

# GECES SUBGROUP ON SOCIAL IMPACT MEASUREMENT

## Summary of report

### Policy context

The Single Market Act II<sup>1</sup> states that “the Commission will develop a methodology to measure the socio-economic benefits created by social enterprises. The development of rigorous and systematic measurements of social enterprises’ impact on the community ... is essential to demonstrate that the money invested in social enterprises yields high savings and income”. The Programme for Employment and Social Innovation<sup>2</sup> also foresees, in its third axis (Microfinance and Social Entrepreneurship), that the implementation reports to be sent to the Commission by financial institutions and fund managers also report on the results in terms of social impact. The GECES sub-group on Social Impact Measurement was therefore set up in October 2012 to agree upon a European methodology which could be applied across the European social economy.

The sub-group has the mandate to develop a methodology for measuring the social impact of activities by social enterprises by the end of 2013. This methodology is most needed in two contexts : firstly, for the development of European Social Entrepreneurship Funds (“EuSEFs”), where additional criteria may be needed for better coordinating how social fund managers decide whether they can invest in a particular enterprise and monitor and report the results of these investments, and in enabling those fund managers to be properly accountable to investors and the wider public. Secondly, in the context of the Programme for Employment and Social Innovation (“EaSI”). In this €85 million in grants, investment and guarantees will be made available in 2014-2020 to social enterprises who can demonstrate they have a ‘measurable social impact’.

EuSEF and EaSI differ in their needs, focus and application and the GECES sub-group has been aware that they might require different solutions. For EuSEF, the measurement standard creates a qualification standard for judging whether a social enterprise qualifies for financial support, and for gathering information and reporting upon it. Under EaSI the need for measurement is in information gathering, to enable the Commission and the agents appointed to manage the funds in Member States to report upon the extent to which the social impact targets of the whole fund are delivered.

The development of a standard for impact measurement goes beyond the needs of the EuSEF and the EaSI, and this is an important additional benefit to this work. Nowhere in the world is there an agreed standard for social impact measurement. To develop one would bring consistency to reporting, form a foundation for performance management within social enterprises of all sizes (hence improving effectiveness) and encourage a more informed engagement with partners, investors, and public sector funders.

### Concepts and terminology

Impact measurement has a terminology that is in common use across much of the social sector, although there is some blending of them in some circles. Five key terms exist and are adopted here:

- Inputs: what resources are used in delivery of the intervention
- Activity: what is being done with those resources by the social enterprise (the intervention)
- Output: how that activity touches the intended beneficiaries
- Outcome: the change arising in the lives of beneficiaries and others
- Impact: the extent to which that change arises from the intervention

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<sup>1</sup> [http://ec.europa.eu/internal\\_market/smact/docs/single-market-act2\\_en.pdf](http://ec.europa.eu/internal_market/smact/docs/single-market-act2_en.pdf)

<sup>2</sup> <http://ec.europa.eu/social/main.jsp?catId=89&langId=en&newsId=1093&furtherNews=yes>

In evaluating impact based on outcomes, three more adjustments are taken into account:

- deadweight: what changes would have happened anyway, regardless of the intervention
- alternative attribution: deducting the effect achieved by the contribution and activity of others
- drop-off: allowing for the decreasing effect of an intervention over time

In coming to a set of standards capable of wide application under EuSEF, EaSI and beyond, a distinction is drawn between four elements in producing a meaningful measurement of social impact. They are as follows:

- **PROCESS** - The series of steps or stages by which a Social Enterprise or Fund investigates, understands and presents how its activities achieve change (outcomes) and impact in the lives of service-users and stakeholders.
- **FRAMEWORK** – For each major area of social enterprise interventions, a list of the most usual outcomes being targeted, and, for each of these outcomes, a series of sub-outcomes that again appear most regularly. Examples would include, for an intervention relating to supporting ex-prisoners at risk of reoffending, outcomes such as not re-offending over a twelve-month period, and gaining full time employment, with sub-outcomes of engaging in retraining for the workplace, and keeping on a substance abuse support programme, and changing social circle to engage with mentors.
- **INDICATOR** - A particular way of attaching a value or measure to those outcomes and impacts. Examples include financial measures of savings in state funding, or productivity gains, well-being scores, etc. .
- **CHARACTERISTICS** (of good measurement) - Those features of the reported measurement of the outcomes and impacts from an intervention or activity that mean that it should be recognised and relied upon as valid.

## Analysis and recommendations

The sub-group found that no single set of indicators can be devised top-down to measure social impact in all cases. This is so because:

- first, the variety of the social impact sought by social enterprises is very great and no single methodology can capture all kinds of impacts fairly or objectively;
- second, while there are some quantitative indicators that are commonly used, these often fail to capture some essential qualitative aspects, or, in their emphasis on the quantitative, can misrepresent, or undervalue the qualitative that underpins it;
- third, because, owing to the work- and data-intensive nature of measuring impact, obtaining a precise evaluation is often at odds with the key need for proportionality: the amount of time spent and the degree of accuracy sought and achieved in any measurement exercise must be proportionate to the size of the enterprise and the risk and scope for the intervention being delivered
- fourth, because in an area characterised by wide variety in the nature and aims of activities, and the types of SE delivering them, there is a clear trade-off between achieving comparability between activities through using common indicators and utilising indicators that are useful and relevant for the management of the social enterprise; increasing (artificial) comparability can lead to a loss of relevance;
- fifth, because impact measurement and indeed, the world of social enterprise has been evolving very rapidly, making it difficult to stick to any one standard over a number of years.

In developing the standard proposed by this report, it has been essential to balance the needs of funders, investors and policy-makers for sound information on measureable social impacts with the need for proportionality and practicality. There is little point setting measurement standards that are excessively costly to meet, or are impractical in requiring so complex an analysis that it cannot be supported by information from the social enterprise and its beneficiaries. The other key aspect of the social business environment across Member States that has been important to address has been the sector's diversity. Whatever standard is set,

it must meet the needs of large as well as small social enterprises, those operating across a wide range of social needs and interventions, and Member States with public funding and infrastructure that is experienced in this field, to those where it is new and still being developed and understood.

This standard sets a universal process, and characteristics of reporting, details of which are laid out below. It requires that a framework is developed which is likely to cover perhaps 80% of the measurable outcomes. This would give outcomes and sub-outcomes that are likely to be the measurable for most social enterprises. A social enterprise may use others but must explain why they are a better fit than those in the European Commission Framework. As regards indicators the social enterprise must agree with stakeholders (including investors and investment fund managers under EuSEF). Comparability of measurement is achieved through the comparable and consistent process used for measurement, and the consistent reporting of the measurement produced.

The process involves five stages:

- **identify objectives:** of the various parties in seeking measurement, and of the service being measured.
- **identify stakeholders:** who gains and who gives what and how ?
- **set relevant measurement:** the social enterprise will plan its intervention, and how the activity achieves the outcomes and impacts most needed by its beneficiaries and stakeholders. This link from activity to impact is the social enterprise’s theory of change. It will decide this, and establish measurement most appropriate to explaining that and the achieved impacts, and will then agree it with major stakeholders. .
- **measure, validate and value:** assessing whether the targeted outcomes are actually achieved in practice, whether they are apparent to the stakeholder intended to benefit, and whether they are valuable to that stakeholder.
- **report, learn and improve:** as the services are delivered and the measurements of their effectiveness emerge, so these results are reported regularly and meaningfully to internal and external audiences.

The common process outlined above is relevant at both investor/fund level, and at social enterprise level. At both levels it should consider risk: that the social outcomes are not achieved, that social damage (unplanned negative outcomes) does not arise, and that targeted financial stability is achieved.

Throughout all five stages, the stakeholders identified in the process will be involved, and the SE and Fund Manager will consider the best way of communicating and engaging with them, and, indeed in explaining how that engagement is achieved. This is dealt with in more detail in the report.



## Common disclosure (reporting) of measurement

All reporting of measurement whether privately between a social enterprise and its investors, or in wider public reporting, should include appropriate and proportionate evidence supporting each material point, and specifically:

- an explanation of how the Process has been applied: what has been done in each of the five stages
- a clearly explained account of the effects of the intervention (outcomes, and identified beneficiaries, also explaining, at least in qualitative terms, deadweight, development and drop-off)
- an explanation as to how that happened: what activity achieved those outcomes and their impacts, and the Social Enterprise's logic model (theory of change, or hypothesis) as to why the activity caused or contributed to the outcome
- an identification of any third parties having a role in the effective delivery of those outcomes and impacts, explaining how they contributed (alternative attribution)
- an identification of those stakeholders whose interests are being measured, and the nature of the gain to them, categorising them appropriately
- a well-explained, proportionate, selection of indicators for the identified impacts for those stakeholders, identifying how the indicator relates both to the impact, and the needs and interests of the stakeholders, and how these have been agreed with those stakeholders
- an explanation of social and financial risk (the risk that social and financial outcomes are not delivered) quantified, where helpful and proportionate, with an evaluation of likelihood and impact, and with a sensitivity analysis showing the effect on targeted outcomes, impact, and financial results if the risks arise.

Outcomes and impacts must always be described together with how they arise from the activities of the social enterprise. Where possible, and where proportionate (that is when it can be done without cost that is excessive compared to the benefit of having the measurement) both outcomes and impacts will be quantified. Even where aspects of the outcome and impact are not going to be quantified, the reported measurement should identify all outcomes and impacts that are relevant to the audience (remembering proportionality), and explain why they are not being quantified.

The standards contain guidance on measurement, on supporting evidence and validation of it, on proportionality, and on the roles and responsibilities of different parties to the measurement. In the case of the important issue of validation, the report recognises three levels of assurance. The first, validation, which is the normal research-based principle of obtaining evidence to support the statements being made, is to apply in all situations. The second (independent review and comment) and the third (audit assurance resulting in a formal opinion) should be used where the SE and Fund Manager agree with stakeholders that one or other is necessary and proportionate.

## Follow-up

There are seven areas where follow-up is required:

1. **Guidance notes** from this report for the GECES and the European Commission, drawing a series of short guidance papers or pamphlets to assist Social Enterprises, Funders, Fund Managers and Investors in complying with these standards. These guidance papers or pamphlets will be most useful if they are produced with specific sections or adaptations for different sectors or Member States.
2. **A knowledge centre**, accessible advice, but not just a web-based facility for passively making knowledge available. This needs to be a permanently staffed facility which offers:
  - i. a source of continually updated guidance in written form
  - ii. a central repository for copy reports from Social Enterprises and funds within Member States. Filing should be encouraged, but remain optional (not compulsory)
  - iii. an advice line (telephone and email) to support Social Enterprises and Funds in applying the standards

3. **Development and consolidation of measurement frameworks** to form one that gives a suitable set of headings and subheadings to form a preferred set for Europe-wide measurements. Any measurement will be expected to fit within this framework or to include an explanation of why an alternative heading fits better to the intervention and outcomes concerned in that particular case.
4. **Reporting formats** should be developed around the standards proposed in this report. These should include:
  - a series of alternative layouts (built around existing examples of good practice) giving a choice of presentational formats for the main disclosures
  - a series of guiding headings for the supporting explanations for the main disclosures
  - indicative guidance on Integrated Reporting, where the Social Enterprise chooses to do this. They will be different for reporting intended for different stakeholders.
5. **EuSEF (and perhaps EaSI) follow-up**, in assisting such Commission agencies and others that require it, effectively to embed Social Impact Measurement appropriately in any developed process if and when this becomes necessary.
6. **Maintaining and developing a knowledge network at EU level** The subgroup feels that it is advisable to maintain and develop at EU level a network of experts on social measurement impact. Such a network or group of experts could support with:
  - Further thought and development
  - Dissemination of findings and policies
  - Guiding, as a steering group, the other proposed activities noted above
  - Being a reference point for the Commission and its agencies as they respond to the standards proposed.
7. Finally, **the position in this report** requires regular review and update. This is an area which is fast developing, both in its science and in the purposes to which it is applied. With the global focus on social investment, which must be founded on social impact measurement (at the planning, the investment, the interim monitoring, and the reporting and learning stages), the drive to develop measurement further is likely to continue, or accelerate. An annual review by the sub-group or a similar group of experts is therefore appropriate.

Brussels, November 2013