Enabling Solutions to Complex Social Problems

Social entrepreneurs recognize social problems and use creative approaches to design, establish and manage ventures to make social change and achieve a positive economic return. This series of white papers explores issues of importance to the emergence of a strong social venture marketplace in Ontario.

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Arguably the biggest obstacle to the creation of social capital markets is the lack of a common measure of how much good has been done: there is no agreed unit of social impact that mirrors profit in the traditional capital markets.”

The Economist, September 2009

Introduction

Investors in either for-profit (FP) social purpose businesses or funders in not-for-profit (NFP) revenue-generating social enterprises are investing in exciting social ventures in order to generate social and/or environmental impact. The capital placed in these businesses is expected to provide at least a nominal financial return. Success in a traditional FP business can be easily measured using established and readily understood financial metrics. In comparison, social metrics or impact performance measurements are much more difficult to identify, quantify and measure. Imagine, for example, how you would measure “goodness”.

Social entrepreneurs are successfully mobilizing both the human and financial capital required to start and scale their social ventures. At MaRS Discovery District (MaRS), we see tremendous momentum building around these new opportunities. However, unless there is a clear understanding by funders and investors (and the social entrepreneurs they support) around the importance of establishing and reporting on appropriate social and financial metrics, the amount of capital made available to this emerging sector, including patient capital, loans or equity investments, will be limited. Lack of sufficient capital will impede the development of new market-based solutions to address the complex social problems that social entrepreneurs are enthusiastic to address.

A recent study by Social Venture Technology Group (SVT), supported by the Rockefeller Foundation, provides a concise overview of the fundamental issues and motivations for establishing and measuring social metrics on an ongoing basis. Their report summarizes the key issues as follows:

“The prospect of factoring environmental and social impact into returns analysis is at the same time fundamental and extremely complex. It begs several questions, such as:

- How can investors know whether they are in fact helping or hindering progress toward the goal of an environmentally sustainable, healthy, dignified economy?
- How does a portfolio company’s pursuit of this goal affect risk and financial returns?
- If there is an added cost associated with pursuing this goal, what approach can be used to assess whether it is “worth it”?

Social ventures aim to provide social impact in various sectors. Therefore, defining relevant standards that can be universally applied for all industries presents an additional challenge.

Supporting the development and success of social ventures is a key component of the Government of Ontario’s Innovation Agenda and Poverty Reduction Strategy. MaRS, generously supported by the Government of Ontario, completed a study of the social metrics landscape under the leadership of Dr. Gillian Kerr and Lori Criss Powers of RealWorld Systems. The study included input from social innovation leaders, funders, investors and social entrepreneurs. This white paper was based in part on the research provided to MaRS by RealWorld Systems.

The study supported the importance of appropriately validated, cost-effective, and integrated impact measurement approaches to impact investing.

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2 Investors lend money to or buy shares in innovative and promising organizations with the purpose of eventually making a profit.
3 Funders provide grants, contributions or fees to organizations that help achieve a stated social or environmental mission.
5 Please note that in this white paper, we use the term “social impact” to refer to both social and environmental impact.
7 See Breaking the cycle: Ontario’s poverty reduction strategy: http://www.children.gov.on.ca/htdocs/English/growingstronger/index.aspx
Impact investing generates measurable financial as well as social returns beyond comparable industry standard investment. Impact investors and their investees explicitly seek to generate social and financial returns.

The impact value chain in Figure 1 illustrates the process. Impact measurement quantifies the social impact created by a venture and its related activities.

![Impact Value Chain Diagram](image)

**Figure 1 Impact value chain**


**Why measure social impact?**

Organizations generally measure impact for these purposes: to determine if they are making a difference, to market to customers/stakeholders, to secure or maintain funding and to improve the services or products they deliver and their organizational processes.

Similarly, as part of a fundraising process, funders and investors screen potential investments to make sure they fit with their investment focus and expertise. Impact metrics are used at this early stage of engagement to ensure the fit exists.

Following the investment, impact measurement is used as a management tool to track the following:

- **Commitment to mission**: What is measured drives behaviour - the social purpose needs to generate compelling results to ensure that proper attention is paid to the social mission of the venture. Impact measurement ensures that the venture continues to keep the mission at the forefront, even as it works to achieve a financial return for investors or funders.
- **Investor returns**: Investors who are accepting higher risk or lower returns in the hope of social benefit want to be assured that the benefit is forthcoming.
- **Funder assurance**: Funders who provide grants or loans for revenue-generating ventures want to see evidence that the ventures are not compromising their social missions.

**What is “impact investing” and “impact measurement”?**

“Impact investing generates measurable financial as well as social returns beyond comparable industry standard investment.”

Impact investors and their investees explicitly seek to generate social and financial returns. The impact value chain in Figure 1 illustrates the process. Impact measurement quantifies the social impact created by a venture and its related activities.

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8 Impact Measurement Approaches: Recommendations to Impact Investors, Sara Olsen and Brett Galimidi, Social Venture Technology Group with the support of The Rockefeller Foundation, April 2008.
Case Studies

**JUMP Math**

Impact measurement and commitment to mission

The mission of JUMP Math (www.jumpmath.org), a Toronto-based social enterprise, is to help children unlock their potential through academic success in mathematics. JUMP Math envisions a mathematically literate society in which individuals can reach their potential as full and functioning members. The JUMP Math program provides materials, methods, and training to teachers, to help them minimize the differences between students and enables them to extend ideas to their students in an engaging way. Teachers are also taught how to better assess their students’ knowledge and readiness to move forward as well as how to encourage their students with confidence building exercises. The JUMP Math team believes this confidence is the essential ingredient for success in math.

JUMP Math generates income through the sale of student workbooks and teacher’s manuals, used by parents and teachers to develop, expand and improve the program.

In 2006, JUMP Math implemented a pilot in the London, UK borough of Lambeth. All schools indicated that the main gain was a clear increase in student confidence. Results from this group suggest that students who are already at grade level can progress at a rapid speed using the JUMP curriculum. In the Lambeth school district, all of the 74 students in Grades 5 and 6 who were close to meeting expectations for their age were able to perform beyond their grade levels after one or two years with JUMP. By the age of 11, 57 per cent of those students were ahead by three grade levels. The pilot program also had a notable impact on the participating teachers. Many reported increased confidence in their math teaching skills and the application of the step-by-step approach to learning in their other subjects.

As JUMP Math details on their website, Social Return on Investment (SROI) is critical to the ethical pursuit of the organization’s mission. JUMP utilizes its financial, human and organizational resources efficiently to ensure delivery of the highest quality programming, which, in turn, results in measurable impacts. JUMP Math’s SROI includes:

- Improved student math performance
- Reduced math anxiety
- Building student and teacher confidence
- Investing in research that improves the effectiveness of the JUMP program

**IceStone**

Social metrics lead to measurable impact

The founders of IceStone were successful investors in social purpose businesses (SPBs) including Stonyfield Farms and Zipcar. In 2003, they founded their own SPB by purchasing the assets of a glass recycling company to launch Icestone. (www.icestone.biz).

Their goal was to create a recycled solid surface material used for counter tops, backsplashes and flooring for residential and commercial applications. The product is manufactured by removing waste from the production stream in an energy efficient and nonpolluting way. The company has $12 million in revenue from the sale of their LEED-certified products and has been awarded the prestigious cradle to cradle certification™ from sustainability pioneer William McDonough’s firm, MBDC.

IceStone’s metrics include:

**Green manufacturing and office facility:**

- 50% of their energy comes from wind power
- 85% of the water used in production is recycled, saving five million gallons annually
- The elimination of 4.5 million pounds of waste that would have gone to landfill, as 80% of waste is currently recycled, recovered or composted
- IceStone is working to become carbon neutral and continuing to reduce energy use per square foot of product produced

**Social Responsibility:**

- 40% of the 60-person workforce are Tibetan refugees
- Employees are provided living-wages, health benefits, education programs and life-skill training, including free English as a second language classes
- IceStone provides free or discounted material to projects that share similar social and environmental goals. Habitat for Humanity receives annual donations.
Financial and social metrics should become part of the organizational execution roadmap. Regular measurement and assessment drives the venture to keep its focus on its key objectives and make any required adjustments along the way towards the achievement of the stated goals. Metrics also provide a common language and an opportunity for a meaningful dialogue between funders and investors and the management team of the venture.

Impact can be created by organizations internally and externally. Internal impact includes the impact on employees' health and economic security, the environmental effects of the company's supply chain and operations, and impact on issues of access, fairness and trust in company policy and management practices. External impact includes the health, economic, environmental, and other effects on parties outside the company such as customers and communities.9

Impact measurement and the transfer of successful innovations into the broader social system and/or market economy

The choice of impact metrics may depend on the role that each organization plays in the innovation-to-adoption process.

The Council of Canadian Academies (CCA) defines innovation as a new way or better way to do valued things. Innovation flows through a system in stages. This flow is sometimes called ‘technology transfer’, ‘knowledge utilization’, ‘knowledge transfer’ or, more commonly, ‘diffusion of innovation’.10 In this paper, we use the phrase ‘innovation-to-adoption process’ to cover the entire cycle from the early exploration of a new idea through to widespread social or market adoption.

In the context of the innovation-to-adoption process, there is limited value in gathering metrics from very small social ventures that are not able to scale or programs that do not become widely adopted. There is a great deal of value in selecting the best ventures and shepherding them through the process of testing, growth and widespread adoption, assessing their performance at each stage with appropriate metrics.

The innovation-to-adoption process for social ventures, as it relates to the appropriate measurement of impact benefits, can be divided into three main stages:

**STAGE 1: Identify promising practices**
- Ventures offer high potential business and/or social models
- Funders select best candidates for graduation to next stage

**STAGE 2: Test and validate practices**
- Ventures validate their models through in-depth research
- Funders support studies and help effective models to go to the next stage

**STAGE 3: Embed practices in policies and programs**
- Models are embedded within policies and ongoing programs
- Funders assure quality and cost effectiveness

In stage one, social ventures establish themselves, attract early stage resources and attempt to demonstrate promise in business and impact areas. The role of funders and investors should be to identify ventures with the most potential and help them move through the process of testing, validation and growth.

The measurement of impact benefit should be looked at in the context of an entire system. Metrics should be selected to maximize the movement of effective innovations through

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10 These terms are used in slightly different contexts and disciplines. For example, ‘technology transfer’ is generally used in the scientific, technological and health domains, and often includes the management of intellectual property. ‘Diffusion of innovation’ refers to the way that any product or idea is disseminated in the marketplace. In this paper, ‘technology transfer’ would probably be more appropriate in that it refers more explicitly to research, but the use of ‘technology’ might be confusing when applied to social innovations.

11 This 3-stage description, while adapted and simplified from the technology transfer literature, was developed for this paper by Kerr and Powers.
the system while reducing risks due to hasty and ill-considered change. In this white paper, we discuss metrics for early stage ventures.

Metrics for early stage ventures: Identifying promising practices

Since this is a largely emerging sector, many social ventures are in the early stages of development. At this stage, innovations are developed and refined to a point where they can demonstrate that they are promising enough to progress to the next level of investment or become embedded in publicly funded policies and programs.

Investors and funders are looking for criteria against which to screen promising ventures.

1. Start-up social ventures can be assessed using a venture capital investment approach in which investors focus on the feasibility of the idea, the skills of the senior management team, and the speed at which the organization generates improvement.

2. Social ventures can embed measurement into the design of their product or service as an integral part of the value that they offer to customers.

3. Social ventures that are spin-offs from mature programs can take advantage of the measurement systems that their parent organizations already use, since they have the data collection and reporting processes in place. Other publicly funded organizations in the sector may have also undertaken extensive research studies to determine appropriate social impact metrics that may have relevance to a new venture.

Measurement approach #1: Using a venture capital approach to assessment

Early stage social ventures will likely be going through rapid changes in both their business and service models. As their business models evolve, successful start-ups may change their short-term measures of progress several times within the first 12 to 18 months.

In a book on successful entrepreneurs, John Mullins, a professor of marketing and entrepreneurship at the London Business School, gives some useful advice to start-ups that is highly relevant to social ventures:

Every entrepreneurial plan includes ideas that can be sorted into three categories:

1. Ideas tried by others in the past that have some analog value to what’s being tried in the new business model;
2. Ideas tried by others in the past that are clearly not worth adapting or emulating in the prior way; and
3. Ideas that are untested, untried and (possibly) a real breakthrough – they are “leaps of faith” that an entrepreneur intuits will work but needs to be tested.

A new venture’s business plan should propose the leap of faith to be tested and adapt the plan as they answer the relevant questions as cost-effectively as possible.

Professor Mullins concludes with the following: “It’s a fact: most new companies fail, so rather than blindly trying to overcome all the obstacles, we think it’s wiser to think about the entrepreneurial path as one of testing hypotheses.”

Funders and investors should not expect start-ups to deliver exactly what was projected in the initial business plans. Instead, start-ups should use a variety of inexpensive methods to assess the following questions:

- Is the venture’s business model likely to be successful in delivering financial returns?
- Is the venture’s service or program model likely to be effective in delivering social benefits?
- Is the venture well managed?
- Is the venture rapidly improving its business model, program model and/or in its management processes in response to appropriate feedback?

At the initial start-up stage, the venture may not be able to demonstrate tangible results. Some ventures may have a history of meeting key milestones prior to raising capital. More often than not, investors and funders must be comfortable providing capital to start-ups that simply have a compelling idea or prototype and a skilled management team.

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At the early stage, the information that is collected as feedback may be quite informal and typically comprises conversations with customers, complaint tracking, market response and adoption and other qualitative data. Nonetheless, the venture capital model will require the development and implementation of performance milestones and the progress of the venture will be measured against these milestones.

**Measurement approach #2: Embedding measurement into the design of the product or service**

Social ventures have a definite advantage if they can demonstrate their value to customers, funders, and investors as part of the design of their service. When measurement is embedded into the delivery, it can accelerate improvement and provide a more compelling case for investment.

Some examples of embedded measurement from other fields include:

1. Educational programs that include a well-designed quiz before and after the learning experience, with customized feedback to the student.
2. Online interactive websites that automatically track ‘drop-outs’ at each page, so that the site designers can improve usability and reduce drop-outs.
3. Brief solution-focused therapy, which recommends a brief client satisfaction survey after every session as an integral part of the model. This tool provides instant feedback to the therapist, empowers the client, and provides rich data for organizational improvement.

**Measurement approach #3: Using the measurement system of the parent organization or other publicly funded organizations in the sector**

In many cases, social ventures will emerge from established organizations that have become excited about an innovative practice developed internally. Based on early results, they may have requested funding to explore and refine the model. As part of a parent organization, these ventures will have the advantage of an existing measurement system that can be used to report results to funders and investors.

Often, the appropriate measures for their venture will be similar to measures that their main funder or investor already requires. This is the case with many publicly funded health services.

Social ventures can also use logic models\(^3\) to communicate their effectiveness to investors and funders, and to identify how to improve their impact, all without collecting a single measure.

**How early stage funders and investors should evaluate their own performance**

Early stage funders and investors should also assess and improve their own performance, and not merely collect data from ventures. Funders that focus on early stage social ventures should evaluate themselves on their success in graduating ventures to more formal testing and validation stages required to change public policy or to make significant public funding available for a program. Investors in social purpose businesses are more likely to evaluate themselves based on the achievement of financial goals by their portfolio companies. They will be less interested in testing the effectiveness of a program model.

Both funders and investors should aim to move successful ventures out of a small pilot project/start-up level. There should be a movement of the best programs towards widespread adoption and a systematic pruning of the less promising programs.

Funders and investors can select the characteristics that fit the objectives of their funding stream/investment portfolio and screen out ventures that do not fit into their criteria. Many funders would find it easier to support ventures with a low level of financial self-sufficiency and low innovation if they can demonstrate high promise of social transformation. On the other hand, investors will target ventures with high financial self-sufficiency and innovation. Standardized measures are challenging since each funder/investor is often looking for different information.

The most important long-term measure of success for all early stage funders is the number of ventures whose product or service becomes widely adopted as a result.

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\(^3\) Logic Models or Theory of Change is a management tool used to improve the design of interventions, most often at the project level. It involves identifying strategic elements (inputs, outputs, outcomes, impact) and their causal relationships, indicators, and the assumptions or risks that may influence success and failure. It thus facilitates planning, execution and evaluation of a development intervention. (From OECD Evaluation Glossary, 2002)
Case Studies

**PointerWare Innovations Ltd.**

**Application of a logic model to support impact**

PointerWare (www.pointerware.com) is a social purpose business that serves potentially isolated populations, such as seniors in assisted-living facilities or their own homes, by enabling them to connect with family/friends on the Internet. The easy-to-use software application has been tested extensively to ensure it is designed to meet the target group’s needs. The company has also identified additional market potential with other marginalized or vulnerable user groups, including those with physical or mental disabilities and low literacy.

How does the PointerWare product offering provide a social benefit, and how can management demonstrate this benefit to investors?

The first step is always a literature review. In fact, social ventures will not even know if they are innovative unless they have reviewed the literature; they might be replicating a program that has already been implemented in other jurisdictions. They may also be proposing to provide a service that has already been shown to be harmful or ineffective. PointerWare must find out whether its intended service will have real benefits for seniors by searching for evidence-based practices through research or a review of the relevant literature. If the company is not knowledgeable about researching this area, they could hire a researcher or there may be an online database of evidence-based practices.

In such a database, the start-up owner selects ‘65+ (Senior)’ as the target population, and as outcome areas selects ‘Promote health’ and ‘Strengthen family life’. This search produces a list of practices that relate to 65+ (seniors) in those outcome areas. A subsequent search on ‘Interventions that treat or reduce the risk of social isolation can improve health outcomes in the community dwelling elderly’ (taken from the recent systematic literature review published by the Ontario Health Technology Advisory Committee on ‘Aging in the Community’). A search for ‘social isolation’ in the database is linked to two other outcome areas: ‘Build social cohesion and social capital’, and ‘Promote inclusion of disadvantaged groups’. Selecting these additional criteria and continuing the search produces many programs and practices that aim to reduce social isolation among elderly people. The research may also generate additional applications for the company’s software.

With this information, PointerWare can demonstrate that (a) their software addresses some important health practices for elderly people, and (b) that their approach is built on existing evidence while still being innovative. As an early stage venture, the company can use this study to discuss their social benefit with impact investors. They are able to track the number of licenses they sell to community-dwelling elderly customers to quantify the social impact benefit. PointerWare can also use anecdotal evidence gathered through its customer feedback process from seniors and their families who report more frequent interactions between the seniors and several generations of the family, enabled through the senior’s access to a wider digital community.

At www.marsdd.com, social entrepreneurs will find extensive resources to start a similar literature search.

**Better World Books**

**Useful, feasible and credible metrics aligned with the mission**

Better World Books, a for-profit social venture financed by social venture capital firm Good Capital, is a global bookstore that harnesses the power of capitalism to bring literacy and opportunity to people around the world, by finding new uses for old books. Their mission statement on their website (www.betterworldbooks.com) summarizes their business: “Better World Books collects and sells books online to fund literacy initiatives worldwide. With more than six million new and used titles in stock, we’re a self-sustaining, triple-bottom-line company that creates social, economic and environmental value for all our stakeholders.”

Better World Books has scaled to ~$20 million in revenues.

A sample of social impact measure and reporting can be found on their website. They measure and report on the following:

1. **Impact on literacy** achieved through donations of cash and used books;
2. **Environmental impact** of the tons of books they have kept out of landfills and the tons of carbon offset they have achieved on the sale of their books; and
3. **Economic impact** of the full-time jobs their venture supports, including those in a disadvantaged industrial area in Northern Indiana.
of the significant impact that has been quantified and validated. The same is true for investors as widespread adoption (or market penetration) is generally a strong driver of positive financial performance.

Funders and investors could evaluate themselves on the extent to which they impose non-value-added costs through their processes for application for funding/investment, performance measurement and reporting.

Funders and investors should be cautious when comparing social or environmental impact data across organizations. Comparing results across organizations for the purposes of deciding which one should be supported or invested in may be misleading unless there is certainty that the outcome measurement is applied in the same manner across the various organizations.

What are the attributes of an effective impact measurement system?

When developing impact measurement systems, some key guiding principles should include the following: the measurement of the impact should add value to the venture over the long term, it should seek to align the goals of the funders and investors and the venture, and, where economically feasible, it should be developed based on industry standards.

A good performance measurement should be first and foremost aligned with the mission of the venture and focused on its impact. It should also be simple to manage, understandable, clear and concise, and meaningful. In a presentation at SoCap 2009 - a gathering of the world’s top social innovators and social impact investors held in San Francisco in September 2009 - the SVT group summarized the key attributes of good performance measurement as being useful, feasible and credible. Credible measurements are rigorous, replicable and transparent and are also, most importantly, difficult to misuse.

What are the current challenges? What are some of the emerging standards?

Non-financial impact measurement is an emerging discipline that has been described as confusing, fragmented, potentially misaligned and often uncomfortable for ventures to accomplish. If metrics are not appropriately validated and implemented in a cost-effective manner, there could be a tendency to misuse the metric and “game the system”.

A comprehensive review of practices around the world confirms that there is no industry standard for social impact measurement in use by social enterprises, social purpose businesses, charities or the funders and investors that support these organizations. Instead, a broad range of alternatives exists, ranging from defining and reporting on specific social outcomes in a venture to sophisticated research and measurement systems.

At SoCap 2009, a new impact reporting system was unveiled. “The Global Impact Investing Rating System (GIIRS) is the result of collaboration between some of the leading organisations in social capital markets. It includes a set of ‘impact reporting and investment standards (IRIS)’, a much-needed attempt to develop common definitions of the main terms used in social capital markets. Until now there has been a tendency to use whatever definition allows you to tell yourself you are making the most difference.”

A working group from the Rockefeller Foundation has also compiled a Catalog of Approaches to Impact Measurement. This comprehensive resource provides a summary of various approaches and outlines their appropriateness for use based on the needs of the venture.

The SROI (Social Return on Investment - www.sroiproject.org.uk) guidelines have emerged as a potential framework for the measurement of non-financial impact per investment and could be applied by companies, investors, non-profits, funders and governmental entities. It has been compared to the management disciplines of accounting and financial valuation. Olsen & Lingane provide the following definition: “Social Return on Investment (SROI) analysis is the set of practices necessary to generate meaningful SROI figures (namely a ratio of the net present value of benefits to the net present value of the investment) and other quantified social metrics.” SROI was developed by
At MaRS, we believe that the development and effective implementation of impact metrics will lead to improved decision making on the part of investors, funders and social entrepreneurs. Impact measurements provide a roadmap for an early stage social venture to measure their progress, successes and failures. Impact metrics will also ensure that the mission remains at the forefront of the day-to-day effort and that financial metrics won’t overtake the important social and environmental impacts that a social entrepreneur is striving to achieve.

Impact measurements can also lead to further innovation. As Gregory Dees and Jed Emerson explain: “A system for timely and reliable measurement of performance, one that is logically tied to the mission of the organization, is essential for demonstrating the value of particular innovations. Even if people in the organization have a clear shared mission, in the absence of such a system, they can disagree on the value of taking new approaches to their work. An accepted system for measuring mission-related performance is crucial in resolving concerns and sorting among innovations to find those most worthy of pursuit. In some cases, a better measurement system can unleash a wave of innovation in an organization. It can help people see new ways to do their work and it can make clear the limits of the old approaches.”

Impact measurements will also be critical in order to continue to attract mainstream capital into the social finance arena. In summarizing how impact investing could succeed, the Monitor Institute highlights the key role metrics will play:

“Impact-driven investors - including retail, high-net-worth individuals, corporations, and foundations - effectively develop skills and approaches that enable them to leverage investment as a tool to drive social change. Impact investing outstrips philanthropy in terms of capital volume and, some would argue, impact. A range of supporting infrastructure—including intermediaries and social metrics—enables investors to better understand choices and tradeoffs.”

What could the future look like if metrics influence impact investing positively?

At MaRS, we believe that the development and effective implementation of impact metrics will lead to improved decision making on the part of investors, funders and social entrepreneurs. Impact measurements provide a roadmap for an early stage social venture to measure their progress, successes and failures. Impact metrics will also ensure that the mission remains at the forefront of the day-to-day effort and that financial metrics won’t overtake the important social and environmental impacts that a social entrepreneur is striving to achieve.

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Conclusion from review of the international landscape and of local focus groups

RealWorld Systems made the following observations from their recent work on behalf of MaRS Discovery District:

Performance measurement of social or environmental impact should promote the transfer of successful innovations into the broader social system and/or market economy. The choice of impact metrics by an organization and its funders or investors depends on the role each plays in the innovation-to-adopt process.

Performance measurement can improve social or environmental benefits if it is evidence-informed and built into the management processes of organizations, funders and investors.

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However, performance measurement may have negative effects, including high costs, increased risk of unethical behaviour by program leaders competing for dollars for the cause, and a bias against programs with complex effects that are difficult to measure. Organizations, funders and investors should use care in designing impact measurements and systems to minimize these potential effects.

The research shows that investors who are primarily motivated by financial returns or investment-first investors in the social capital market require impact measurements that are simple and easy for the average investor to understand. Impact-first funders (those not requiring a financial return, but seeking delivery of significant impact benefits) will generally require more sophisticated social or environmental measurement tools to really quantify the degree of impact from their funding.

Investors, seeking blended financial and social/environmental impact returns will generally use outcome measures that are defined by a social purpose business, specific to its social mission and its execution plan, in reporting to their investors. Investors are generally not willing to have their investee companies spend the time and money on more sophisticated research and outcome measurement, particularly at the early stage of a venture.

The goal of social impact metrics for early stage social enterprises (start-ups, innovative programs, experimental approaches, and/or pilot tests) is to demonstrate that their model can be more successful than existing alternatives to solving social problems, assuming that the social enterprise is adequately supported to develop and grow. In the early phase of development of a social enterprise, it is likely that more informal metrics would be used by these organizations and reported to their funders. Funders will generally make similar cost/benefit decisions regarding impact metrics as early stage social investors.

Social enterprises reporting good outcomes at an early stage, would then seek to collect more formal metrics as they start to scale, making the case for additional funding, including an investment from a funder in more sophisticated research tools to support the quantification of their social outcome benefits. Today, more sophisticated social benefit measurement is often conducted by the funders of social enterprises or by publicly funded organizations, rather than the social enterprises themselves.

Most importantly, impact metrics and the system for collecting data and monitoring performance should be integrated with the mission of the venture. The system should be designed to achieve greater social and environmental benefits in a cost effective manner appropriate for the stage and operating environment for the venture. This is a challenging task. However, the fundamental prerequisite is that ventures, funders and investors define their major goals for social and environmental impact and use metrics as a way to meet them, collecting the information that helps them to continuously improve and guide their management decisions. By doing this, emerging social ventures can successfully work to solve the complex problems facing today’s society.

Next steps

The MaRS team will continue to monitor and share international developments surrounding social impact measurement and update resource material on the MaRS website.

Additional Resources

At www.marsdd.com there are some great resources for finding validated impact benefit indicators and existing evidence-based programs. There are several additional articles providing more detail on many of the concepts and issues covered in this paper, including a glossary, definitions, a list of social impact measurement systems in use, and additional detail on resources that can be used to define metrics for social ventures.

This resource can be found in the Entrepreneur’s Toolkit section of www.marsdd.com.