micro business/family financial condition to achieve its mission. PerMicro wants to understand the outputs, outcomes, and impact of its activity and has developed an in-house approach to impact measurement that addresses its specific queries.

PerMicro has developed different types of reports and performance screening tools, which address different objectives and are intended for different recipients.

- **On-going Performance Tracking & Management:** PerMicro produces monthly, quarterly, and annual reports that summarize its activities, which are shared during monthly committee meetings. The indicators in the report include measures of outreach, client satisfaction, and financial performance. These are produced for internal use, as a tool for management to monitor the ongoing progress towards (i) fulfilling the mission and reaching the target population, and (ii) reaching the economic / financial objectives stated in the business plan (break-even point).

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Type of Report	Information Covered	Purpose
Monthly Reports	<ul style="list-style-type: none"> <li>Client information: nationality, gender, civil status, business activity of clients and purpose of the loan.</li> <li>Loan information: disbursed and outstanding portfolio, the number of contracts, the number of opened files, the number of closed files.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor data on new clients and existing clients' attrition rate</li> <li>Provide detailed information on the monthly activity of PerMicro</li> </ul>
Risk Reports	<ul style="list-style-type: none"> <li>Bad debt</li> <li>Repayment</li> <li>Other performance measures</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate cost of risk</li> <li>Evaluate quality of portfolio</li> <li>Set benchmarks among branches, evaluate other risks</li> </ul>
	<ul style="list-style-type: none"> <li>This is a tool under development. It will be a monthly report and will provide information across the following areas:               <ul style="list-style-type: none"> <li>Administration</li> <li>Production and development</li> <li>Risk and recovery</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Provide a comprehensive view on the social and economic performance of PerMicro</li> </ul>

The form, content and frequency of the reporting were agreed between Oltre and PerMicro at the beginning of our investment and focus on the operations of PerMicro, for the reasons we detailed before (i.e. in line with our objectives for impact measurement).

- External Reporting:** PerMicro produces a series of different reports for different stakeholders. Equity investors are the stakeholders that are mostly interested in the assessment of the projects, and they need to have information in relation to their expectations (achievement of the break even point and value created through their investment). Apart from clients and investors of PerMicro, other interested stakeholders are mainly local municipalities and in general public institution working in the nearby environment, which may benefit from a constant update on the evolution of PerMicro's activities, and other local associations or non-profit organisations.

Target Audience	Information
Potential clients of PerMicro	<ul style="list-style-type: none"> <li>Social reports</li> <li>Communication instruments</li> </ul>
Investors (e.g. Oltre Venture)	<ul style="list-style-type: none"> <li>Qualitative reports about outreach (monthly) and client satisfaction.</li> <li>Reports that monitor portfolio risk</li> <li>Balance sheet and income statement</li> <li>Business plan</li> <li>Social reports</li> <li>Market research</li> </ul>
Other stakeholders (networks, government)	<ul style="list-style-type: none"> <li>Social reports</li> <li>Reports on risk profile of clients</li> <li>Market research</li> <li>Reports on clients</li> </ul>

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**Indicators**

PerMicro has identified a set of objectives and related performance indicators that are summarised in the table below. To monitor progress towards financial goals, PerMicro has chosen the standard tools used for this purpose, which are financial statements and financial modelling, with constant monitoring and review of the business plan made available by monthly budget reports. On the Social side, PerMicro constantly monitors the demographics of clients it reaches, comparing this with its goals and its mission, as well as monitoring the type of engagement of their clients and any possible difficulties they are facing.

Although we are aware of and follow the development of standardised indicators (from the likes of IRIS and Wikivois) and can understand what these organisations are trying to achieve, we have chosen not to use them. This is firstly because it is important for us to assign indicators in Italian, and this is not possible with the current IRIS taxonomy. Secondly we believe it is important to work with the SPO in the development of the indicators given the peculiarities of each of the organisations we work with.

	Financial side	Social side
Objectives	<b>Financial objectives:</b> break even point	<b>Social objectives:</b> lending to non-bankable people
Indicators	<b>Financial data:</b> balance sheets, income statement, financial modelling	<b>Client Demographics:</b> gender, nationality, education, age. <b>Client Engagement:</b> account types, pending loans, non performing loans

**Impact Measurement**

Following the social and economic contextualization of the microcredit institution activity, PerMicro goes a step further in the evaluation of impact, focusing on the analysis of changes made in the quality of life of its clients (or their families and local communities) and determining whether there have been any positive, negative or neutral effects.

The definition of impact used by PerMicro stems from two main elements:

- Changes that take place in an individual's life, in its family, its business or its community.
- The extent to which these changes are related to the individual's loan undertaking.

To identify and measure impact, one must prove in a credible manner that changes observable in clients, with reference to the different analysis levels, are directly related to the clients' relationship with the institution.

In the last few years, PerMicro participated in two scientific working groups and identified some potential methodologies to evaluate the impact of its activity. These methodologies, however, presented some hurdles in terms of cost of implementation and of the so-called attribution problem, which is more marked in the western world, where the existence of a more structured public welfare system makes it hard to isolate the effect of micro lending from other types of intervention.

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The final decision made by PerMicro was to perform a retrospective impact evaluation focusing on a proxy of Impact: the change in financial inclusion. Below is a summary of the evaluation method showing how it will be implemented in time. As per PerMicro's in-house developed definition, impact occurs and it is positive if a client becomes bankable after taking a microloan.

Timeline	Phase	Actions
June-September 2012	Sample of non-bankable	<ol style="list-style-type: none"> <li>1. Settle on criteria to define a sample of non-bankable people: <ul style="list-style-type: none"> <li>• Absence (or presence for less than 6 months) of a bank account</li> <li>• Loans with credit institutions</li> <li>• Loans with banks</li> </ul> </li> <li>2. Selection of a sample composed of non-bankable people within PerMicro portfolio who received a loan in 2010</li> </ol>
September-December 2012	Interview	<ol style="list-style-type: none"> <li>3. Phone interview with the client or the bank to understand whether after the disbursement of a microloan the client become bankable i.e. did they start a stable relationship with a bank, open a bank account asked and/or obtain another loan.</li> </ol>
January 2013	Elaboration of data	<ol style="list-style-type: none"> <li>4. Analysis of data. Impact evaluation.</li> </ol>

The end of the evaluation period is set to be end of 2014, at which time PerMicro is also expected to reach its financial break-even point.

As an investor we are fortunate that PerMicro themselves were willing to commit the required resources to these more in depth studies about their impact and it does provide us with further information to communicate to our own stakeholders. However if PerMicro were not keen to perform these impact studies we would not require them to do so as we believe that output measures can sufficiently demonstrate that a business is on the right track (or not) to financial sustainability and therefore achieving social impact.

### Conclusions

The rationale of building financially sustainable companies informs Oltre's approach to impact measurement. For us financial sustainability is the key to achieving social impact so we predominantly use impact measurement as a management tool, focusing on output indicators to understand how the business is progressing vis-à-vis its business plan. This is reinforced by the difficulties that exist in measuring impact in a developed country such as Italy. The strong welfare state and other safety nets means it is very difficult (and expensive) to isolate the longer-term effects of any organisation we are supporting to provide an accurate measure of impact. For example in the case of one of our micro-finance investments, we can accurately measure the number of loans disbursed and number of new businesses created, but to go a step further and consider how that relates to the physical well-being of the family who now has a business would be very difficult. A long-term study using randomized control groups would probably be required and then we also have the moral issue of excluding groups of people who could have benefitted from a loan but for the

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purpose of the study were selected not to so as to have an appropriate control group.

We may eventually consider a more comprehensive study of the “impact” of our fund, but that is most likely to occur once we close the fund and are distributing the proceeds to its shareholders. This is because any sufficiently rigorous impact study is likely to have to be in place for at least half the time of our total investment period and we think it is more important to focus our efforts on supporting the entrepreneurs in growing their business. We recommend other social investors to develop ways of measuring results that are clearly in line with their objectives.

### 9.4 Step 4: Verifying & Valuing Impact

#### Case Study: Esmée Fairbairn Foundation investing in Social Impact Partnership (developed and run by Social Finance)

##### Introduction

Esmée Fairbairn Foundation aims to improve the quality of life for people and communities in the UK both now and in the future. We make grants in the region of £30-35 million every year in the arts, education and learning, the environment and social change. In addition, we operate a £21 million Finance Fund, which invests in organisations that aim to deliver both a financial return and a social benefit.

For both our grant making and finance fund activities we are in the process of implementing a systematic approach of asking grantees and investees to define 3 key outcomes at the start of their grant of investment. We then track progress towards these outcomes over the course of the investment period via standard reporting. For the majority of grants and investments it is not a good use of resources for us to independently verify or value the impact achieved, although for strategic interventions on particular sectors or themes or for large individual grants we may commission a broader evaluation, we do not generally verify or value the impact that is achieved by our investees.

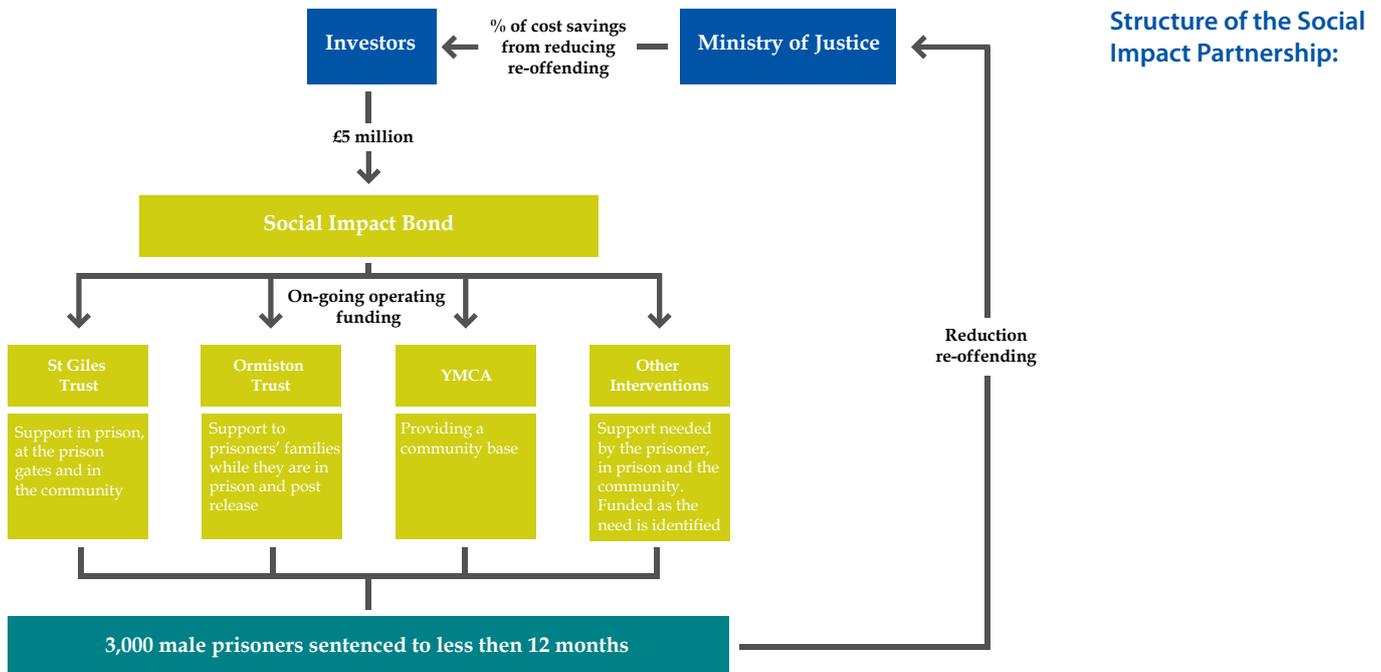
We are aware that verifying and valuing impact is becoming an important topic in the sectors in which we work and investing in the Social Impact Partnership gave us first hand experience of the financial return on our investment being directly linked to a measurable social return.

##### Investment: Social Impact Partnership (developed and run by Social Finance)

The Social Impact Partnership is the first social impact bond, developed in 2010 by Social Finance with the aim of reducing re-offending in a cohort of prisoners. A social impact bond is an outcomes-based contract in which private investors pay the costs of an intervention, which is delivered by service providers with a proven track record, and financial returns are made to the investors by the public sector if the agreed improved social outcomes take place. If outcomes do not improve, then investors do not recover their investment.

Several social impact bonds are now being developed, but this is the first and is still in progress. It is hoped that, in a time of reduced public sector spending, social impact bonds will be a way of attracting new investment in interventions with positive social outcomes.

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Source: *Social Impact Through Effective Finance*, Emily Bolton, Social Finance, Ltd., 2010

### Approaching Valuing Impact – Considering Objectives, Stakeholders & Impact

#### Step 1: Setting Objectives

The objectives of the Social Impact Partnership were agreed in a dialogue between Social Finance, the Government, potential investors and the voluntary sector.

Social Finance canvassed offenders, prison staff, local stakeholders, voluntary organisations working in the field and criminal justice experts to hear what they thought might help stop the revolving door of short sentenced re-offending. They also began talks with the Ministry of Justice to understand what might make a difference if an alternative source of funding was found to deliver support to this target group. In addition, Social Finance engaged with Trusts and Foundations, some of whom were already committed to the Criminal Justice sector, to test whether they were prepared to support an untested but potentially transformational proposition.

After 18 months of intense discussions, a contract was signed with the Ministry of Justice to launch the first social impact bond. The model aims to:

- Provide intensive support to 3,000 short-term prisoners leaving Peterborough prison over a six year period, leading to a reduction in re-offending of at least 7.5% or more which would trigger payments to investors; and
- Prove the social impact bond as a model which could attract new investment in future.

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### *Step 2: Stakeholder Analysis*

Most of the stakeholders of the Social Impact Partnership are taking part in or are directly affected by the project, and are instrumental in its success or failure:

- Government – the public sector (Ministry of Justice).
- Investors – 17 charitable foundations, primarily from the UK and two from the US;
- Service Providers – voluntary sector charities (St Giles Trust, Ormiston Children and Families Trust and YMCA) provide the core services, supplemented by additional services purchased as needs are identified e.g. mental health services by MIND.
- Service Users – the prisoners taking part in the project, and those not taking part who represent the control group.
- Her Majesty's Prison Peterborough – run by Sodexo Justice Services. The prison resettlement team works alongside the service providers to provide pre-release services.

### *Step 3: Measuring Results: Outcomes, Impacts and Indicators*

Due to the nature of the project, each stakeholder will have their own outcomes for this project. The Government may be looking for cost-saving and off-loading risk, whilst the service users may want a wide range of outcomes (good housing, job prospects, a better future for their family). For us, the most important outcome was reducing re-offending, however the cost-saving element for the government became a key driver given the importance of the government in facilitating the whole transaction

#### *Outcomes:*

- A proven reduction in re-offending in a cohort of short-term sentence prisoners.
- A wider impact on the social investment market - evidence on whether this model works, or how it can be improved, which is taken up by the market.

#### *Indicator:*

- Reduction in the frequency of reconviction\* events (number of times an offender is reconvicted at court in the 12 months following release from prison calculated using data held on the Police National Computer) of the cohort group when compared to a comparison group of prisoners discharged from other prisons during the same period (to normalize for the influence of external events on reconviction levels).

\*It was agreed to use the indicator of reconviction events rather than re-offending, as cost-savings to Government are linked to reconviction events rather than incidences of re-offending.

### **Verifying & Valuing Impact**

In the case of the Social Impact Partnership, we were primarily interested in the performance of the model itself and what lessons this provides for the future – would the stakeholders be able to work together to deliver the main goal, reducing re-offending?

How was the Social Impact Partnership to assess the value of reducing re-offending? It was agreed before the project began that this value could be assigned a financial value. The costs of reconviction saved by the public sector (the Ministry of Justice) would represent both the value of the social outcomes achieved and the return to the private investors in the Partnership.

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Why was the cost-saving methodology selected?

- The outcome metric of the Social Impact Partnership is the foundation of its structure, which is in essence a contract between the public sector and private investors. The government was the crucial player in this discussion and they defined that cost savings were the most important measure
- In order for the Partnership model to work, the target social outcomes must be tied to a desired social change and a direct cost to the public sector.
- Being able to measure clearly and provide evidence for the social outcomes of the investment and link them directly to the costs saved by the Ministry of Justice by achieving the social outcomes was essential to attract both the public sector and the private investors into the Partnership.
- It was a pragmatic approach: transparent, objective & independently verifiable.

### Costs & Cost-Saving

Costs were estimated before the start of the project, using:

- Data that was available and easily collected on public sector costs.
- Cost calculations that were probability-weighted.
- Average public sector costs per individual.

The cost calculations were limited to the direct cost of a reconviction, and did not include: insurance costs, costs to victims and costs borne by society for crime prevention due to the difficulty in reliably calculating these costs.

	Probability / Cost
The public sector court cost of a reconviction within 1 year (in terms of police work, court costs, etc.)	£ 13,000
Reconviction cost	£ 13,000
The likelihood of a reconviction leading to a further prison sentence	40%
The costs associated with that further prison sentence	£ 37,000
Average prison cost	£ 14,800
The likelihood of a reconviction leading to a community sentence	60%
The costs associated with that community sentence	£ 6,000
Average community sentence cost	£ 3,600
<b>AVERAGE COST OF A RECONVICTION WITHIN 1 YEAR</b>	<b>£ 31,400</b>

Source: *Towards a New Economy*, Emily Bolton & Louise Savell, Social Finance Ltd., 2010  
(please note that the data in the chart is illustrative only)

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### Impact measurement: current status

The project began work in August 2010 at Peterborough prison and will work with three cohorts of 1,000 unique short-term male prisoners each over 6 years.

In order to measure the outcome, the Social Impact Partnership tracked a baseline control group of prisoners not involved in the project, using the Propensity Score Matching method to match the cohort to a suitable control group. The method normalized the groups for demographics & criminal history background. Both the method and outcomes are independently assessed by QinetiQ and the University of Leicester.

There are minimum thresholds in place that must be reached to ensure that the outcomes achieved are statistically significant:

- A fixed unit payment for each reduced reconviction event is paid provided reconviction events in each of the three cohort groups are reduced by at least 10% relative to a control group.
- If a 10% reduction is not achieved in any of the three cohorts, then the three cohorts are measured together at the end of the pilot. If a 7.5% reduction is achieved in total, then investors receive payment for any cohorts that have not been paid for to date.
- There is a cap on total outcome payments to investors. Investors will therefore receive an increasing return effectively capped at a maximum of 13% per year over the eight-year period.

Limitations of this method:

- Data integrity – the measurement of outcomes assumes that data on the prisoners and the control group is captured and recorded correctly on the Police National Computer.
- Propensity Score Matching method (“PSM”) – the model assumes that the PSM methodology is successful in matching the cohort to a control group based on each individual’s characteristics.

We are not yet able to value the impact of the Social Impact Partnership, but as a model it has proved that it is possible to get Government, the voluntary sector and private sector investors working together for a common goal. Whether this is taken up more widely will depend on its success, and that of other Social Impact Bonds, which have begun to be taken up in other sectors.

Anecdotally, it is believed that the Social Impact Partnership is already having an impact. Clients have reported a better control over their lives and lower incidences of re-offending. Local police have conveyed similar findings. However, the first results will not be available until Year 4 as it takes approximately two years for the first cohort of 1,000 prisoners to be released, a further 18 months to track reconviction events and a further 3-6 months to measure the outcome against the control group.

### Lessons Learned

There is a balance to be struck between robustness and complexity, time & cost. Whilst the PSM method proved successful in developing an appropriate control group, it is a complex and time-consuming process. This could be a barrier to replicating the model more widely. There are also limitations for control group comparison if the social impact bond models

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are scaled. With higher numbers, the population from which the control group is derived becomes smaller, which may restrict the quality of the matching and ultimate results.

The outcome chosen in this case is the one that is best linked to cost-savings for the Government, but this may not necessarily be the best measure of the outcomes of the project when considered from the point of view of other stakeholders, including ourselves. For a charitable foundation like Esmée Fairbairn, judging the value of our investment in a social intervention (either through a grant or a social investment) is usually done through a mix of qualitative and quantitative methods. We want to be convinced by the facts and figures of a project, but we also want to be told the story of the work itself and its potential impact on its beneficiaries.

Will the estimated cost-savings for Government materialise? It is likely that the outcomes achieved at Peterborough will be too low to be able to shut a prison wing or close a court; hence the cashable cost-savings may be limited.

### 9.5 Step 5: Monitoring & Reporting

#### Case Study: Auridis investing in Papilio

This case study considers monitoring & reporting through the lens of Auridis' (a German charitable limited company) investment in the German non-profit organisation, Papilio e.V. ("Papilio").

##### Introduction – social issue

Auridis invests in organisations and programmes that sustainably improve opportunities for socially disadvantaged families and their small children.

The investment focus is on the dissemination and replication of successful approaches. The core portfolio consists of 19 organisations that mostly receive grants for 3 to 10 years. Due to the fact that we are investing in early childhood development, most investments do prevention work with impact that cannot be easily related to the activities of the investees.

Since 2010 Auridis has been supporting Papilio. Papilio has developed and promotes a kindergarten programme for early childhood prevention of addiction and violence. Substance addiction and violence are widespread, in particular among the juvenile population, with extremely high negative effects on the society and national economy. The likelihood of young people developing a substance addiction or violent behaviour is to a relevant degree determined by the individual's capacity to cope with stress and adversity, her or his so-called socio-emotional competences (resilience). Children develop these competences in early childhood, i.e. at age 3 to 6. The Papilio programme intends to enhance child educators' abilities to support young children in developing positive social and emotional competences.

Papilio integrates as a part of the pedagogic concept in the kindergarten, with elements like the "toys-go-on-holiday-day" or "Paula and the trunk pixies", a puppet play with pixies representing the four main emotions (joy, anger, sadness, fear). Other than other programmes

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**Prevention and impact measurement dilemma****The expected social long-term impact:**

- The early development of protection factors (social-emotional competences) prevents the risks that lead to addiction and violence.
- This forms the basis for a self-paced and independent adult life.

**Challenge:**

- It is a great challenge to measure the long-term social impact of prevention work with quality assurance.
- Specific early childhood interventions can only be linked to later developments or outcomes based on large-scale randomised longitudinal studies – if at all.
- Ethical problem of working with comparison groups in scientific studies for longer time period (because it would require specific target groups to be excluded from change)

**Proxy:**

- Short-term output indicators can give an indication of sustainable impact.

offered in German kindergarten, Papilio accompanies the children during their whole kindergarten time (as opposed to a curricular one-time activity).

The Papilio programme is disseminated by way of a train-the-trainer model, with headquarters in Augsburg, Germany. Since 2002 close to 5000 child care workers in 11 federal states all over Germany have been trained with the Papilio programme and approximately 100,000 children (extrapolated) could be reached. We accompanied Papilio by financing a business planning phase from 2010 to 2011 and is currently supporting the growth phase from 2012 to 2017 (estimated).

**Auridis' approach to Monitoring & Reporting**

Prior to investing long-term in a SPO we finance and actively accompany a business planning phase ("impact planning"). During this phase a shared understanding of the social issue, the theory of change, the expected impact, the main levers for organisational success, and the relevant indicators is developed between Auridis and the investee. During the growth financing phase the organisations' development and performance are tracked on a quarterly and annual basis using milestones and specific metrics agreed upon between Auridis and the investee.



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We track the development in our investee database which collects information such as financial data, grant history, essential documents such as grant agreements, investees' progress reports, and the milestones. The investee database has been developed in house using Microsoft Access. All other data is stored in a file storage system. We do not aggregate output, outcome, or impact data of the portfolio organisations, as we believe this data would lead to misinterpretation.

We support the development of information management and controlling systems of our investees by agreeing on reporting requirements, financing the development of tailor-made systems, bringing in pro bono consultants, and sharing experiences throughout the portfolio.

The level of sophistication of the information management and controlling systems of our investees varies across our portfolio. We estimate that approximately one quarter of our investees have good systems in place, on a par with Papilio, which we discuss shortly; one quarter of our investees are about to develop a robust system; one quarter are considering the development of an information management system; and for the remaining quarter it is not an issue on their radar screen given they are very early stage and are needing to focus their efforts and resources elsewhere.

### **Papilio's approach to monitoring and reporting**

Papilio commissioned a scientific study on the outcomes of the programme from 2002 to 2005 with 700 children and their families. The results showed positive outcomes for children, kindergarten, and parents, such as reduction of first deviant behaviour of the children and better learning abilities at school, positive effects on cooperation within the kindergarten team, and a better basis for education partnerships with the parents.

As outcomes are not always easy to measure in the short term we decided to use large scale output indicators to serve as proxies for outcome. For example: the number of actively practicing and certified Papilio child care workers; the number of parents ordering Papilio books and DVDs for their children, etc. The underlying assumption is that these indicators are good proxies for the expected long-term outcomes.

#### **1. Aggregation of impact data**

Papilio introduced an online, web-based database system for the Papilio trainers to report their activities to headquarters. Information such as names and contact details of trainers, child care workers, and kindergarten as well as number, date, place, and participants of trainings and supervisions and the progress of the certification process are recorded by the trainers. In addition, Papilio tracks the quantities of materials ordered (books, DVDs, educational material, etc.). The Papilio team gets monthly reports of all aggregated data. The prerequisite for Papilio to introduce such a tool was a German-language, very simple web-log-in system.

#### **2. Aggregation of financial data**

Financial data tracked by the book-keeping and accounting system as well as output data recorded in the web-based database are integrated in monthly and quarterly reports. This is done semi-automatically by the controller of Papilio using Microsoft Excel templates for

## CASE STUDIES

summarizing the web-based database and the accounting software. Data processed includes actual cash flow, ACT vs. PLAN data, organisational development indicators, and output indicators as described above.

DETAILSBETRACHTUNG	
Kapitalfluss	↓ = 28% TN grün / 30% TN = 30% TN gelb / 10% TN rot. 10-Monatsbetrachtung Berichtsmonat sowie die 2 Folgemonate
Abweichung ICP	↑ = 25% grün / zwischen 15% und 20% gelb / = 20% rot
Fertigung in Prozent	↓ = 1 grün / zwischen 0,3 - 1,0 gelb / = 0,3 rot (hell), (rot)rot
Anzahl Projektanfragen	↑ Vormonat grün / gleich dem Vormonatswert gelb / = Vormonatswert rot (hell), (rot)rot
Kundenzufriedenheit Score	↑ Vorperiode grün / gleich der Vorperiode gelb / = Vorperiodenwert rot (hell), (rot)rot

### 3. Stakeholder presentation of the data

The data collected is presented to different stakeholders in different formats:

A monthly dashboard report is produced for the organisation's management, summarising key financial and output indicators. This is the basis for the organisation's day-to-day management. More detailed reports are produced for a variety of funders in accordance with their respective requirements.

In order to streamline reporting and to increase the efficiency of the reporting process, Papilio has started to produce annual reports in accordance with the German Social Reporting Standard (SRS). The SRS has been developed by a consortium of German high-impact funders such as Auridis, BonVenture, and Ashoka, in cooperation with experts and researchers. SRS provides a structure to report on the problem to be solved, the contribution of the SPO to the solution and the achieved social impact together with organisational and financial data. Reports based on SRS should satisfy most reporting requirements of different funders. To the extent this is not the case the reports can be complemented by additional annexes.

Papilio started to use the SRS structure during its business planning phase. Many of the elements developed during this phase are being reused for reporting purposes, such as the concise description of Papilio's theory of change.

We encourage our investees to use the SRS, however to date we haven't pushed any of our investees to do so, preferring to offer them assistance in introducing it. In our view, using SRS will improve the consistency and comparability of the information that we receive.

#### Auridis' investment in Papilio

In its first years of operation the Papilio team had an expanding system with a mix of Excel sheets, Word lists, and paper lists spread all over the team, which made it very difficult to aggregate the data. As Papilio evolved a more holistic system was needed. Supported by Auridis and one other major funder, the Papilio team started to develop their own information management system. No German-language system that could be tailored to Papilio's needs could be identified. The definition and streamlining of processes took 1.5 years and was supported by IT and finance experts. The result – a self-developed, tailor-made data

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system – was put into action in 2012 and will need approximately half a year of implementation. So far Papilio only counts hard facts, but is thinking about how to measure soft outcomes in the future.

### **What has Papilio learned from the development process?**

- Usability is the key success factor for the usage of the system. Therefore, simplicity is the most important requirement for the information management system.
- The underlying processes are more important than technology.
- The process should be steered by an experienced IT developer who can, and does, ask the team for input regarding the reporting contents and formats required and translates them into a technical solution.
- The whole team and some of the other (external) users need to be integrated in the development process as they will be the main beneficiaries of the system.
- The development of an information management system needs an iterative process and a lot of end consumer testing and reversing.

End-users do have a broad variety of experience with, and affinity to, web-based systems. Therefore, user training is required to ensure the same understanding of data and time periods, to check the technical usability of the system on the users' hardware (social workers tend to have only access to defunct technology) and to agree on reporting timelines. The end-user should optimally also understand the added value of using the new tool.

The costs for the development of the system were 20,000 to 30,000 Euro for staff time and the IT developer. In many cases this kind of work does have a high potential for pro bono work from external consultants and IT companies. The hours saved if the information management system is working fluid and properly are expected to outweigh the upfront investment (although no calculation was made for this).

### **Recommendations**

We believe that investees should be encouraged to allocate substantial money to information management, as it is a key to sustainable growth and stakeholder reporting. Excel is only suitable for the early development stage. In most cases, the necessity to introduce more or less sophisticated monitoring and evaluation systems only becomes apparent once the scaling-up, or dissemination, starts to accelerate following the VPO/SI's investment. In our experience, the monitoring and evaluation systems used by one organisation can only inspire the development of tailor-made solutions for other organisations with a different business model, but cannot be transferred "as is".

Importantly, the investees need external help to implement these systems, which can be facilitated by the VPO/SI. In a number of cases, the organisations in the Auridis portfolio were supported on a pro bono basis by consultants of OC&C Strategy Consulting. Their focus was on asking strategic questions in order to define the expected end product before starting with the "how to questions".

Regarding impact measurement, substantial scientific impact studies are usually very expensive (>0.5 million Euros), and such funding is difficult to obtain (if not provided by the VPO/SI). In most cases gut feeling, proxies, and scientific assumptions based on other studies need

## CASE STUDIES

to be used, especially in prevention work. But be aware to not only count what is countable – soft facts matter more. However, it is important to be transparent about the assumptions and their basis. Gut feeling alone won't do it.

### Financing an information management system

The development of an information management system will need significant work by an experienced IT developer. If the service would be purchased in the for-profit market, significant costs would accrue. VPO/SIs should provide cash and encourage their investees to invest in IT infrastructure to streamline processes and strengthen the operational capacities of the investee.

Nevertheless, given the usual shortage of money in SPOs, this topic offers the opportunity to fundraise a service grant from a for profit service provider. In combination with a pro bono consultant the development and implementation process can be realised with minimum cash spend. VPO/SIs can play an active role in connecting their investees to service providers and pro bono resources. Investments in a sound information management system should be written off in many years and maybe shared with other organisations to make the investment worth while.

Typical costs if no pro bono support applied:

Phase	Cost range (Euro)
Specification	5,000 – 15,000
Realisation	20,000 – 50,000
Testing	1,000 – 5,000
Pilot phase	2,500 – 5,000
Yearly operation	1,000 – 5,000

*Note: these figures are just indicative, based on the Auridis experience in this specific case. However, it can be used as a general indication of expected costs.*

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Part 4:

# Appendices

## APPENDICES

### GLOSSARY OF TERMS<sup>34</sup>

## 10.0 Glossary of Terms

### Accountability

The obligation of an organisation to account for or take responsibility for the effect of its activities.

### Activities

The concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives.

### Attribution

Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

### Balanced scorecard

Developed by Robert Kaplan and David Norton, the balanced scorecard defines what an organisation means by "performance" and measures whether the organisation is achieving desired results. The Balanced Scorecard translates mission and vision statements into a comprehensive set of objectives and performance measures that can be quantified and appraised.

The traditional balanced scorecard of the business world has also been adapted by Social Enterprise London with the aim of assisting social enterprises to examine their strategies and desired outcomes, which can be tracked over time.

### Beneficiaries

The people, communities, broader society and environment that a SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO.

### Contributors

The people, communities, broader society and environment that contribute to the SPO performing its activities. Contributors can enhance or decrease the effect of the activities of the SPO.

### Cost / benefit analysis

A measurement of the benefits of an organisation's activities in monetary terms compared to their costs. A cost / benefit ratio is determined by dividing the projected benefits of an activity by the projected costs. SROI is an example of cost / benefit analysis applied to SPO activities.

### Deadweight

Deadweight is the change that would have happened anyway i.e. the outcomes the beneficiaries would be expected to experience if the organisation were not active. This is sometimes called the "baseline" or "counterfactual". Deadweight includes the progress or regress beneficiaries typically make without the organisation's intervention.

### Displacement

Displacement occurs when the positive outcomes experienced by beneficiaries accessing the organisation's services are offset by negative outcomes experienced by another group elsewhere (also as a result of the organisation's activities).

### Drop-off

Drop-off occurs when, over time, the effects of the output and the observed outcomes decreases (e.g. beneficiaries relapse, lose the job attained, revert to previous behaviours). The organisation's definition of its outcomes sets the scope for how long they are expected to last. Drop-off occurring within this period is accounted for in assessing the organisation's true impact.

<sup>34</sup> Definitions defined so as to be aligned with definitions in the glossary of Hornsby, A; Blumberg, G. (2013) "The Good Investor: A book of best impact practice" Investing for Good

## APPENDICES

### GLOSSARY OF TERMS

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#### Expert group

The expert group is the 27 strong group of practitioners, consultants, academics and representatives from other networks who contributed to the development of this practical guide.

#### Impact

The attribution of an organisation's activities to broader and longer-term outcomes. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive).

#### Impact investor

See definition for social investor.

#### Impact measurement initiative

The initiative undertaken by the European Venture Philanthropy Association with the support of the Expert group to create this practical guide for impact measurement with the aim of spreading best practice in the venture philanthropy and social investment sector.

#### Impact value chain

Represents how an organisation achieves its impact by linking the organisation to its activities and the activities to outputs, outcomes and impacts.

#### Inputs

The resources, whether capital or human, invested in the activities of the organisation.

#### Indicators

Indicators are specific and measurable

actions or conditions that assess progress towards or away from outputs or outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects (e.g. levels of beneficiary confidence).

#### Investee

A SPO that receives investment from a VPO/SI.

#### Investment

We use investment throughout this document as including the range of financing instruments from grants, loans to equity.

#### IRIS

IRIS is the Impact Reporting & Investment Standards initiative of the Global Impact Investing Network ("GIIN") and was developed to provide a common reporting language for impact related terms and metrics.

#### IRIS indicators

IRIS indicators are a set of standardised metrics that can be used to describe an organisation's social, environmental and financial performance.

#### Logic model

Logic models are usually a graphical depiction of the logical relationships behind how an organisation does its work i.e. the relationships between the activities, outputs, outcomes and impacts.

#### Materiality

Materiality refers to an assessment made to determine the factors that are relevant and material to include in a true account of the organisation's impact.

#### Monetisation

Monetisation is the process of transforming the value of outcomes and/or impacts into a unit of currency. SROI is a way to monetise the value of social impact in financial terms.

## APPENDICES

### GLOSSARY OF TERMS

#### Organisation

In this case an entity working to bring about positive social impact i.e. the term includes SPOs and VPO/SIs.

#### Outcomes

The changes, benefits, learnings, or other effects (both long and short term) that result from the organisation's activities.

#### Outcomes matrix

A classification tool, developed by Big Society Capital in combination with Investing for Good and other UK based VPOs, for use by investors and SPOs to map areas in which, and beneficiaries for whom, their impacts are being achieved.

#### Outputs

The tangible products and services that result from the organisation's activities.

#### Participatory impact assessment

Participatory impact assessment is the process of engaging people and communities in the actual measurement of impact on their livelihoods, for example through the use of focus groups or survey.

#### Perceived value

Perceived value is a beneficiary's opinion of a product's or service's value. It may have little or nothing to do with the product's or service's price, and depends on the product's or service's ability to satisfy their needs or requirements.

#### Progress out of poverty index ("PPI")

Developed by the Grameen Foundation, the progress out of poverty index estimates the likelihood that an individual falls below the national poverty line, the \$1/day/PPP and \$2/Day/PPP international benchmarks. The PPI uses 10 simple indicators that field workers can quickly collect and verify.

#### Quality adjusted life year ("QALY")

A quality adjusted life year is an expression

of health in terms of time (life years) and quality of that life (adjusted for years lived with diseases). It is based on the number of years of life that would be added by a particular medical intervention and the quality of the life lived during those years.

#### Revealed preference

Revealed preference theory was pioneered by American economist Paul Samuelson and is based on the assumption that the preference of beneficiaries can be revealed by their purchasing behaviour. It tries to understand preferences of beneficiaries among bundles of goods, given their budget constraints.

#### Social balanced scorecard

The traditional balanced scorecard adapted by Social Enterprise London with the aim of assisting social enterprises to examine their strategies and desired outcomes, which can be tracked over time.

#### Social impact

The attribution of an organisation's activities to broader and longer-term outcomes.

To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ("deadweight"); (ii) the action of others ("attribution"); (iii) how far the outcome of the initial intervention is likely to be reduced over time ("drop off"); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ("displacement"); and for unintended consequences (which could be negative or positive).

#### Social investor ("SI")

An organisation pursuing a social investment approach

#### Social investment

Social investment is the provision and use of capital to generate social as well as financial returns.

## APPENDICES

### GLOSSARY OF TERMS

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The social investment approach has many overlaps with the key characteristics of venture philanthropy, however social investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of principal).

#### **Social purpose organisation (“SPO”)**

An organisation that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations and social enterprises.

#### **Social return on investment (“SROI”)**

Social return on investment is a framework for measuring and accounting for the broad concept of value. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated e.g. a ratio of 3:1 indicates that an investment of €1 delivers €3 of social value.

#### **Stakeholder**

Any party that is effecting or affected by the activities of the organisation. The most prominent stakeholders are the direct or target beneficiaries, though stakeholders as a group also includes the organisation’s staff and volunteers, its shareholders and investees, its suppliers and purchasers and most likely the families of beneficiaries and those close to them, and the communities in which they live.

#### **Stated preference**

Stated preference is a method used to assess the value of an outcome or impact by using real financial data such as prevented costs, spending and changes in financial income.

#### **Theory of change**

A theory of change defines all building blocks required to bring about a given

long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

#### **Unintended consequences**

Unintended consequences are those that come about as a result of the organisation’s activities, but are not part of the desired effect. They may be foreseen (anticipated but not intended), or unexpected (positive or negative). Unintended consequences often relate to effects upon stakeholders other than the organisation’s target beneficiaries.

#### **Value game**

The Value Game is a survey tool that asks questions to stakeholders in order to reveal the value of outcomes. It shows how stakeholders value the outcomes they experience relative to other products they also value.

#### **Venture philanthropy (“VP”)**

Venture philanthropy is an approach that includes both the use of social investment (equity and debt instruments) and grants. The key characteristics of venture philanthropy include high engagement, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and performance measurement.

#### **Venture philanthropy organisation (“VPO”)**

Organisations following the venture philanthropy approach.

#### **WikiVOIS**

WikiVOIS is a database of values, indicators and outcomes for stakeholders.

## APPENDICES

### ADDITIONAL RESOURCES

## 11.0 Additional Resources

### Step 1: Setting Objectives

#### General Resources on Goal Setting

- Locke, E. A. & Latham, G. P. (1990). A theory of goal setting and task performance. Upper Saddle River, NJ: Prentice-Hall.
- Locke, Edwin A.; Latham, Gary P. "Building a practically useful theory of goal setting and task motivation: A 35-year odyssey." *American Psychologist*, Vol 57(9), Sep 2002, 705-717
- Doran, G. T. (1981). There's a S.M.A.R.T. way to write management's goals and objectives. *Management Review*, Volume 70, Issue 11(AMA FORUM), pp. 35-36.

#### Setting Objectives in Impact Measurement

- Sept, Naylor and Weston. 2011. "Measuring the impact of social programs: A review of best practices." *Stanford Global Supply Chain Management Forum; Socially & Environmentally Responsible Supply Chain Program*: <http://www.gsb.stanford.edu/sites/default/files/documents/MeasuringPerformanceOfSocialPrograms-040811-1.pdf>  
Note that this provides a slightly different framework for considering approaches to social performance measurement:
- Kellogg Foundation's Logic Model (Chapter 1: The "What" and the "Why" of Logic Models): <http://www.wkkf.org/knowledge-center/resources/2006/02/WK-Kellogg-Foundation-Logic-Model-Development-Guide.aspx>
- Grantcraft, The Ford Foundation, "Mapping Change: Using a Theory of Change to Guide Planning and Evaluation" (Compares "Theory of Change" and "Logic Model"): <http://www.grantcraft.org/index.cfm?fuseaction=Page.ViewPage&pageId=1542>
- [www.theoryofchange.org](http://www.theoryofchange.org)
- Annie E. Casey Foundation ([www.aecf.org](http://www.aecf.org)). Theory of Change: A Practical Tool for Action, Results and Learning
- International Network on Strategic Philanthropy.

### Step 2: Analysing Stakeholders

- The SROI Network: A Guide to Social Return on Investment 2012  
[http://www.thesroinetwork.org/publications/doc\\_details/241-a-guide-to-social-return-on-investment-2012](http://www.thesroinetwork.org/publications/doc_details/241-a-guide-to-social-return-on-investment-2012)
- Accountability, Stakeholder Engagement Manual. <http://www.accountability.org/images/content/2/0/207.pdf>  
<http://www.accountability.org/images/content/2/0/208.pdf>
- The New Economics Foundation, Participation Works! <http://www.neweconomics.org/publications/participation-works>
- Involve, [peopleandparticipation.net](http://www.peopleandparticipation.net) <http://www.peopleandparticipation.net/display/Methods/Home>
- Robert Wood Johnson Foundation, A Practical Guide to Engaging Stakeholders in Determining Evaluation Questions <http://www.rwjf.org/content/dam/web-assets/2009/01/a-practical-guide-for-engaging-stakeholders-in-developing-evalua>
- Forth coming guide by The SROI Network "Supplementary Guidance on Stakeholder Involvement" [http://www.thesroinetwork.org/publications/cat\\_view/198-sroi-network-supplements](http://www.thesroinetwork.org/publications/cat_view/198-sroi-network-supplements)

## APPENDICES

### ADDITIONAL RESOURCES

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- The Value Game - a stakeholder led valuation tool <http://www.valuegame.org/>
- Useful document prepared by DFIF to help stakeholder analysis in the context of development Project <http://www.docstoc.com/docs/21907825/IMPACT-ASSESSMENT-STAKEHOLDER-ANALYSIS>
- Geoff Mulgan, Measuring Social Value, Stanford Social Innovation Review 2010 [http://www.ssireview.org/articles/entry/measuring\\_social\\_value](http://www.ssireview.org/articles/entry/measuring_social_value)

#### Step 3: Measuring Results: Outcome, Impact, Indicators

- Nelson & Ratcliffe, 2010, "A Guide to Actionable Measurement", Bill & Melinda Gates Foundation
- IRIS database of indicators: [iris.thegiin.org](http://iris.thegiin.org)
- Wikivois database of indicators: [http://www.wikivois.org/index.php?title=Main\\_Page](http://www.wikivois.org/index.php?title=Main_Page)
- Social Balanced scorecard and other tools: <http://www.proveandimprove.org/tools/socialenterprise.php>
- Ruby Sandhu-Rojon, UNDP, "Selecting Indicators for impact evaluation"
- Millennium Development Goals: <http://www.mdgmonitor.org/goal1.cfm>
- Progress Out of Poverty Indicator: <http://www.progressoutofpoverty.org/>

#### Step 4: Verifying & Valuing Impact

- <http://www.roguecom.com/interview/overview.html>
- <http://techinlibraries.com/cowgill.pdf>
- <http://www.eldrbarry.net/roos/eest.htm>
- Mitchell, R. and R. Carson (2005). Using surveys to value public goods; the contingent valuation method. Washington USA.
- Champ, P., Koyle, K. en Brown, T. (2003). A Primer on nonmarket valuation. Dordrecht (NL): Kluwer.
- More information on ValueGame can be found at [www.valuegame.org](http://www.valuegame.org)
- Wellbeing valuation: [www.ncbi.nlm.nih.gov/pubmed/17380470](http://www.ncbi.nlm.nih.gov/pubmed/17380470)
- Further information on QALY can be found at: <http://www.medicine.ox.ac.uk/bandolier/painres/download/whatis/QALY.pdf>
- More information on these techniques (and many others) can be found in the TRASI database: <http://trasi.foundationcenter.org/>

#### Step 5: Monitoring & Reporting

- Social Reporting Standard: <http://social-reporting-standard.de/> by Auridis, BonVenture, Phineo, Ashoka, PWC a.o.  
<http://srs.aufbau-server.de/en> : English webpage
- [www.mande.co.uk](http://www.mande.co.uk) : website on monitoring and evaluation; lot of information, documents, cases, etc.
- <http://www.unfpa.org/monitoring/toolkit.htm> (United Nations Population Fund)
- <http://web.undp.org/evaluation/handbook> PDF-Handbook UNDP
- Principles of Good Impact Reporting, by NPC a.o.
- World Bank, "Monitoring & Evaluation: Some Tools, Methods & Approaches"
- PULSE (<http://pulse.app-x.com>)

## APPENDICES SOURCES

- GIIRS ([www.giirs.org](http://www.giirs.org)) provides both company and fund impact ratings, each with current and historical analyses of impact performance for comparative use. In order to scale the impact investing marketplace, investors require an independent third-party impact ratings product that is comparable, transparent, and easy to use.

### 13.0 Sources

#### Webinars

The Expert Group members were divided into working groups to focus on a particular step in the impact measurement process. Their findings resulted in a webinar-based presentation to the other members of the Expert Group and the case studies found in section 9.1. The working groups for each step were as follows. A “\*” denotes the author of the case study.

- *Step 1 - Setting Objectives*: Van Dijk, M., Social Evaluator; Presner, B., Acumen Fund; Kagerer, T., LGT Venture Philanthropy; \*Sandvold, O., Ferd Social Entrepreneurs; Ferraro, F., IESE Business School.
- *Step 2 - Analysing Stakeholders*: Grabenwarter, U., European Investment Fund; \*Niles, M., Impetus Trust; Kennedy, R., CAN Breakthrough; Robin, S., Stone Soup.
- *Step 3 - Measuring results*: outcome, impact, indicators: Gelfand, S., the GIIN; Lane Spollen, E., One Foundation; \*Allevi, L., Oltre Venture; Stievenart, E., ESSEC Business School.
- *Step 4 - Verifying & Valuing Impact*: Nicholls, J., SROI Network; Varga, E., NESsT; \*Petkova, I., Esmée Fairbairn Foundation; Nicholls, A., Skoll Centre for Social Entrepreneurship.
- *Step 5 - Monitoring & Reporting*: Scholten, P., Scholten & Van der Meij; Backstrom, C., Naya AB; Tarakeshwar, N., Children’s Investment Fund Foundation; \*Leissner, C., Auridis; Santos, F., INSEAD Business School.

#### Interviews

- Allevi, L., Managing Director, Oltre Venture (September 24, 2012)
- Blokhuis, M., Director, Noaber Foundation (October 19, 2012)
- Crane, G., Impact and Learning Officer, Esmee Fairbairn Foundation (September 26, 2012)
- Kagerer, T., COO, LGT Venture Philanthropy (September 10, 2012, by email)
- Leissner, C., Project Manager, Auridis (October 8, 2012)
- Luebbering, J; Elsemann, K., Partnership Development, Streetfootballworld (September 10, 2012)
- Lumley, T., Head of Development, New Philanthropy Capital (September 7, 2012)
- Mason, C., COO, Big Society Capital (September 27, 2012)
- Niles, M., Investment Director, Impetus Trust (September 24, 2012)
- Sandvold, Ø., Director of Business Development, Ferd Social Entrepreneurs (September 17, 2012)



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## The European Venture Philanthropy Association (EVPA)

Established in 2004, EVPA aims to be the natural home as well as the highest-value catalytic network of European Social Investors committed to using venture philanthropy and social investment tools and targeting societal impact.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond. Currently the association has over 150 members from 23 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.

<http://www.evpa.eu.com>

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