



HEC | Society & Organizations  
PARIS

# SOCIAL IMPACT ASSESSMENT STRATEGY REPORT

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HEC Paris  
Society and Organizations Center  
Movement for Social\*Business Impact

by  
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The Society and Organizations (S&O) Center is an interdisciplinary center at HEC Paris whose members conduct research and courses on the challenges facing organizations today and how these organizations (e.g. firms, NGOs, rating agencies, regulators) mold society.

The S&O center focuses on four main challenges : addressing the challenges of the XXI century capitalism, assessing the business and social impact of firms, tackling the ecological transition and developing a purposeful leadership.

Its mission is to guide organizations through a socially and environmentally increasingly complex world and to train future responsible leaders to live up to its challenges.

Its three pillars of research, education and action give rise to the Center's motto: Think, Teach, Act for an inclusive and sustainable world.

**THINK:** Research of Excellence which directly addresses the challenges of our time

**TEACH:** Train change-makers and leaders for responsible and sustainable management

**ACT:** Help organizations to implement alternative and sustainable business models

In November 2016, The S&O Center launched an ambitious initiative: **the Movement for Social\* Business Impact (MSBI)**, actively supported by Danone, Groupe Renault, Sodexo, Schneider Electric, Veolia and co-managed with the Action Tank Social and Business.

This movement aims at contributing to a more inclusive economy, where businesses seek to maximize their social impact together with their economic performance.

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# MOTIVATION FOR THE REPORT

For a decade now, the Society & Organizations (S&O) Center of HEC Paris has sought to contribute to the understanding of contemporary issues organizations face within society, including environmental impacts, social challenges, and ethical imperatives. We endeavor to generate impact by producing research, teaching, and action in a “think-tank, teach-tank, and action-tank” approach.

As such, in November 2016, the S&O Center co-founded the Movement for Social\*Business Impact (MSBI) with five global company partners (Danone, Renault-Nissan, Schneider, Sodexo and Veolia) and the Action Tank Entreprise et Pauvreté (Action Tank Enterprise and Poverty). Since then, the MSBI has engaged in various activities to contribute to a more inclusive economy, where businesses strive to maximize their social as well as economic performance. The MSBI has provided resources and opportunities to realize the “think-tank, teach-tank, and action-tank” objectives as S&O Center affiliates have worked to: (1) catalyze world-class research on business’ social impact, (2) strengthen and broaden the teaching opportunities related to the center’s objectives, and (3) accelerate the deployment and scaling up of inclusive business projects incubated in France and internationally.

In recent years, many private companies have increased their interest and effort in reducing their negative externalities and developing new solutions to modern challenges. Consequently, there has been a growing recognition for the need to assess the outcomes of social impact initiatives. To render this engagement meaningful, accurate assessment of the various initiatives is essential. Also, financial analysts and investors pay increasing attention to non-financial environmental, social, and governance (“ESG”) factors and incorporate contributions to sustainability and ethical issues into firm valuations. In addition, development banks, development agencies, and non-profit foundations evaluate social impact across industries and geographies, frequently developing custom methods and metrics. As different actors have developed and implemented their own approaches for evaluating sustainability programs and related business impact, concern has arisen over the shortage of shared, reliable principles of how to assess the outcomes related to social impact.

Throughout our efforts at the S&O Center, we have frequently encountered a lack of common understanding as to what social impact is or how to measure it. Further, we have observed a proliferation of avoidable shortcomings in impact assessment that are both common and costly. The absence of consensus and the frequency of measurement challenges both jeopardize support for measuring social impact and valuing it positively within an organization's total performance –including the financial and non-financial performance.

The primary aim of this report is to aid organizations in assessing the social impact of their own and affiliate organizations' activities. With this in mind, our primary concern is to ensure that the evidence consulted to evaluate impact is of the highest quality possible. This report reviews various practices of social impact measurement and distills principles that make social impact, and broadly speaking, sustainability efforts more efficient and accountable.

In Part 1, we review who are the various types of actors in the impact assessment space, what each tends to be concerned with, and examples of how each might approach impact assessment. In Part 2, we cover three major types of challenges in impact assessment. First, we note their intrinsic differences raising practical challenges. Second, we define and explain 7 measurement challenges of social impact. Third, we review the strategic challenges of over-claiming or under-toning social impact assessment. In Part 3, we conclude with recommendations and tools targeted at firms and organizations to make the best of social impact measurement and to guard against the three types of challenges identified in Part 2.

Through this report, we offer perspectives from various approaches on obstacles, promises, and strategic considerations related to impact assessment. By applying these ideas to your impact strategy, you can increase the quality, depth, and effectiveness of your own impact efforts. We hope to participate in a vast movement aiming at building standardized and rigorous impact assessment methodologies, as has happened for financial assessment. Such a standardization and normalization can provide a clearer view about the net impact of firms on society and their contribution to today's urgent challenges. More and more, impact assessment can facilitate the internalization of externalities, guide investments, and accelerate the transformation of corporations, and their contribution to an inclusive, low carbon and circular economy.



# PART 1: WHO, WHAT, AND HOW OF IMPACT ASSESSMENT

In order to provide an overview of current practices, in Part 1, first we review the various types of actors that conduct impact assessment (“**who**”). Next, we cover some of the definitions and approaches from which they conduct their analyses (“**what**”). While some organizations are geared toward public benefit and emphasize the social outcomes of social impact, others pursue an economic objective and their orientation emphasizes the business value of social impact. We conclude this section with case examples illustrating social impact assessment (“**how**”).

# I. WHO: MAJOR EVALUATORS OF SOCIAL IMPACT

Diverse actors assess social impacts. In this section, we will briefly introduce major categories of organizations that measure social impact in various ways. We list example organizations for each type. The different categories of social impact evaluators that we present below include (A) development banks and agencies, (B) non-profit foundations and organizations, (C) social investment organizations, (D) accounting and consulting firms, (E) corporate initiatives, and (F) reporting coalitions and academic institutions.

## A. Development banks and agencies

Development banks and agencies are typically underwritten by national governments and agencies or groups of governments and agencies. These organizations offer funding, financing, guidance, and other support services for projects that further social or economic development objectives, usually in developing countries. National interests may be pursued, alongside and including, interests such as economic development, social impact, and environmental sustainability. Development banks and agencies may be relatively international (such as the World Bank Group) or relatively regional (such as the European Investment Bank). Often their motivation in assessing impact is to determine how well the projects they support are creating positive outcomes compatible with development goals to meet social and economic needs.

The most prominent example is probably the World Bank Group. The World Bank Group is a cooperative, made up of 189 member countries, working together to “end extreme poverty and boost shared prosperity” [1]. Through five institutions<sup>1</sup>, the World Bank Group works towards achieving these goals. Among these five institutions, the International Finance Corporation (IFC) focuses on private infrastructure projects in developing countries, providing financial resources and development solutions as well as mobilizing third-party resources [2] in an attempt to incur development benefits. The Independent Evaluation Group (IEG) within the World Bank Group evaluates the development effectiveness of projects for the IFC and other subsidiaries. The IEG aims to improve World Bank Group’s development results by helping to build on successes and avoid repeating past mistakes through the provision of evaluative evidence [3].

<sup>1</sup>The five institutions consisting of the World Bank, the IBRD (International Bank for Reconstruction and Development) and the IDA (International Development Association) partner with governments of developing countries, providing them financing, policy advice, and technical assistance.

The Organization for Economic Cooperation and Development (OECD) is an international organization, operating as a multilateral development support organization led by several dozen advanced economies. The OECD’s stated mission is to improve the economic and social well-being of people around the world. To accomplish its mission, the OECD collects, analyzes data and publishes reports to help governments fight poverty and foster prosperity through economic growth and financial stability [4]. In addition, it offers guidelines such as the “OECD Guidelines for Multinational Enterprises”, a comprehensive set of government-backed recommendations for responsible business conduct, which are promulgated as a tool to encourage and maximize the positive impact multinational enterprises can make to sustainable development and enduring social progress [5].

Many development banks and agencies are regionally based, though they may be connected globally. Some regional banks and agencies derive resources regionally to support international projects. Others derive resources internationally to support regional projects. For example, the Agence Française de Développement (AFD) is a public financial institution that implements the policy defined by the French Government to fight poverty and promote sustainable development. The resources are derived from France, but are then deployed internationally, in line with the United Nation (UN)’s Sustainable Development Goals<sup>1</sup> (SDGs)<sup>2</sup>. AFD finances, monitors and accompanies development projects, seeking to support the transition to a safer, fairer and more sustainable world [6]. Alternatively, the Inter-American Development Bank (IDB) is focused on development in Latin America and the Caribbean. As the largest source of development financing for these regions, IDB’s stated aim is to achieve development in

<sup>2</sup>For details of the UN’s SDGs, refer to UN’s website (<https://sustainabledevelopment.un.org/post2015/transformingourworld>). Notably, goal number 1 is “No Poverty.”

a sustainable, climate-friendly way. It provides loans, grants, technical assistance, and conducts extensive research [7]. The European Investment Bank (EIB) is owned by and represents the interests of the European Union's member states and serves as the world's largest multilateral borrower and lender and provides finance and expertise for sustainable investment projects that contribute to EU policy objectives [8].

In sum, development banks and organizations offer funding and support to increase economic or social development. Often their impact evaluation efforts are supported by best practices in the field of development economics. In these institutions, social impact measurement is used to evaluate progress towards development goals and missions and to assess potential investment opportunities in funding or support services.

## B. Non-profit organizations and foundations

Non-profits dedicated to impact evaluation generally fall into one of two categories: organizations that engage in activities intended to bring about some sort of impact, and foundations that fund efforts performed primarily by other organizations. Individual organizations measure their outcomes in order to improve their impacts and to recruit funding or support. Foundations rely upon impact measurement to guide their funding decisions.

Non-profit organizations tend to engage in efforts that benefit specific social issues. For example, Habitat for Humanity works to build housing for those without. Doctors Without Borders provides medical services to those in conflict zones and developing regions. The International Red Cross works to supply emergency disaster relief and education. Each of these organizations can apply impact measurement in order to better manage their organizations as well as to seek support from grant-making foundations or other types of stakeholders.

Non-profit foundations serve as funds that manage a portfolio of grants to non-profit organizations which actually carry out the activities. These projects may cut across a variety of social sectors. For instance, the Rockefeller Foundation, founded in 1913, brought unprecedented international scale and scope to corporate philanthropy, as it sought to fulfill its

mission of improving the well-being of humanity around the world [9]. The Rockefeller Foundation has given more than \$17 billion in current dollars to support thousands of organizations and individuals worldwide [10]. The Bill & Melinda Gates Foundation, launched in 2000, is the largest private foundation in the U.S. with \$50.7 billion in assets as of 2018 [11]. They seek to diminish inequality, through enhancing healthcare, education, and other poverty reduction initiatives, largely in emerging economies. The Robin Hood Foundation centers all of its grantmaking around the core issue of poverty alleviation in New York City. The foundation combines investment principles and philanthropy to provide more than 200 nonprofits with financial, real estate, and management support. Robin Hood Foundation annually allocates over \$100 million to grants and initiatives directed towards fulfilling its mission [12]. Each of these foundations relies heavily on social impact assessment in order to manage their organizations, fundraise, and determine which opportunities to pursue.

## C. Social investment organizations

Social investment organizations are organizations of various kinds that invest financial capital in firms, projects, and initiatives that generate positive social and environment change. Some social impact funds aim primarily to produce financial returns for their investors, subject to constraints. These constraints vary greatly depending on the investment funds' priorities and may be either related to minimizing harm from negative externalities, or to increasing public benefit through positive externalities. Some other social impact funds only seek to preserve the original invested capital at the culmination of projects. For these types of funds, the social mission is primary and no profit is made on invested capital [13].

Social impact fund investors include institutional investors with diverse portfolios (e.g., large retirement funds or university endowments) and focused social investors that only invest in the social sector. Social investments primarily consist of direct equity funding for businesses and social enterprises that seek to create social or environmental impact. For example, Acumen Fund is a U.S.-based global social venture fund that makes equity investments in businesses seeking to reduce poverty [14]. Other social investors focus on a specific product or service, such as microfinance. Accion International, a U.S.-based global nonprofit founded in 1961, initially focused on local development projects in Latin America. Now, Accion focuses on microfinance and financial inclusion promotion services for those in poverty throughout the world [15].

Some of the organizations in the social investment industry have pioneered financial instruments to support social impact initiatives. A prominent example is the social impact bond. A social impact bond is a contingent contract under which the public sector pays an organization when specified social outcomes are achieved. They require valid instruments to measure actual impact, and agreement on these measures by the multiple parties involved in the bond emission. The first social impact bond was created by Social Finance, a U.K.-based non-profit organization. Social Finance was launched in 2010 to respond to social challenges in the U.K. and has since expanded internationally [16].

Social investment organizations can use impact evaluation to track the social performance of investments, as a corollary to their financial performance. This information may be used to evaluate potential investments and to recruit upstream financing resources. Several “big picture” quantitative approaches to social impact measurement have been developed by social impact investors to allow cross-firm or even cross-industry comparisons of social impact performance. Many social investment organizations deploy and adapt metrics from the Impact Reporting and Investment Standards (IRIS) metrics (see description in “Reporting Coalitions” section).

#### D. Accounting and consulting firms

This category of actors includes different sorts of professional organizations that assess impact for their clients. It consists of accounting firms that value impact of

large corporations, consulting firms that help define and implement their policies, as well as professional CSR (Corporate Social Responsibility) assessment firms such as Vigeo Eiris, Asset4, or Sustainalytics whose clients are mostly investors and asset managers. These various firms have developed distinct social impact measurement frameworks to aid clients in meeting stakeholder expectations and regulatory requirements. Clients may apply these frameworks to validate their sustainability programs and to bolster the credibility of their external communications [17].

Many of the approaches offered by consulting and accounting firms quantify the so-called “environmental, social, and governance” (ESG) factors considered by investors to determine firm valuation. The final application of ESG or other frameworks in the accounting and consulting context is frequently to help client companies connect their impact decisions to financial performance ramifications. Aiding clients in assessing and reporting on “sustainability” often includes both environmental and social components. Because of the relatively clear focus and measurability of carbon emissions and other negative externalities, environmental reporting has become relatively standardized and streamlined compared to social impact measurement. By comparison, social impact measurement is covered by a broader range of approaches and frameworks without yet a clear standard.

Each of the “Big 4” accounting firms—PricewaterhouseCoopers (PwC), Deloitte, Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG)— have substantial consulting practices and offer various services and methodologies for measuring clients’ social impact. Often, their approaches involve calculation of how social impacts could be enumerated as benefits in financial terms, either for the client firm, or for other stakeholders such as local economies, governments, employees, or communities.

Every major consulting firms, including Bain & Company, Boston Consulting Group (BCG), McKinsey & Company, Oliver Wyman, and Roland Berger provide social impact services. Many of these firms also publish articles and reports related to social impact measurement. For instance, Boston Consulting Group (BCG) published a recent report investigating the links between specific ESG factors and financial performance and offering strategic advice for corporate decision makers [18]. In addition, numerous, smaller boutique consulting firms specialize in social impact management and measurement.

Accounting and consulting firms offer various frameworks and services to help client firms measure social impacts. Clients may rely on these professional service firms for their expertise and for their legitimacy in the space of social impact where the standards remain largely unresolved.

## E. Corporate initiatives

In addition to engaging professional service firms, corporations may also develop their own social impact measurement approaches. For customized approaches, often companies rely on partnerships with expert consultancies or academic institutions.

Danone Ecosystem Fund, an initiative within Danone, has engaged nearly one dozen partnerships to assess the social impact of various projects and initiatives. By leveraging multiple academic partnerships (including HEC Paris S&O Center) to ensure rigor, while balancing with a practical accounting and consulting approach, Danone has worked to develop a feasible and rigorous framework for social impact measurement. Increasing numbers of companies issue corporate social responsibility (CSR) annual reports, and developed ways to measure and report their social efforts. Companies have pursued social impact evaluation in a combination of multiple approaches, including a mix of developing in-house custom impact evaluation methods, engaging accounting and consulting firms, partnering with academic institutions, or adopting the metrics developed in coalition initiatives (described in the next sub-section).

## F. Reporting coalitions and academic institutions

Various reporting coalitions of governments, companies, and social investors have been formed to create social impact reporting initiatives. Some reporting initiatives and coalitions are primarily for investors to use in portfolio management, others are for company managers to use in monitoring and reporting [19]. These initiatives have mostly led to the development of non-compulsory guidelines or commitments related to social impact assessment. Many of these reporting initiatives have built standards and measurement techniques

that are then adjusted and adapted extensively before use within firms. Thus, they have largely been designed with adaptability and broad application in mind.

For instance, Principles for Responsible Investment (PRI) is a United Nations supported network of institutional investors seeking to incorporate ESG factors into their investment and ownership decisions to foster an economically efficient, sustainable global financial system. As of February 2018, more than 1,800 signatories from over 50 countries representing approximately US\$ 70 trillion have subscribed their commitment for the principles [20]. Alternatively, on a more regional basis, European Venture Philanthropy Association (EVPA) serves as a non-profit association of organizations pursuing the promotion of positive societal impact through venture philanthropy and social investment across Europe [21].

Many reporting initiatives provide standards that organizations can adopt and adapt for use within their impact assessment. The dominant organization for social impact reporting, especially as incorporated into corporate social responsibility (CSR) reports, is the Global Reporting Initiative (GRI). GRI is an international social impact reporting standards setter, covering areas such as human rights, social well-being, and climate change [22]. Founded in 1997 with the support of the United Nations Environment Programme (UNEP), GRI is the first major and most widely adopted reporting standard. Sixty-three percent of the largest 100 companies in each of 49 countries (“N100” companies) and 75 percent of the Global Fortune 250 (G250) applied GRI standards in their reporting in 2017 [23].

Other significant reporting initiatives are Sustainability Accounting Standards Board (SASB) in the U.S. and the International Integrated Reporting Council (IIRC or “<IR>”). SASB is the direct sustainability-focused corollary to the U.S. Financial Accounting Standards Board (FASB) that sets accounting standards for U.S.-based companies. SASB focuses on impact assessment for communication to financial investors. (IIRC or “<IR>”) has developed a framework to encourage companies to report about financial as well as five other types of resources—manufactured, intellectual, human, social and relationship, and natural—in an integrated way [24]. These three frameworks are not mutually exclusive—in fact, GRI, SASB and IIRC are each involved in partnerships with each other.

A major reporting initiative is the Global Impact Investing Network (GIIN) that developed the Impact Reporting and Investment Standards (IRIS) adopted by impact investment communities and organizations such as the Rockefeller Foundation, B-Lab, and Acumen. IRIS provides a catalog of impact metrics that organizations can use and adapt to measure their own performance or that of their impact investments. Metrics range across nearly one dozen sectors, including agriculture, education, health, and financial services and include specific guidance on how to select, apply, and adjust within organizational contexts.

Other actors strive to provide valid measurements of corporations’ and other organizations’ impact: research institutions and universities, which increasingly devote resources to research on social investment. A few examples include leading roles by Oxford University in the space of impact investing or Massachusetts Institute of Technology (MIT) in randomized control trial experimentation for poverty relief research. MIT and its Abdul Latif Jameel Poverty Action Lab, Cambridge University with its Institute for Sustainability Leadership, or

the Society & Organizations Center at HEC Paris (the publisher of this report) are examples of how universities have created institutes and centers specific to social impact and related issues. Organizations specific to the academic community also unite researchers around topics of social impact and sustainability, including notably the Network for Business Sustainability (NBS) in Canada or the Alliance for Research on Corporate Sustainability (ARCS). ARCS is a coalition of over two dozen universities (including HEC Paris, Harvard University, Columbia University, Erasmus University, etc.) that seek to advance research on issues related to corporate sustainability that has been around for nearly a decade.

## Summary of who

Many types of actors are involved in social impact assessment. These include governmental, nonprofit, for-profit, investor, and activist organizations, coalitions, and academic institutions. This great variety of actors and interests has also resulted in a fragmented variety of social impact assessment approaches. Yet, being familiar with the various types of actors and some examples from each category allows one to be better equipped to evaluate and communicate about social impact assessment. In the next section, we will cover some of the main definitions and approaches taken towards social impact.

## II. WHAT: APPROACHES TO SOCIAL IMPACT MEASUREMENT

Considering the diversity of actors and their orientations, it is not surprising there exist different definitions of social impact. Before analyzing current discussion around social impact measurement methodology, we summarize two polar approaches to social impact: “social outcome” and “business value”. The “social outcome” approach is shared by actors more focused on social impacts as ends in and of themselves. Actors emphasizing the “business value” approach put emphasis on how social impacts interact with financial objectives. Below, we describe both approaches and conclude with a high-level mapping of how the different categories of organizations correspond to these approaches.

### A. Social outcome approach to social impact

The “social outcome approach” to social impact focuses primarily on the positive social outcomes produced by organizations efforts (rather than financial benefits). Several of the organizations we have introduced articulate frameworks and definitions that coincide with this approach.

In 1991, the **OECD** introduced the Development Assistance Committee’s (DAC) “Principles for Evaluation of Development Assistance.” This and further reports throughout the years have contributed to the development of conceptual foundations for social impact and its assessment. From this landmark report through today, the OECD and its DAC have directed social impact assessors to ask, “What has happened as a result of the project/programme? This involves not only direct outputs but, very importantly, the basic impacts and effects on the social, economic, environmental, and other development indicators resulting from the activity....both intended and unintended results and must also explain the positive and negative impact of external factors...” [25]. Thus, the DAC expands the assessment focus beyond the inputs, motivations, or investments into a social impact effort and moves towards emphasizing the concrete outcomes—and not even the direct outputs, but the larger effects of social impact efforts. The

OECD and DAC further advocate for consideration of the external factors that may have increased or reduced observed outcomes. These basic concepts of attention to the tangible “impacts” and furthermore the net impacts of the social impact efforts are fundamental to the social outcomes-focused approaches.

The **Rockefeller Foundation** specifically defines concepts of “outputs,” “outcomes”, and “impacts” of social activities by referring to “the impact value chain” concept. “Outputs” signify the direct results that a company, non-profit or project manager can measure or assess. “Outcomes” indicate the positive changes to social systems that an organization seeks to bring about. “Impact” refers to the portion of the total outcome that happened as a result of the activity of the organization [26]. Rockefeller Foundation further specifies that “net impact” is what occurred “above and beyond what would have happened” without the intervention. Frequently, this requires the development of a counterfactual, or what would have happened without the intervention. **EVPA** elaborates Rockefeller Foundation’s original “impact value chain” framework (see Figure 1) and augments it with specific examples.

Figure 1: EVPA's updated impact value chain framework



Source: EVPA, "A Practical Guide to Measuring and Managing Impact"

**World Bank Group's IFC** evaluates «development impact» to determine whether their co-funded projects contribute to the World Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity. The IFC sets key development outcome indicators to evaluate projects against, based on IFC Development Goals (IDGs)<sup>3</sup>. For example, the IFC may track indicators of development effectiveness such as number of jobs created, level of increase in revenues for beneficiaries, or the amount of cost savings from policy reforms [27].

**Acumen Fund** explicitly avoids measuring "impact" as conceptualized in these other definitions and instead seeks to assess "social performance." Acumen supports this approach by pointing out the expensive, difficult, and impractic-

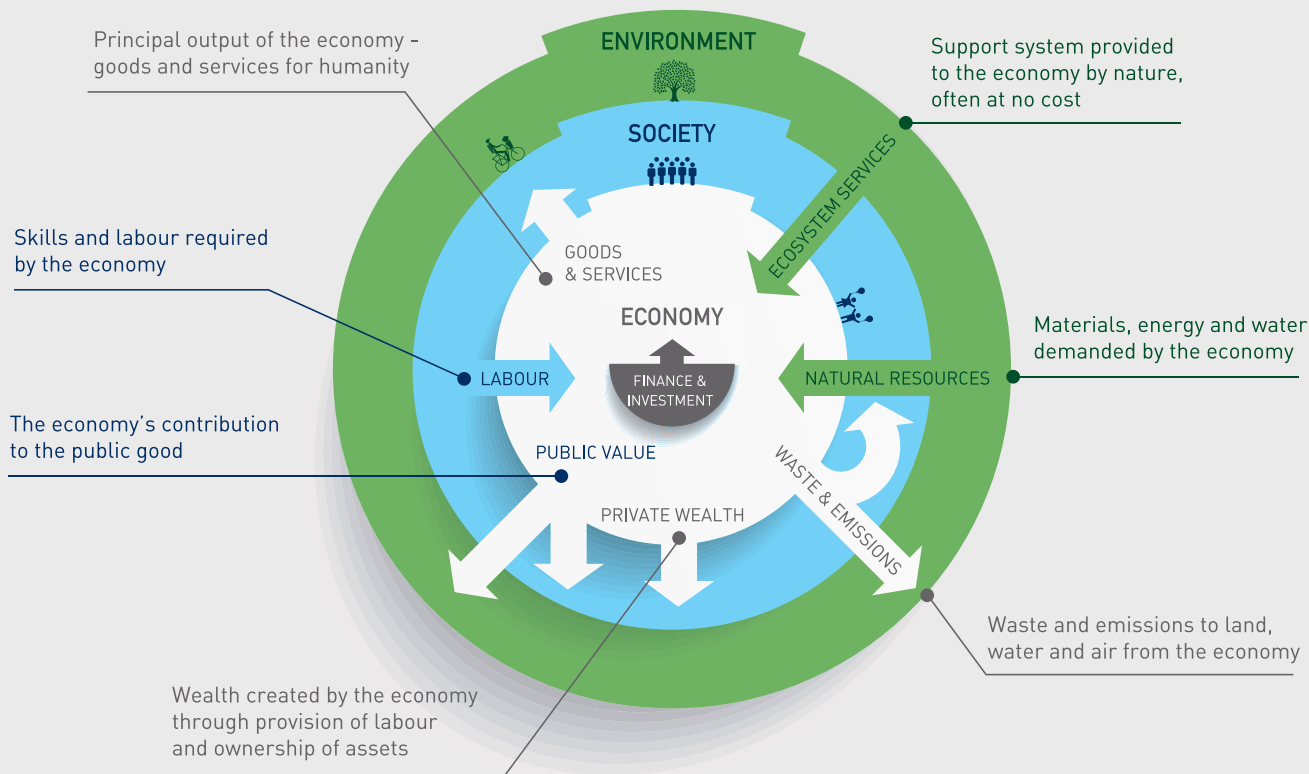
cal burden of collecting counterfactual data needed to assess genuine impacts caused by social impact efforts. Relatively lightweight «social performance» data collection instead focuses on organizational activities or outputs that plausibly relate to the intended ultimate impacts [28]. Acumen commends a "lean design" approach using "lean surveys" with minimal numbers of questions, and "lean tools" such as mobile phone data entry. Taken together, this less burdensome approach contrasts with some of the more intensive data gathering techniques developed in reporting initiatives or offered by accounting firms.

<sup>3</sup> IFC Development Goals (IDGs) are as follows. 1) Infrastructure: Build and improve infrastructure services; 2) Financial institutions: expand access to financial services and SME clients; 3) Climate business: reduce greenhouse gas emissions; 4) Health and education: boost health and education services; and 5) Agribusiness: improve sustainable farming opportunities.

The University of **Cambridge Institute for Sustainability Leadership (CISL)** has defined “investment impact” as the social and environmental outcomes of investment. Investment impact is distinguished from underlying intentions or processes. Measuring investment impact can be more of a post-hoc, results-focused standard of assessment in contrast to the integration of **PRI** principles for environmental, social and governance (ESG) risk assessment. ESG integration is typically applied as more of a pre-investment or re-investment analysis, as the process of taking into account ESG risks or opportunities in investment decisions illustrates [29].

CISL depicts the relationships between business models, society, and the environment. This focus on all three levels is emblematic of the social outcomes approach to impact measurement. In Figure 2, some of the different relationships and feedbacks are illustrated. Businesses in the economy affect society with their goods and services, while labor flows into businesses from society. Public value can flow to both society and business, while natural resources such as materials, energy, and water can flow into the businesses in the economy. The various interrelationships suggest that businesses have to balance these flows in and out if they are to operate sustainably over the long term (see Figure 2).

Figure 2: CISL model of inflows and outflows from an economy



Source: Cambridge Institute for Sustainable Leadership, “In search of impact”

CISL frames the way in which organizations can conceptualize specific contributions and relationships in terms of the United Nations Sustainable Development Goals ("SDGs"). The SDGs are 17 goals negotiated among the member states of the United Nations, that specify global development goals targeted by 2030. They include goals such as No Poverty (SDG #1), Zero Hunger (#2), Gender Equality (#5), Reduced Inequalities (#10), as well as a variety of environmentally-focused and economically-focused goals. CISL suggests that by drawing on SDGs, organizations can better tap into

common values and goals and determine whether their activities are making highly positive, positive, limited or neutral, negative or highly negative contributions. Figure 3 displays a color key for different levels of contributions and an information dashboard. The latter displays an example organization's progress on several areas related to SDGs, including tangible indicators and color-coded benchmarks of comparable organizations in the center.

Figure 3: CISL illustration of information tracking for six impact themes

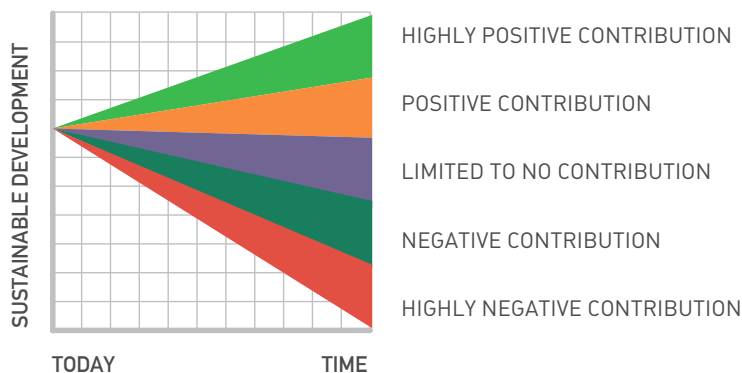


Figure 3: CISL illustration of information tracking for six impact themes

Overall, the “social outcome” approaches aim to assess how much beneficiaries benefitted from the multiple actions and programs undertaken by firms and organizations. For example, the World Bank Group evaluates whether projects actually contributed to beneficiaries’ lives, compared to a counterfactual situation without an intervention. Often, this entails that the primary objective of social impact assessment is to establish a case for the social impact brought about by social impact efforts. In contrast to seeking strong causal evidence of net impact, Acumen attempts to document and assess social performance-level evidence that the enterprises they fund are resolving social problems. In the name of pragmatism, Acumen exemplifies a lightweight, less causal-focused methodology to the social outcomes approach.

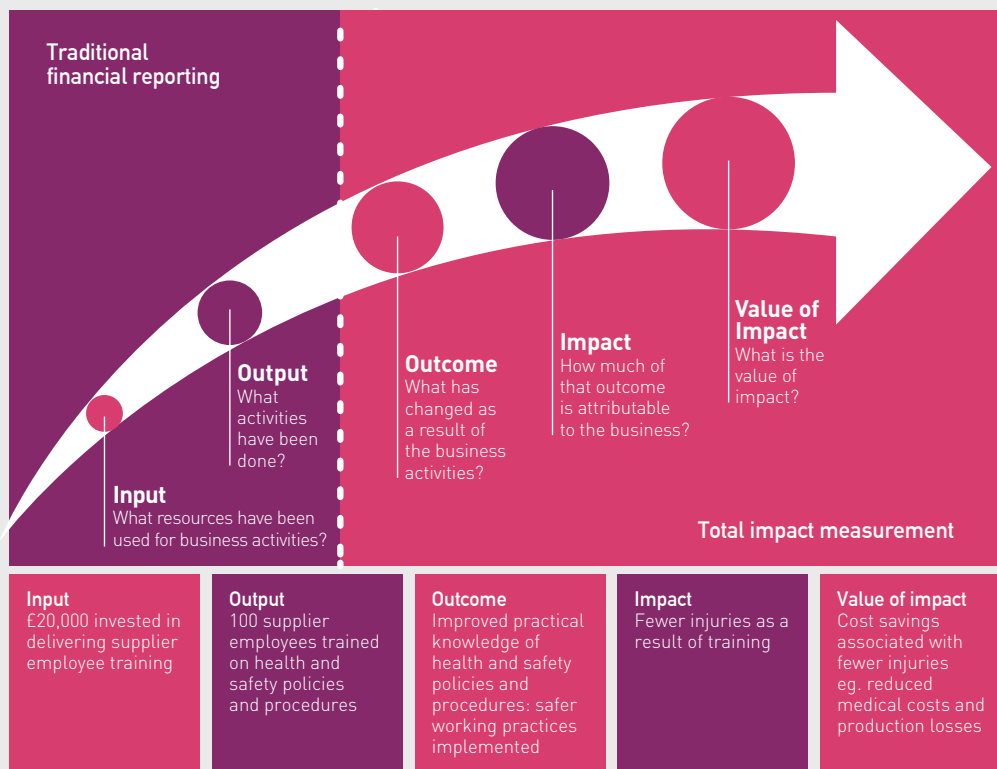
## B. Business value approach to social impact

Unlike a social outcome approach, which takes the net social effect of a particular intervention into consideration, a business value approach concerns business outcomes

related to social impact efforts. These frameworks may include quantified and financial currency-denominated measures. (e.g., “reputational risk” for failing to treat employees well or “reputational opportunity” for engaging in social impact efforts to support local primary education). Because the outcomes of interest are business-centric, establishing net impact is typically less of a concern. Many frameworks that connect social impact to business value have been produced by professional service firms in accounting and consulting or through reporting coalitions.

**PwC** proposes a “total impact measurement and management” (TIMM) framework that delineates steps to view, capture, measure, and manage social impact (see Figure 4) [30]. These steps frame how managers can use social impact assessment to “evaluate options and optimize trade-offs” and depict how total impact measurement contrasts with traditional financial reporting. Examining outcomes, impacts, and the value of impacts requires going beyond measuring inputs and outputs for traditional financial reporting.

Figure 4: PwC’s Total Impact Measurement and Management (TIMM) framework and example



Source: PwC, “Measuring and Managing Total Impact: A New Language for Business Decisions”

**KPMG** offers a “true value” framework to estimate how the social outcomes that a business affects in turn affect its business value (see Figure 5). This model suggests that revenues, costs, and risks of the firm can be affected by three main drivers: market dynamics, regulations and standards, and stakeholder actions. In turn, these drivers can be affected by a number of current social and environmental issues (e.g., climate change, food insecurity, and many more). By assessing these factors and estimating the value that a company

creates or reduces for society, firms can evaluate the potential ramifications to business value [31]. To protect business value, KPMG recommends businesses to (1) evaluate the positive and negative externalities they are creating for society and express these in financial terms, (2) assess how likely the “internalization” of these externalities to affect the business value of the firm in the future, and (3) develop business cases that increase the value provided to society.

**Figure 5: KPMG Three Drivers of Internalization**



Source: KPMG, 2014, “A New Vision of Value: Connecting corporate and societal value creation”

**EY** proposes a “total value” framework that intends to measure the most material aspects of a company’s value creation including “the value that is created by the company, the value it shares with its stakeholders and the broader impact it has on society at large” (see Figure 6). Similar to

KPMG’s model, EY recommends assessing different types of captured and uncaptured value, and evaluating how that value might be assumed by the organization. EY provides different methods of estimating that value with concrete figures [32].

**Figure 6: EY’s Total Value Framework**

## Total Value defined

### Value exchanges with society at large

#### Examples

Induced creation of jobs  
Emissions  
Supply chain biodiversity impacts  
Scarcity of natural resources  
Systemic economic impacts

#### For whom

Society at large

### Value exchanges with stakeholders

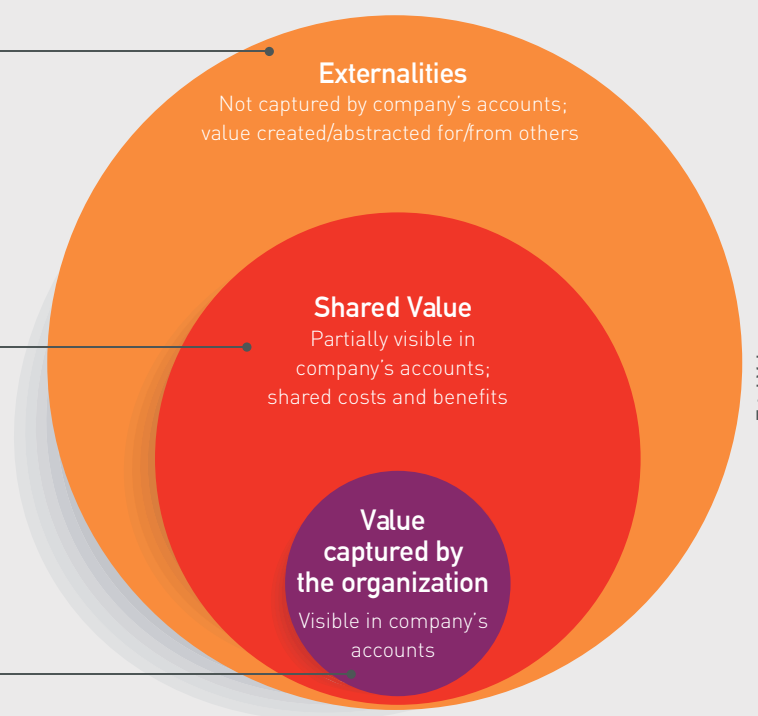
#### Examples

Incidents due to unsafe working conditions  
Community investment  
Employee learning  
Product environmental impacts  
Social impact of products or services

#### For whom

Suppliers  
Customers  
Local communities

### Intrinsic value

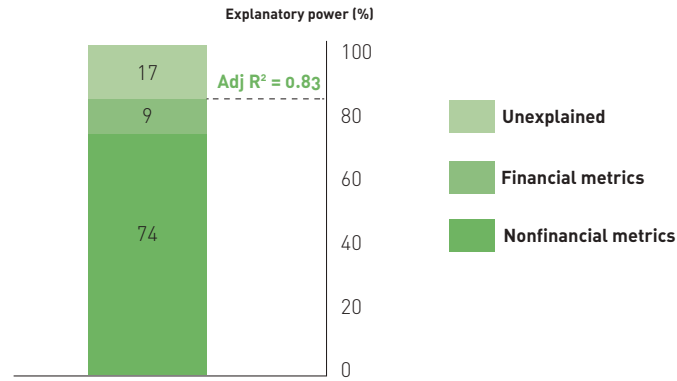


Source: PwC, “Measuring and Managing Total Impact: A New Language for Business Decisions”

In order to enhance shareholder value, strategy consulting firm **BCG** proposes the “total societal impact” (TSI) lens to measure the aggregate of a company’s positive and negative economic, social, and environmental impact of a business on society. BCG argues that succeeding in managing TSI will increase total shareholder returns over the long term

by reducing the risk of negative events and opening up new business opportunities. BCG provides industry-specific analyses that illustrate how top performers in TSI in each industry often perform better on financial valuation measures as well. For example, in the oil and gas industry, non-financial factors would explain 9% of valuation (see Figure 7) [18].

Figure 7: Impact of financial and nonfinancial metrics on oil and gas firm valuations

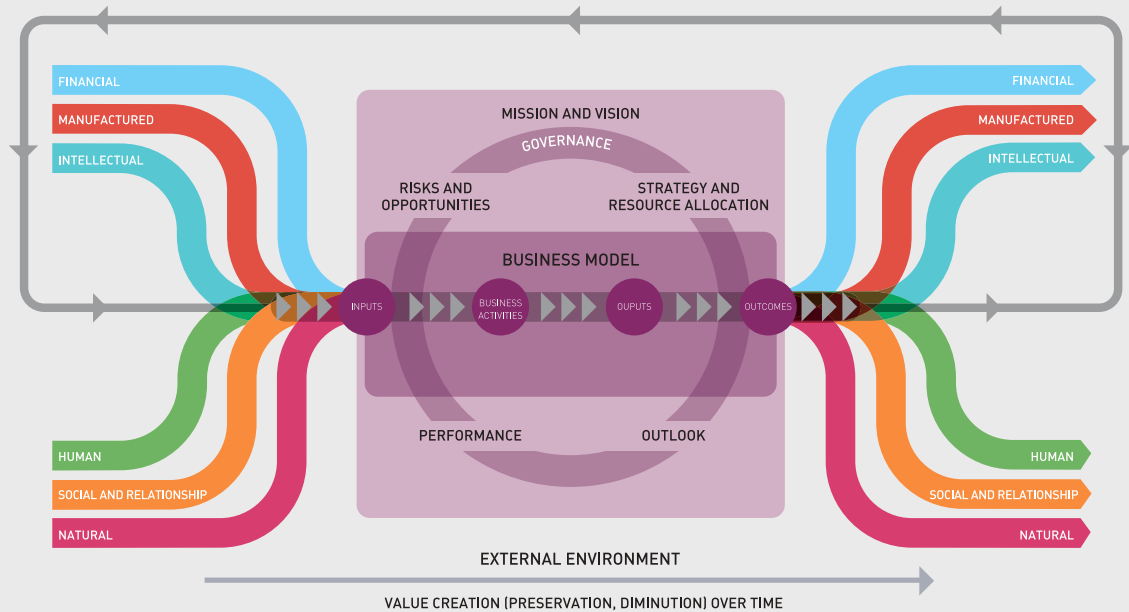


Source: BCG, "Total Societal Impact: A New Lens for Strategy"

In addition to professional service firm frameworks, reporting coalitions have furthered attempts to report non-financial information (including social impact) that current economic and financial reporting do not capture well. The IIRC

proposes the "integrated reporting framework" (or "<IR>") that reflects how various non-financial factors affects the value of business over the short, medium and long term [33]. Figure 8 depicts the framework's underlying value creation process.

Figure 8: IIRC's Integrated Reporting framework



Source: IIRC, "The International "<IR>" Framework"

Based on these different approaches, it appears that most decision makers from the for-profit sector rely on the business value approach to guide their social impact strategy and initiatives. Organizations may apply the business value approach to social impact assessment and communication with internal and external audiences. Internal audiences may include re-

source-holders such as different departments or budgeting decision-makers. External audiences may include stakeholders such as social impact-attentive consumers, regulators, and social investors. Many of the professional service firm frameworks allow organizations to systematically assess as well as quantify business value impacts of social impact efforts (or lack thereof).

### C. Mapping social impact approaches

Different types of social impact evaluators tend to emphasize different aspects of social impact evaluation. Figure 9 depicts general differences for various kinds of evaluators in level of analysis (organization to portfolio), counterfactuality (lenient to strict), and measurement approach (business value or social outcome). Of course, these are general characterizations, and within each category of organizations there can be considerable variability.

Level of analysis refers to whether the social impact initiatives tend to be evaluated at the project, organizational, or portfolio level (for large investors or development banks for instance). Accounting and consulting firms generally provide frameworks for deployment within particular client organizations at the project and organizational levels. Corporate initiatives operate at the same level. Development banks and agencies as well as social investment organizations are often evaluating portfolios of projects. Reporting coalitions are deployed both at the organizational as well as the portfolio level. Non-profit foundations and academic institutions tend to measure at the project level, while foundations evaluate at a portfolio level.

Counterfactuality refers to how much emphasis is placed on establishing causation of net impact, and organization types are arrayed from "strict" to "lenient" on this criterion. Strict counterfactuality allows organizations to establish stronger proof of the effectiveness of social impact efforts, and tends to be prioritized by development banks and agencies, non-profit

organizations, and some social investment organizations. In general, frameworks that take social outcomes approach focus on the effect of specific intervention(s), with a motivation to monitor and improve the benefits of the interventions. To isolate the net effect of an intervention, it is necessary to control for external influences that may have contributed to the overall observable effect. However, often projects are designed in a way that prevents the collection of accurate data and the comparison of the effect with a control group. In some cases, no control groups exist. In others, impact comparison is impractical because the measures are context-specific and qualitative. Leniency can allow organizations to be faster in implementing social impact efforts, and more flexible in their choice of which impact efforts to undertake. Accounting and consulting firms, reporting coalitions, and corporate initiatives tend to be more lenient on requiring counterfactuality to prove their net impact.

Organizations may emphasize either the social outcomes or business value measurement approach to social impact. Accounting and consulting firms as well as corporate initiatives emphasize the business value approach. Development banks and agencies as well as non-profit organizations and foundations emphasize the social outcomes approach. Reporting coalitions and social investment organizations as a group have more of a mixed emphasis on average.

We map out the different actors of the social impact measurement field along these three dimensions to represent the variety of their approaches and positioning.

Figure 9: Level of analysis, counterfactuality, and approach by evaluator type



Source: Society & Organizations (S&O) Center, HEC Paris

### III. HOW: SOCIAL IMPACT ASSESSMENT CASES

In this section, we review multiple real-world cases to illustrate how different actors implement social impact measurement. Recognizing variance between methodologies used by different types of evaluators, we have chosen one organization for each type of evaluator, from development banks and agencies to reporting coalitions. We describe the organization’s measurement objectives, provide an overview of its methodology, and review a measurement case in practice.

#### Case 1: World Bank and youth employment skills development

##### Objective of the Measurement

The World Bank evaluates its projects to determine whether they contribute to the World Bank Group’s goals of eradicating extreme poverty and boosting shared prosperity.

##### Methodology

Each project financed by the World Bank sets a specific Project Development Objective (PDO) in the fundraising stage. After PDOs are defined, the relevance of the PDO is checked against longer-term missions and development objectives. Then, a project is designed and implemented. At regular intervals, the World Bank assesses: (1) Progress towards achieving the PDO, (2) Implementation progress, and (3) Risk ratings across various dimensions. Evaluation of progress towards achieving the PDO includes evaluating: PDO Indicators more directly tied to outcomes and impacts of interest as well as Intermediate Results Indicators tied to positive development-related outcomes. Risk ratings generally include around a dozen categories of risk, from political and

governance risk to environmental and social risk. The various metrics are generally reported in terms of their current and previous rating, and for some projects, their rating at time of project approval.

##### Example

A recent example is from a World Bank-financed project in Burkina Faso dealing with “Youth Employment & Skills Development” (World Bank project P130735). In this project, the PDO was set as “to increase access to temporary employment and skills development opportunities for out-of-school youth” [34].

This project tracked five PDO Indicators, including the 1) number of direct project beneficiaries, 2) percentage proportion of beneficiaries who were female, 3) completion rates of youth who enrolled in training programs, 4) proportions of program graduates who were employed, and 5) number of working person days completed for “Labor Intensive Public Works” by the beneficiaries. For each of these numbers, a baseline, previous, current, and end target figure was provided. (see Table 10, panel A).

Table 10 - Panel A: Project Development Objective Indicator example: Direct project beneficiaries

| → Direct project beneficiaries (Number, Custom)  |             |                   |                  |             |
|--|-------------|-------------------|------------------|-------------|
|  | Baseline    | Actual (Previous) | Actual (Current) | End Target  |
| Value  | 0.00        | 22.143.00         | 31.421.00        | 34.200.00   |
| Date   | 31-Mar-2013 | 30-Sep-2017       | 30-Apr-2018      | 30-Jun-2018 |
| <p><b>Comments</b><br/>                     The indicator «Direct project beneficiaries (Number, Custom)» is the sum of the beneficiaries of the THIMO component and the skills development component. Beneficiaries of the THIMO component are the sum of THIMO youth engaged 20.293 (14.000 in urban areas and 6.293 in rural areas) and beneficiaries of the skills development component numbering 11.128 young people (initial vocational training 651, by apprenticeship 3741 and entrepreneurship 7717). The number of beneficiaries stood at 31421 as of April 30, 2018, ie 20293 for THIMOs and 11128 for young people trained to develop their skills, up from 20.648 beneficiaries as of June 30, 2017.</p> |             |                   |                  |             |

Source: World Bank, “BF. Youth Employment & Skills Development (P130735) Implementation Status & Results Report”

Intermediate Results Indicators included largely different measures of labor contributions to public works projects (e.g., roads maintained or rehabilitated, large-diameter wells built) or aspects of youth employment overall (e.g., business plan competitions won, youth employment rates, breakdown by gender or other demographic groupings).

Risk was evaluated for various dimensions (see Table 10 - Panel B). These risk ratings were compared to prior and baseline ratings—though for this project, no baseline was available.

**Table 10 - Panel B: Example summary table of Systematic Operations Risk-Rating Tool**

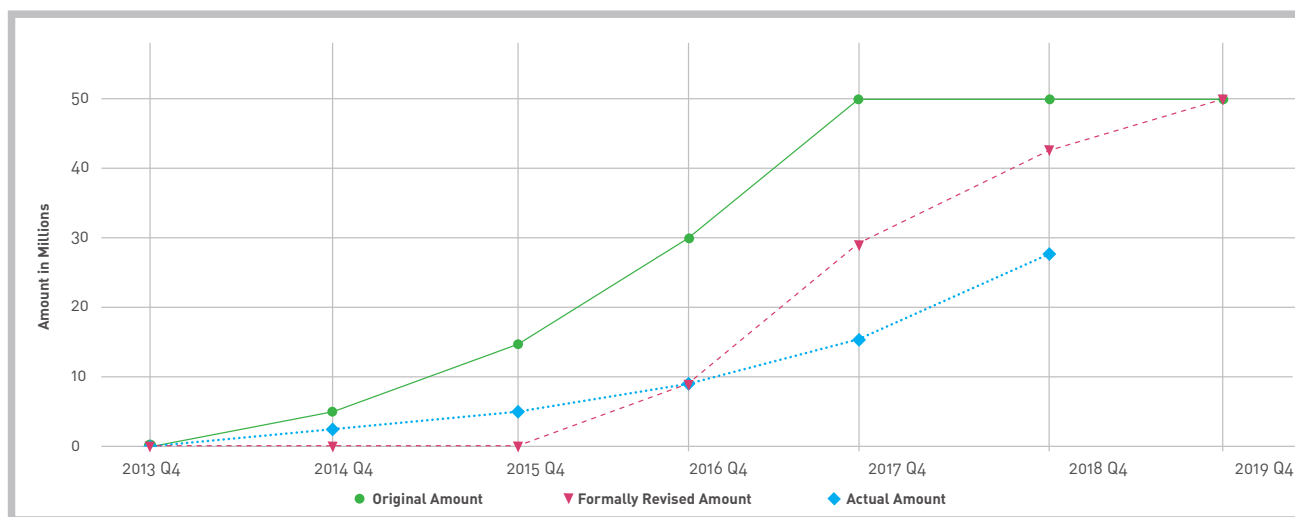
| Risk Category  | Rating at Approval | Previous rating | Current rating |
|--|--------------------|-----------------|----------------|
| Political and Governance                                     | --                 | ● Moderate      | ● Moderate     |
| Macroeconomic  | --                 | ● Moderate      | ● Moderate     |
| Sector Strategies and Policies                               | --                 | ● Substantial   | ● Substantial  |
| Technical Design of Project or Program                       | --                 | ● Substantial   | ● Substantial  |
| Institutional Capacity for implementation and Sustainability | --                 | ● Substantial   | ● Substantial  |
| Fiduciary  | --                 | ● Substantial   | ● Substantial  |
| Environment and Social                                       | --                 | ● Moderate      | ● Substantial  |
| Stakeholders   | --                 | ● Substantial   | ● Substantial  |
| Other  | --                 | ● Low           | ● Moderate     |
| Overall  | --                 | ● Substantial   | ● Substantial  |

Source: World Bank, "BF...(P130735) Implementation Status & Results Report"

In addition to assessing the results indicators, implementation progress at a summary level was largely evaluated in terms of loan disbursements, tracked over time against the original dis-

bursement schedule. In this project, the original disbursement schedule had been formally revised, so actual disbursement was also tracked vis-à-vis this schedule (see Figure 11).

**Figure 11: Cumulative disbursements graph example**



Source: World Bank, "BF...(P130735) Implementation Status & Results Report"

## Case 2: Robin Hood Foundation and benefit-cost ratio for job placement

### Objective of the Measurement

Robin Hood Foundation uses Benefit-Cost ratio (BCR) to translate the outcomes and typical metrics of programs that can vary widely – from job training to pre-school to micro-lending – into monetized values that measure poverty fighting. By calculating BCR, they aim to capture a “best estimate of the collective benefit to poor individuals that [their] grant creates per dollar cost to Robin Hood – a direct analog to commercial return.” [35]

### Methodology

The BCR is calculated as follows:

$$\frac{\text{«poverty fighting» Benefits of a program}}{\text{Costs to Robin Hood}} * \text{Robin Hood Factor}$$

The numerator represents a dollar estimate of the poverty-fighting benefits of the program to be funded, often operationalized in terms of the private benefits that accrue to poor individuals over their lifetimes as a result. The denominator is the cost to Robin Hood of the grant. The Robin Hood Factor is an estimate of the portion of the benefit that could be attributed to Robin Hood’s funding. This takes into account the organization’s capacity to tap into alternative funding sources, and the potential implications of Robin Hood not funding the organization.

### Example

The following example illustrates the application of the benefit/cost ratio formula for a job training and placement program. The program will train and place unemployed or underemployed individuals and increase their earnings. To capture the full lifetime earnings, we will want to calculate the number of individuals placed in jobs and multiply by the average lifetime earnings increase. Thus:

$$\begin{aligned} & \text{poverty fighting Benefits of job training and placement} \\ & \text{program} \\ & = [\text{Actual Job Placement}] \times [\text{Average Earnings Boost for} \\ & \text{Individuals before retirement}] \end{aligned}$$

Let’s say that the program trains and places 400 trainees. The program is estimated to boost earnings of trainees placed in jobs by an average of \$50,000 in lifetime earnings (after present-value discounting).

$$400 \text{ job placements} \times \$50,000 = \$20 \text{ million}$$

If the Robin Hood grant is for \$100,000 and 20 percent of job trainees would lose their training slots if Robin Hood withdrew its grant (Robin Hood factor), then the benefit/cost ratio or BCR is:

$$\begin{aligned} & (\text{Benefit} / \text{Cost}) \times \text{Robin Hood Factor} \\ & = (\$20 \text{ million} / \$100,000) \times 20\% = 40:1 \end{aligned}$$

In other words, the program creates \$40 of benefits for poor people for each dollar incurred as cost by Robin Hood Foundation. This number can then be compared to any other job-training program or to any other Robin Hood program including education, early-childhood or survival programs. Robin Hood Foundation sometimes calls this approach of converting all of the social benefits and costs to quantitative denomination in currency “Relentless Monetization (RM).” It has many advantages in aiding analysis and comparison across different projects and sectors. However, it is not the only factor to consider. Just as prudent financial investment decisions are not made solely on the basis of projected financial figures alone, prudent social impact decisions should not solely rely upon monetized impact calculations [36].

## Case 3: Acumen Fund and lightweight survey design

### Objective of the Measurement

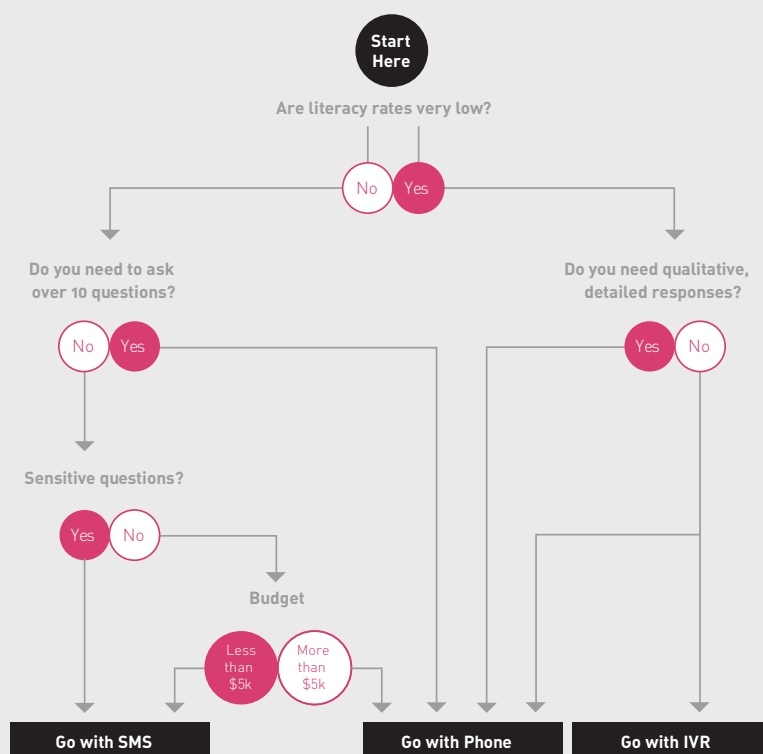
Acumen Fund seeks long-term investments in businesses that enable positive change and development for those in poverty. Acumen aims to develop and apply “lightweight” metrics that are clear, standardized, and easy to collect. Acumen is less concerned with verifying causal validity than they are with enabling relatively rapid and inexpensive data collection to aid in decision-making [28].

## Methodology

In partnership with Root Capital (a major impact agricultural lender), Acumen has developed and published a report on their method for surveying poor clients and beneficiaries [37]. Acumen outlines seven steps: 1) Select a method to administer your survey, 2) Gather mobile numbers if necessary and curate the list, 3) Design your survey questions and options, 4) Prototype in person and adapt design accordingly, 5) Prepare logistics and providing training for implementation, 6) Conduct the survey, and 7) Back-check your data by re-surveying a small proportion of your respondents to evaluate stability of the answers.

Acumen relies on three main technologies for their survey administration: SMS text messaging, Interactive Voice Response (IVR) phone calls, call center phone calls with live person survey enumeration, or on-site in-person survey enumeration. Each type of survey technique affords different levels of access, advantages (e.g., increased perceived anonymity of SMS or IVR may lead to more accurate responses than in-person or live phone calls), and costs (e.g., economic costs that vary from country to country). Acumen provides a decision tree to aid in choosing method for survey data collection, as illustrated in Figure 12.

Figure 12: Decision tree for selecting among remote survey methods



Source: Acumen and Root Capital, "Innovations in Impact Measurement"

## Example

Consider an Acumen Fund case of a customer survey for a social enterprise solar home system provider in a rural area in Uganda. Acumen helped a solar home system provider in Uganda to collect data on customer profiling, impact and satisfaction surveys over the phone. Because of the level of complication in the questions involved, they opted for live phone interview technique. Respondents were asked questions including the Progress out of Poverty Index (PPI)<sup>4</sup>, household energy expenditure patterns, and customer satisfaction items. Data collected from over 200 randomly selected customers revealed that 49% of the customers reported living on less than \$2.50 per person per day, indicating the company's strong reach into even the poorest rural communities. Household energy expenditure patterns suggest the company has generated meaningful social value by increasing hours of available lighting and enabling customer to switch from dirtier, poorer energy to cleaner, quality energy. Customers reported an increase in hours of available lighting of 2 hours of light per day on average. They also reported replacing other dirtier fuels with the company's clean energy, moving from 6 hours of non-solar light to only 1 hour per day. Customer satisfaction survey responses suggest areas of improvement to the company by indicating problems customers have experienced.

<sup>4</sup> The Progress out of Poverty Index (PPI) is a 10-question poverty measurement tool developed by Grameen Foundation and Mark Schreiner: <http://www.progress-out-of-poverty.org/>

## Case 4: PwC total impact and brewer sourcing

### Objective of the Measurement

PwC measures "total impact" to help managers and investors make better business decisions, such as investment and supply chain choices. Total impact measurements enrich managers' understanding of how their activities can create or destroy social, environmental, and economic value, while affecting profits for their shareholders [30].

### Methodology

PwC discusses the five steps they follow in assessing total impact: (1) Define scope, (2) Define dimensions of value, (3) Collect existing data, (4) Source new data, and (5) Analyze data and value impacts. Specific questions to consider for each of these steps are included in Figure 13.

Figure 13: Five steps of PwC Total Impact analysis

## Total impact includes social, environmental, economic and tax impacts



Source: PwC, "Measuring and Managing Total Impact: A New Language for Business Decisions"

**Example**

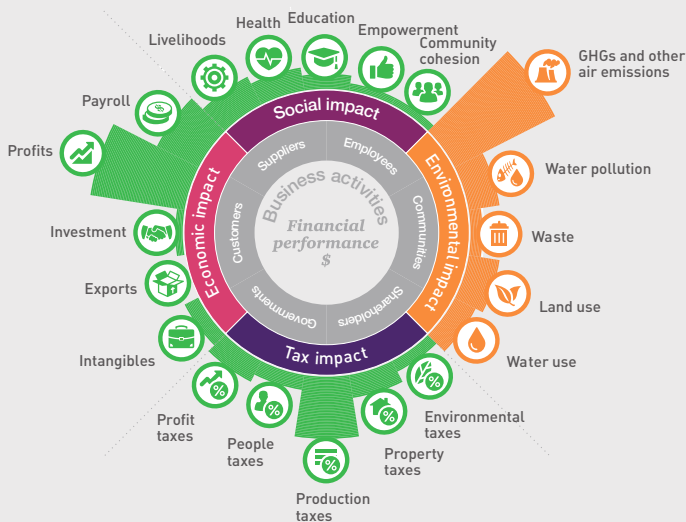
Consider the PwC case example of evaluating strategic options for a hypothetical brewer located in Africa, deciding whether to import or locally grow [30]. Figure 14 summarizes the application of PwC’s TIMM analysis. Each bar

represents a positive (green) or negative (red) impact. The inner circle (white) signals that expected shareholder returns (monetized financial performance) are affected by each of the impacts depicted as branching out from the center. The different impacts can be compared and aggregated.

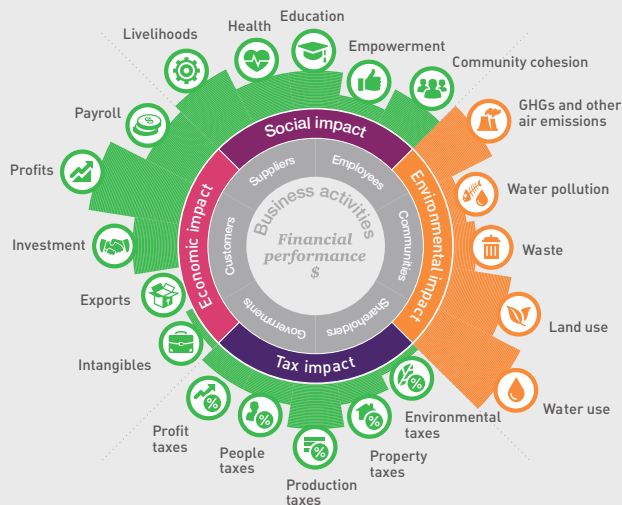
**Figure 14: Example of PwC’s Total Impact Measurement and Management (TIMM) Approach: A Brewers’ Sourcing Decision**

**Figure 14: Using TIMM to weigh up the options**

**Option 1: Import barley**



**Option 2: Grow and source locally**



Source: PwC, “Measuring and Managing Total Impact: A New Language for Business Decisions”

For Option 1, barley is bought on the international market and imported with no established direct supply chain relationship. Thus, the brewer has less positive influence over the social outcomes for local communities than if the brewer had chosen to produce and/or supply locally. The greenhouse gas (GHG) emissions are worse because of the transportation required for shipping the barley. However, the water use negative impact is less severe because of the differences in agricultural practices and local climates. For Option 2, local farmers benefit from access to a more secure market and brewer support for developing business infrastructure such

as co-operatives, training and health services. These local investments increase livelihood security, producer self-confidence and cohesion for the agricultural communities. Neither option yields a clear advantage for financial profits. Each option has different but not clearly superior or inferior impacts on the environment. Thus, in sum, the analysis suggests social impact benefits for Option 2 that do not negatively affect the financial bottom line nor the environment. TIMM can be used as a framework to help both with internal decision-making and with external communication of decisions to various types of stakeholders.

## Case 5: Danone Ecosystem Fund and Professional Empowerment

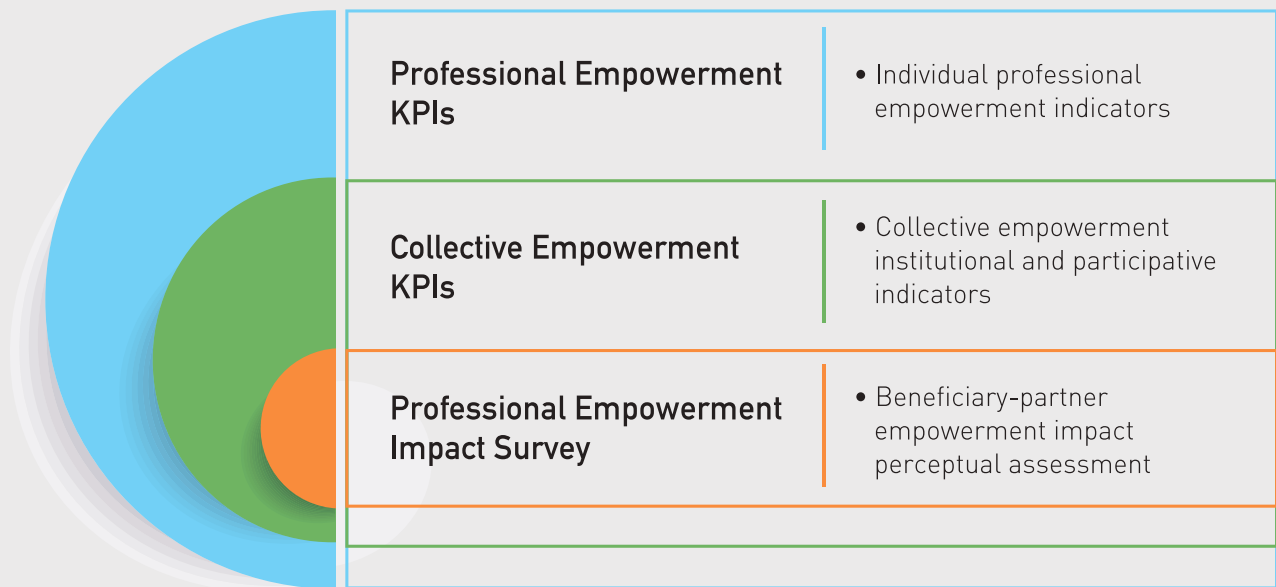
### Objective of the Measurement

Danone Ecosystem Fund manages various projects worldwide, each a joint partnership between a local business unit and a nonprofit partner organization. Danone Ecosystem focuses its impact measurement on the “professional empowerment” of those connected to their projects. Professional empowerment puts the input to impact cycle into the hands of project beneficiaries (often termed “partners” or “co-creators” as acknowledgment of their role), by providing them with the power to create their own positive impacts. Thus, many Danone Ecosystem projects target the development of the human capital for project beneficiaries. Danone Ecosystem has worked with consultancy EY and HEC Paris during the development of its professional empowerment impact measurement approach.

### Methodology

Danone Ecosystem measures its empowerment impact in three ways. First, they measure specific Professional Empowerment key performance indicators (KPIs) that help determine whether organizations are engaging in activities or outputs that target the cultivation of professional empowerment. These include number of people that benefit from increased or more secure revenue, training, social benefits access, micro-credit access, better working conditions, social or professional insertion program, or equipment donation. Recognizing that collective strength is also critical to the success of empowerment efforts, Danone Ecosystem also tracks “collective empowerment” by measuring how many individuals participate in local collectives at basic, involved, representative, and leadership levels. Danone Ecosystem is also rolling out an impact assessment to be used on a before-after and regular check-up basis, that asks various questions to project beneficiaries. These questions rely on survey responses to gather individual perceptions of professional empowerment (See Figure 15 for framework summary).

Figure 15: Danone Ecosystem Fund approach to empowerment measurement



Source: Society & Organizations (S&O) Center, HEC Paris; Danone Ecosystem Fund

**Example**

Consider a Danone Ecosystem project supporting smallholder dairy farmers. The project provides trainings, increased and secured revenue, and upgraded equipment for use in dairy farming. The number of individuals benefiting from each of these interventions would be calculated separately as professional empowerment KPIs.

Collective empowerment KPIs can be assessed in relation to the milk collection cooperative organization connected to the project. Danone Ecosystem often supports milk collection cooperatives in these types of projects to help dairy farmers circumvent expensive middlemen and increase the quality of their milk. KPIs measure how many individuals participate, are actively involved, represent, and participate in the leadership of the cooperative. This provides an estimate the robustness of the collective organization.

Finally, periodically throughout the life of the project, individual beneficiaries can be surveyed using the professional empowerment impact survey. The survey contains around 20 questions that focus on aspects of professional empowerment that the individual perceives for themselves and their situation. Taken together, these three types of impact assessment can provide a holistic picture of the progress and sustainability of projects in bettering the lives of beneficiaries.

**Case 6: IRIS metrics applied in EVPA framework****Objective of the Measurement**

IRIS metrics are used by over 5,000 organizations of varying types, many of which are members of the impact investing community. EVPA published an extensive guide to measure social impact to inform and assist practitioners on how to maximize the impact of their financial and non-financial investments [38]. Their central example, presented here, included a framework that covered how an organization might determine its objectives, and then use IRIS metrics to track progress towards those objectives.

**Methodology**

EVPA suggests five steps of the measurement as follows: 1) Set objectives, 2) Analyze stakeholders, 3) Measure results, 4) Verify and value impact, and 5) Monitor and report. For the final three steps, EVPA recommends applying IRIS metrics wherever possible. By doing so, organizations can leverage the benefits of standardization. These include advantages for stakeholders internal to the organization (e.g., saving resources by not having to re-invent metrics) as well as those external to the organization (e.g., ease of understanding and comparability to other projects and organizations across a diverse portfolio).

**Example**

Consider an example organization seeking to implement an impact measurement approach as suggested by EVPA. First, the organization develops a clear idea of its objectives and key stakeholders. Stakeholders are broadly defined as those who affect or are affected by an organization. Next, the inputs and activities of the organization's business model are clarified. Then the potential outputs, outcomes, and impacts are projected. IRIS metrics are then selected wherever possible, to match up with each of these as measures. Like other impact measurements, after these measures are estimated and calculated, they are used for internal decision-making and external communication.

The following example organization has the objective to improve living conditions of people living in poverty. To achieve this objective, the organization plans to install and operate toilets. Expected outputs, outcomes, and impact are depicted in accordance with specific inputs and activities of the organization as shown in Table 16.

**Table 16: Example business model and expected effects**

| Business Model  |  | Expected Effects   |   |  |
|---|--|--|---|--|
| Inputs  | Activities                                   | Outputs  | Outcomes  | Impact   |
| <b>Equipment:</b> sanitation centers, vehicles for collection, digester to process feces into fertilizers to generate electricity   | Installing toilets                           | Number of toilets installed<br>\$ revenue from toilet sales  | Increased access to sanitation facilities for slum dwellers   | Improved physical wellbeing (reduce disease)                   |
| <b>Staff:</b> qualified personnel on the ground in Kenya to supervise building of sanitation centers and selection of franchisees, employees to collect waste products and transport to digester, operators of digester to produce electricity and fertilizer | Recruitment of franchisees                   | Number of toilet operators   | Increased employment levels among slum dwellers   | Improved material wellbeing                                    |
| <b>Partners:</b> 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) | Number of users (per toilet & total)<br><br>Number of visits to toilets<br>\$ income of toilet operators | Improve health for toilet users and overall slum<br><br>Increased income for toilet operators       | Improved physical wellbeing<br><br>Improved material wellbeing |
| <b>Funding:</b> grants and investments from foundations and social investors  | Waste removal, collection and processing     | Kg waste collected (assuming kg processed = kg collected)  | Improved environmental situation in slums (less waste in waterways)                                 | Improved physical wellbeing                                    |
|   | Electricity generation                       | kWh of electricity produced<br><br>\$ revenue from electricity sales                                     | Decreased number of power shortages / outages<br><br>Decreased carbon emissions                     | Improved energy security<br><br>Improved environment           |
|   | Fertilizer production                        | Kg of fertilizer produced<br><br>Kg of fertilizer sold<br><br>\$ revenue from fertilizer sales           | Decreased reliance on costly imported fertilizers<br><br>Decreased reliance on chemical fertilizers | Improved material wellbeing<br><br>Improved environment        |

Source: EVPA, "A Practical Guide to Measuring and Managing Impact"

After setting expected outputs, outcomes, and impact, as described earlier, EVPA advises the organization to

use IRIS indicators, where possible. Table 16 displays matched IRIS indicators for the outputs listed above.

Table 17: Example selection of IRIS metrics to correspond to business model and effects

| Outputs   | 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 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 fertilizer produced                       | PI1290: Amount of product or service produced by the organization during the reporting period                          |
| Kg of fertilizer sold                           | PI1263: Amount of the product or service sold by the organization during the reporting period                          |
| \$ revenue from fertilizer sales                | PI1775: Revenue from the sales of the product or service during the reporting period                                   |

Source: EVPA, "A Practical Guide to Measuring and Managing Impact"

However, each of these output indicators do not have the same weight in telling us whether the organization is making progress towards its outcomes. Based on the organization's objective to improve living conditions for those in poverty, outcomes related to physical and material wellbeing will generally be prioritized over those related to the environment. For this organization, the stakeholders of focus were the toilet users, toilet operators and slum dwellers. With this filter, the organization should therefore concentrate on the following outcomes arranged according to the themes of material and physical well-being.

#### 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

When communicating these results to stakeholders and using them for internal decision-making, the organization can emphasize the metrics that are more core to their objectives.

## Summary of how

We have briefly reviewed a case from each of the major categories of organizations introduced as major evaluators of social impact. Many examples of impact assessment are available from each of these different categories. It is apparent that the contexts, methods, and measures vary greatly from case to case, and that the validity and generalization of these methods and measures differ as well. This brief review therefore expresses the need for finding and defining a series of principles and best practices that would enhance comprehensibility and comparability across cases and contexts.



# PART 2: CHALLENGES OF IMPACT ASSESSMENT

The primary aim of this report is to aid organizations in assessing the social impact of their own and affiliate organizations' activities. With this in mind, our primary concern is to ensure that the evidence consulted to evaluate impact is of the highest quality possible. In our review on social impact evaluation, we identify **three types of challenges**. First, **practical challenges** arise from how social impact is fundamentally different from financial impact. Next, we present "**7 measurement challenges**" of impact assessment and outline common and costly shortcomings apparent in social impact efforts. Finally, we describe **strategic pitfalls** that many top decision-makers fall into, by either under-using or over-using their social impact assessment results.

# I. PRACTICAL CHALLENGES: SOCIAL IMPACT VS. FINANCIAL IMPACT

Compared to financial assessment, social impact assessment faces numerous practical challenges. Most businesses have a sense for what is required to conduct financial analyses, or at least know where to go in order to get help. They spend considerable resources on them and use constantly the results in order to make decisions. Yet, impact assessment, by contrast, is much more ambiguous and raises a number of questions: how to define it, how to do it, and whom to ask for help? The following subsection offers a brief overview of how financial measurement compares to social impact measurement. Table 18 summarizes the comparison.

## A. Strength of institutions

Financial accounting has been around for hundreds of years and has made a lot of progress in the last 150 years or so. Entire fields exist, in finance and accounting, complete with educational frameworks, professional associations, legal definitions, and many other stipulations that have clarified how to measure financial performance. It is important not to trivialize the inherent challenges to assess financial performance—it may seem relatively straightforward, but that is the culmination of the long development of significant institutional efforts. By contrast, the institutions supporting impact assessment are relatively scattered, young, and under work. Conventions have begun to be developed, but often those conventions are different for different fields, whether it be impact assessment related to international aid and development, corporate philanthropic activities, grantmaking foundations and philanthropy, or NGO impact efforts.

## B. Domain and control

On one hand, financial metrics are, by and large, captured within the firm. Financial inflows and outflows often have inherently traceable transactions that occur because the financial flows are happening within or to the firm. It is therefore established that management tracks and controls the financial positions and implications of any new transaction for the organization. On the other hand, only some types of impact-related effects happen within or to the organization (e.g., inputs or outputs in the Impact Value Chain; see Figure 1). The essence of impact assessment is to assess the positive and

negative externalities brought about by an organization. Not only the main effects often happen outside of the firm (e.g., beneficiary outcomes or long-term impacts in the Impact Value Chain), but also the tracking and control of these effects is indigent since neither the indicators nor the measures themselves are standardized.

## C. Measurability

Because financial resources are measured in a quantifiable currency (e.g., € or \$), they have three advantages: (1) intuitive sense, (2) comparability, and (3) fungibility:

- (1) *Intuitive sense*: Because the financial performance of firms is in the same currency units within and across organizations, we have a sense for the respective value of different projects expressed in this same currency. The scale may be vastly different, depending on the size of the organization, but the basic sense for what an amount of money signifies can be much more intuitive than the value of, for example, employee engagement or women empowerment. In the latter examples, intuitively, it is difficult to value their effects. What is worth more? The engagement or empowerment per se, i.e. the benefits these people receive and develop for themselves as individuals? Or the monetary gains that their initiatives represent for the organization itself?

- (2) *Comparability*: Since financial currencies are common denominators, it is possible to make comparisons across projects and organizations by using reference points. One can use ratios (e.g., profits compared to costs) at different levels of analysis (e.g., projects, firms or industries) and develop a comparison between two different financial assessments. Social impact assessments are much more dependent on the context; they are denominated in non-comparable units, which leads to decision puzzles and quibbles.
- (3) *Fungibility*: Finally, financial resources are fungible and can be exchanged for one another and redeployed in different areas at will. There is a fluidity in converting an asset or a project into money by selling it on a market and using the money for investing in a new asset or project. Social impact performance is not so easily tradeable. Employee engagement, protection of local resources, education benefits are not tradeable in a market and cannot be directly converted into different other impacts in the same locations and even less in other contexts.

## D. Trade-off

Typically, moral trade-offs related to financial objectives are relatively straightforward. Once the moral obligations are assessed and cleared, the choice among projects relies on the weighing of costs and benefits. As such, the weighting of competing options on their relative abilities to contribute to revenues minus costs is mostly separated from the moral assessment of the different options. On the other hand, because each social impact induces an aspect of moral judgment, it is more difficult to weigh the respective impacts and prefer, for instance, health over education or women empowerment over access to energy [39]. Furthermore, even if it might make logical sense to redeploy resources from one impact initiative to another, it might not be morally palatable to make the changes, or to reduce social impacts in one dimension with the hope to increase social impact in another dimension. In a nutshell, the moral assessment of the available options is inherently more complicated for social impact engagements.

## E. Externalities

In financial performance, often externalities to transactions are not relevant to the assessment. Most of the financial calculations do not include a valuation of the externalities engendered by the organization's activities. When they are, it is under the form of risk assessment and provisions expressed in the same currency and with probabilities of occurrence. Yet, for impact assessments, the externalities are the direct concern be they positive or negative. They are germane to the initiatives and activities even if external to the firm and come on top of the regular calculations related to the (economic) viability of the operations.

**Table 18: Comparisons between Financial and (Social) Impact Assessments**

| Aspect                      | Financial assessment   | Impact assessment  |
|-----------------------------|--|--|
| A. Strength of institutions | Deep and vast established network of laws, standards, educational frameworks, professions                                    | Young, under development, scattered, different conventions for different types of actors   |
| B. Domain and control       | Internal to the firm or happens to the firm  | Many of the most important aspects occur outside the firm  |
| C. Measurability            | Quantifiable monetary measures; Euros, Dollars, etc.   | Often qualitative items; Activities accomplished, impacts achieved   |
| (1) Intuitive sense         | Have experience with and know what money is  | May need considerable background knowledge to understand the definition of, let alone the implications of, various types of impacts                                    |
| (2) Comparability           | With a benchmark or a ratio, can easily compare directly or abstractly to gauge performance                                  | The field of comparison can be extremely limited, perhaps only to before/after types of progress, where benchmarking is not often possible                             |
| (3) Fungibility             | Can rearrange financial resources, apply excess elsewhere and compensate for slack by drawing from other areas               | Usually cannot trade or rearrange impacts easily   |
| D. Trade-off                | Trade-offs reside in comparing the morality of projects vs. their different costs and benefits                               | Moral issues reside within the projects: how to set priorities between a series of moral goals?  |
| E. Externalities            | Often no need to be concerned about factors outside the realm of financial transaction, when not affecting the firm directly | Factors outside the realm of particular transactions can be the very focus of impact endeavor, or at least an indirect concern even if not affecting the firm directly |

Source: Society & Organizations (S&O) Center, HEC Paris

## Summary of challenges

Compared to (social) impact assessment, financial assessment is relatively straightforward to conduct and interpret. For financial assessment, businesses have a much clearer route to how to obtain compliance with best practices, both in terms of what to do and whom to refer to for support. Because the field of impact assessment is relatively new, and also because impact is inherently more difficult to measure, obtaining compliance with impact assessment best practices is far less straightforward. As a result, mistakes in impact assessment can be widespread and often difficult to identify or anticipate. To maximize chances of achieving social impact, the highest quality protocols and measures are in order to produce as accurate as possible evaluations. The following section of the report covers “7 measurement challenges” of impact assessment that are especially common and costly. To evaluate impact most effectively, these are traps that everyone should be aware of, guard against, prepare for, and resolve.

## II. THE SEVEN MEASUREMENT CHALLENGES OF IMPACT ASSESSMENT

In the following section, we cover 7 measurement challenges of social impact assessment. These measurement challenges are especially prevalent and damaging to impact efforts. While some of them are related specifically to the evaluation of impact, others concern mistaken beliefs about the impact efforts themselves. Many relate to both of these types of mistakes. The 7 measurement challenges that we will consider are:

1. **Confusion:** failing to distinguish between input, output, outcome, and impact
2. **Inconsistency:** unreliability of measurement
3. **Misunderstanding:** causal validity errors
4. **Blindness:** hidden factor correlation
5. **Over-simplification:** ignoring multi-determination
6. **Partiality:** failing to capture both downside and upside risks
7. **Over-assuming:** lack of generalizability

We cover the 7 measurement challenges as follows. We first define each and then explain it further by way of illustration. In addition, we present some of the implications of the measurement challenge or elaborate possible solutions. Finally, an example or two helps to put the measurement challenge into more concrete terms. In some cases, the examples only illustrate the shortcoming. In other cases, they showcase failure with a solution.

### 1. Confusion: failing to distinguish between input, output, outcome, and impact

#### **Definition**

A common issue with impact evaluation efforts is not distinguishing clearly between what is invested in an impact effort and what is produced by that effort. The number of dollars or euros donated is different from the number of people successfully exiting long-term unemployment, yet frequently both of these types of numbers are referred to as “impact”. A vast debate and literature have taken on what exactly constitutes impact. We will not delve into this literature, but will lead with a key example to illustrate an approach that makes some fairly common distinctions: the “Impact Value Chain” (Figure 1 p13 and Figure 4 p 16).

By mixing up components of the impact value chain, or by measuring things entirely outside of the impact value chain, organizations can misplace or misunderstand their impact evaluation. The impact value chain is a conceptualization of how an organization can ultimately create social impact: Start with resource Inputs, such as cash or personnel. These

**inputs** are then invested to create organizational Activities, such as distributing solar cell power stations or digging wells in remote villages. **Activities** are frequently captured in projects or specific programs. These activities then produce tangible product or service **Outputs**, which can be observed as the results of those activities—for example, number of power stations distributed or number of wells dug. The next parts of the impact value chain become increasingly difficult to measure, because it is no longer in the direct control of the organization. Ideally, the outputs lead to beneficial **Outcomes** for beneficiaries, where they experience benefits from, such as access to power from solar cell power stations or clean water from wells. Not all outputs of this nature necessarily have such positive outcomes—wells could go unused or become contaminated, and solar cell power stations could fail or be confiscated for unintended use. Yet even if positive outcomes are achieved, many models of the Impact Value Chain also suggest that another step is necessary for the ultimate goal of longer-term **Impacts**. Positive impacts for the wells and solar cells would ideally include enhanced health through access to improved sanitation or poverty reduction through increased access to technology.

## **Implication**

If you do not distinguish between different parts of the impact value chain for your social impact effort, it may be very difficult for you to develop a good understanding of the current status of your social impact or how to improve it. In addition, unawareness of the impact value chain may lead you to make inaccurate judgments and claims about your social impact, and jeopardize your ability to communicate with others in the social impact sector.

On the other hand, being aware of the different parts of your impact value chain can lead to a stronger ability to analyze your impact efforts. In addition, this awareness can help you to identify where the gaps in information or action are, and to designate where the different opportunities for innovation lie.

## **Example**

An often-example in the social impact space is the difference between distributing mosquito nets as an output of the social purpose organization, and the desired impact of actually decreasing the spread of malaria. One effort was measuring success in terms of malaria nets distributed. Yet, by distinguishing between the output and the impact, the effort could ascertain that actually the mosquito nets being distributed were not being used to sleep under and prevent mosquito bites. They were being used instead for fishing. Thus, the measured output was not actually directly connected to malaria relief as impact.

For example, consider an indicator of CSR that measures how much revenue is derived from activities with negative or positive externalities, such as environmental (e.g., coal vs. wind turbine power generation) or social (e.g., gambling vs. education). By measuring revenues related to these activities, at most, this CSR indicator is gathering some evidence of Inputs or Activities. However, in many cases this type of indicator is not fine-grained enough to discern different parts of the Impact Value Chain. By measuring revenues related to certain types of impacts, this CSR indicator may only be accounting for something adjacent to, but not part of, an impact value chain—coal power may be environmentally harmful in general, but perhaps there are impact mitigation efforts being undertaken. Conversely, the wind turbines may be using up rare earth minerals or supplanting important wildlife areas. Without more detail on Impact Value Chains, this type of CSR indicator may only be measuring a financial outcome that is thematically related to impacts.

## **Highlighted solution**

By educating organizational members about the impact value chain, you can use the conceptualization both for managing the impact effort and for impact evaluation. Proper labeling and measurement of different parts of the impact value chain allows you to better evaluate the effectiveness of committed resources in achieving the impacts—and to troubleshoot along the way. You can use the impact value chain model to orient corrective questions such as: Where is the breakdown in the impact value chain occurring? Which parts of the impact value chain are not yet measured? It also allows you to ask generative questions to prompt innovation such as: What are other activities we can engage in to create helpful outcomes in this effort? What are other inputs that we can invest in to create helpful activities related to our impact(s) objective(s)?

Accounting precisely for specific social impacts is challenging in part because they may be affected by many different types of business activities. Keeping it at the project level may be the clearest way to proceed with a measurement endeavor.

## 2. Inconsistency: Unreliability of measurement

### **Definition**

Reliability is the ability to consistently measure the same variables with the same result. Many times, social impact-related measures are not kept in a consistent manner, such that they cannot be compared across instances, time periods, units, or organizations. Reliability of measures indicates that re-measurement by the same or a different person / organization would result in the same data. Essentially, unreliability of measurement is failure to be replicable. This results in inconsistency and “non-commensurability”, which means that measures from one measurement cannot be accurately compared to or added to measures from another measurement. In this type of case, the measurements cannot be reconciled with one another.

### **Illustration**

Many financial figures are standardized and thus rendered consistent by Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board (FASB) in the U.S., or by International Accounting Standards (IAS) more generally. Years of usage, debate, and refinement have developed these standards, such that tracking depreciation of equipment or a myriad of other aspects of financial accounting. Large accounting departments in firms and an entire profession of financial accountants have been trained and certified to work according to these different principles and standards.

In contrast, the field of social impact measurement is much less mature, and therefore the amount of standardized, consistent practice is much lower. Most social impact measurements are tailor-made to the specific endeavor. Thus, it may be very difficult to compare from one organization to another. In fact, impact ratings indices only averaged around 35% convergence, according to recent research [40]. When social impacts are measured quantitatively, it rests on an assumption that each additional increment consistently is commensurable to the prior increment. It also relies on replicability such that a different *measurer* will obtain the same measurement as another.

### **Implication**

When comparing numbers across time, projects, or locations, low measurement reliability means that equivalent amounts are not actually equivalent amounts. Without adjustment, any comparisons, analytical conclusions, or strategic decisions based on the data may be “supported by the data”, but they will be supported by inconsistent data. Then, new initiatives built relying on the same grounds will yield inconsistent outcomes, and undermine the credibility of social impact initiatives.

### **Example**

The “number of people trained” should have a consistent meaning before adding two amounts of “number of people trained” together. Otherwise, you may be adding, in reality, “number of people graduating from a 6-month intensive course” to “number of people who listened to an online lecture for 30 minutes”. Obviously, these are not the same. But adding numbers together can easily obscure the original objects being counted. Then, when “people trained” does not appear to actually correspond to social impacts targeted, it may be only that 6-month courses worked but the 30-minute online courses did not. To keep a good sense for what is working and what is not, it is essential that numbers added together include the same information.

Questionnaires with ambiguous questions or with ambiguous answer choices may create problems as well. In one study, researchers asked respondents, “In your most recent performance review, in what percentile in your organization were you ranked?” The choices were “Top 5%, Top 10%, Top 25%, Top 50%, Top 75%, Top 90%.” One set of respondents understood the answer choice “Top 5%” as indicating the best category possible. Yet, another set of respondents understood “Top 90%” as indicating the best category of performance possible. Because the collected data represented two different underlying realities, the answer data could not be reliably used for analysis. The question choices require restructuring—for example in this case, as “Top 5%” down to “Bottom 20%” to remove ambiguity.

### **Highlighted solution**

A valuable tool for increasing the reliability of social impact measurements is to use field standards shared by more than one geography or organization. It helps if these measurements have been developed by being field-tested, debated, and otherwise subject to review and subsequent refinement.

In any event, keeping detailed records about the specific criteria used to track social impacts is critical. Only in this way can consistency be ensured. In addition, keeping track of social impact-related measures may not be as clear-cut as accounting for monetary transactions. Thus, more training may be necessary to help ensure uniformity of measurement.

Finally, testing the reliability of measurements is a valuable—and underutilized—approach. Organizations developing and testing a social impact measurement approach can implement the approach redundantly, by having multiple people or teams measuring the same social impact. If the approach is reliable, then measurement would be the same regardless of the measurer. If the approach yields different results, measurers can discuss the factors that lead to these deviations, and then either refine the approach or create documentation that clarifies the area for unreliability.

An impact assessment survey was recently developed through a collaboration between the Danone Ecosystem Fund and the S&O Center at HEC Paris. This survey was developed to evaluate the professional empowerment impact for projects' beneficiary-partners. One major challenge was creating a survey that could be utilized across many different international and industry contexts. We utilized three steps of survey development to minimize inconsistency issues. First, we tested the survey with project leaders that had high-touch experience with beneficiary-partners across the relevant contexts. After iterating the survey based upon their feedback, we administered the survey to a set of test participants. After analyzing these surveys and iterating the survey based upon those results, we administered the survey to a small set of "real" participants, some taking the survey in the intended format, and others in a manner that allowed increased recording of feedback and detailed reaction to the survey. Each of these extra steps allowed us to iron out ambiguities and differences in interpretation that would have resulted in inconsistent results.

### 3. Misunderstanding: Causal validity errors

#### Definition

Misjudging the relationships between inputs and impact, i.e. not getting causal validity right, is common and costly. Causal validity signifies that two observations can be attributed as cause and effect, rather than mere co-occurrence X and Y, or correlation (See figure 19). Establishing that one thing caused another is not a trivial feat. Falling in the trap of misunderstanding, i.e. establishing erroneously causal associations between inputs and impact stem from commission errors mistakenly assuming a cause-and-effect relationship where there is none, omission errors—mistakenly denying or ignoring an important cause-and-effect relationship where there is one. Cause-and-effect is especially important—and especially unclear—in impact efforts, because each impact proceeds from a unique set of relevant cause-and-effect relationships.

#### Illustration

Imagine a case where a company launches a career development program to aid in the job placement of young unemployed individuals in a particular area. Important cause-and-effect relationships to understand include the causes of unemployment, the causes of job placement, and ultimately whether or not the career development program leads to job placement.

<sup>5</sup>Traps of commission and omission correspond to the technical distinctions between type 1 errors (“false positives”) and type 2 errors (“false negatives”).

**Commission error.** The classic warning, “correlation does not imply causation” suggests that co-occurring factors may not only be merely co-incidental, but they may also have a stable and consistent correlational relationship that is not one of cause and effect. Some common non-causal correlations that could lead to causal validity errors are reverse causation (Y in fact causes X), merely coincidental co-occurrence (X and Y happen at the same time without underlying relationship), and bi-directional causation (X and Y cause each other). These various arrangements are not causal relationships, but often they may look like valid ones. Table 20 details these different cases.

**Figure 19: Cause-and-effect models: General form, social challenges, and social impact efforts**



Source: Society & Organizations (S&O) Center, HEC Paris

**Table 20: Causal validity and commission errors: the case of career development programs**

| Errors of Commission   | Illustration with unemployment   | Consequences for program effectiveness e.g., whether career development program leads to job placement   |
|--|--|--|
| Reverse causation (Y in fact causes X)   | Lack of motivation is leading to unemployment<br>Vs.<br>Unemployment is leading to lack of motivation      | Career development program leads to getting participants on track to successfully finding a job<br>Vs.<br>Those on track to successfully finding a job participated in our career development program without actually increasing their chances of finding a job |
| Merely coincidental co-occurrence (X and Y happen at the same time without an underlying relationship) | Bitcoin prices are at an all-time high, and at the same time unemployment levels are going up              | The economy in general is doing better in an area and more people get a job with or without our program  |
| Bi-directional causation (X and Y cause each other)  | Low skills are leading to unemployment—actually, unemployment is also leading to lack of skill development | Career development program participation is enhanced by personal initiative, and personal initiative is increased by career development program  |

**Omission error.** There are also factors—often more difficult to see—that can lead to mistakenly assuming lack of causality, when actually there is a valid underlying cause-and-effect relationship. Often these mistakes can be made when the actual social impact is a reduction in magnitude (for example, the unemployment rate is not getting as worse as it would have been without the social impact effort) but the impact is not such that overall effect is a change of direction (for example, unemployment is still measurably getting worse, even though not as worse as it would have been). The overall effect is bad, so you may conclude that the effort was a failure. But that is failing to account for how bad the effect would have been without the social impact effort. For example, a recent study examined New York City law firms that engaged in CSR activities by providing free services to potential clients in need [41]. When the tragedy of 9/11 terrorist attacks occurred and affected many native New Yorker lawyers personally, they re-evaluated their lives and many left the legal profession. However, the firms that had engaged in more CSR activity prior to the tragic event had fewer lawyers leave. They still lost employees, but not as many as firms that engaged in less CSR activity. Therefore, in a general sense, social impact efforts may cause a positive business effect such as decreased departure of employees. However, departure of employees will almost always be a negative indicator larger than zero—and so a positive impact on this number may not be visible unless the employee turnover rate is compared to the overall industry or economy averages. Through comparison, it can be revealed that although turnover is worse, there is evidence that it is not as bad as it would have been.

Another factor that can cause valid cause-and-effect relationships to be overlooked is when there is a threshold at which the cause must be applied in order to observe the effect. For example, it would be a mistake to suppose that ibuprofen does not reduce one's fever, if an inadequate dosage was applied, considering the patient's physical characteristics.

Similarly, benefits may be lagged, and therefore prematurely concluded that there is no benefit—or missing it because it is not obviously connected. Returning to the example of using ibuprofen to treat a fever, if the patient's temperature is re-evaluated immediately after administering the medicine, too little time will have elapsed for the medicine to work. Or when the medicine does start working after 20 minutes, the patient may be deemed to have been cured in the natural course of waiting or for some other part of the treatment.

Omission errors are especially problematic when they fail to identify valid social solutions or program effectiveness, such that these are abandoned unnecessarily. Table 21 describes and illustrates instances of omission errors.

Table 21: Causal validity and omission errors: the case of career development programs

| Errors of Omission   | Illustration with the causes of local unemployment  | Consequences for program effectiveness e.g., whether career development program leads to job placement  |
|--|---|---|
| Not measured or looked for (X or Y is not even noticed even though it is important)                  | Intense local ethnic division is leading to difficulties hiring or getting hired across ethnic groups   | Career development program increased the amount of salary participants were able to receive for their next jobs—but this was not measured   |
| Net effect is negative (Y is still negative after X) – yet Y would have been more negative without X | Unemployment levels are high, despite re-training before layoffs from a local plant; yet unemployment levels would have been worse without the re-training initiative                                       | Many program participants are still unemployed<br>Vs.<br>Compared to those who didn't go through the program, unemployment rates are better for the program participants  |
| Threshold effect (X needs to be present in certain amounts to observe Y)                             | If finding a job required developing experience at interviewing, then the first number of job interviews would tend to have zero success—yet it was developing capability to obtain a job on later attempts | Career development program a failure because even participants didn't increase their employment prospects<br>Vs.<br>Those who attended career development program for enough hours did increase their employment likelihood |
| Lagged effects (X causes Y, but later)   | Lowering the quality of local educational opportunities may not appear to affect unemployment levels, until years after the fact  | Career development program was a failure because participants did not obtain jobs<br>Vs.<br>Career development program was actually a success, but it took longer than the follow-up period for benefits to materialize     |

Source: Society & Organizations (S&O) Center, HEC Paris

Finally, some cause-and-effect relationships are valid, but they depend on certain other factors being in place at the same time. This can lead to errors of either type: observing a cause-and-effect relationship where it will not always

be the case (see the measurement challenge of generalizability), or failing to observe a cause-and-effect relationship because some of the necessary conditions were not in place.

## **Implication**

Causal validity errors proceed from as well as lead to flawed information. With flawed information, for instance, you may over-invest in social impact efforts that are not effective, or you may fail to grasp the actual social impact value that you are indeed creating. Stronger grasp of causal validity for what is causing social ills and how to solve them will help your social impact efforts to be more likely to succeed, and also to generate business value. For instance, knowing the most important factors keeping the employees of one of your emerging economy factories in poverty may allow you to know what benefit or assistance can best aid them in improving their situation. This in turn could increase labor productivity while at the same time genuinely improving these employees' lives.

Causal validity is notoriously difficult to establish. Yet, awareness of the error and what it could mean is the first step to guarding against this common and potentially costly measurement challenge.

## **Example**

Social Impact Bonds (SIB) are typically arranged to maximize the ability of evaluators to ascertain not just whether targeted positive social impacts occur, but also whether those impacts were actually due to the SIB-funded social impact effort. It is important to measure exactly how much of the positive effects are due to the social impact effort, rather than other factors that otherwise help or hurt the targeted impact. SIB guarantors would not want to pay a social program for positive effects that came from factors outside the control of the program; nor would program creators want to be penalized for negative factors outside their control.

Take the example of a social impact bond issued for an organization to implement a treatment program to reduce ex-convicts' likelihood of re-entering the prison system. Ex-convicts have a variety of factors that will influence whether they re-enter the prison system. Causal validity mistakes could identify or fail to identify the factors that are responsible for higher or lower levels of re-entering the prison system. Getting causal validity right will help identify which negative factors to address, and which types of interventions will lead to positive impacts. Also, getting causal validity right will help ensure that the organization providing the SIB-insured service gets properly compensated, even if there are outside factors against them (e.g., a strong trend to re-enter prison occurs, but the intervention is shown to reduce that negative trend), or they stand to unfairly benefit from other positive trends improving the intervention-targeted condition.

## **Highlighted solution**

Perhaps the strongest tool to use in establishing causal validity is random assignment through use of "randomized control trials" (RCTs). By randomly assigning some groups to be "treatment" and others to "control", you can observe the net effects of being treated. A statistician joke describes a doctor presenting his plan for treating all patients of a disease with his new groundbreaking cure. A statistician speaks up and suggests that the doctor should first prove the effectiveness of his treatment by randomly selecting half of the diseased for treatment. The doctor angrily shouts, "But that would doom half of my patients!" The statistician responds: "Perhaps. But which half?" This joke previews the serious ethical issues confronted by practitioners that want to both provide positive impacts as well as rigorous assessment. Hence, guidelines have been developed to help navigate through the challenges [42].

The key to creating an RCT is to make sure that all parts of the intervention are kept as similar as possible for the treatment group and the control group. Random assignment may not always help detect threshold effects easily, but most other types of causal invalidity errors can be addressed by a random assignment experiment. This explains RCTs' recent popularity among social evaluators as providing the gold-standard of evidence.

RCTs are usually used in SIBs to evaluate whether the service provided has earned its payout. In the RCT, candidates (people, towns, organizations, etc.) for the SIB-service are randomly assigned to "treatment" and "control" groups. The net impacts are measured for the treatment group, and payout is determined accordingly.

A few notes of caution: Complete, unabashedly random assignment in RCTs may not necessarily be desirable. For example, by random chance an extreme grouping could occur that may not be helpful for the experiment (e.g., a program targeted at all ages randomly selects treatment subjects only from the aged). Comparing characteristics of the members of the control group with members of the treatment group allows determination as to whether the groups are formed within a reasonable range of difference. If necessary, random reassignment can be employed to adjust for extreme groupings. Also, RCTs are extremely good at testing cause-and-effect candidates, but they are not always good at detecting alternative causes, preconditions, or answering questions of why a cause leads to an effect. Inductive studies, such as open-ended or semi-structured interview techniques, or ethnographic data collection can help to dig deeper and uncover factors that have not already been identified for confirmation and testing.

## 4. Blindness: Hidden factor correlation

### Definition

Hidden factor correlation, also known as “spurious” correlation refers to two factors appearing at the same time, and therefore mistaken for causing each other, when in reality they are caused by other, unobserved factors. Hidden factor correlation is a specific type of causal invalidity: decision makers are blind to the unobserved factor and conclude wrongly about the impact of their actions.

### Illustration

X and Y may co-occur and therefore might be thought of as linked by cause and effect. However, they may actually be caused by a hidden Z-variable. Imagine a company that is trying to increase its representation of women in its upper executive positions through internal hiring. The company observes that women who have more educational qualifications tend to advance more often to upper executive positions. The company could conclude that higher education causes women to enter upper executive positions. This may be true. But it could also be hiding a third variable—career ambition—where women that are especially keen to advance their careers in general are also more motivated both to advance in the executive ranks and to pursue higher education.

### Example

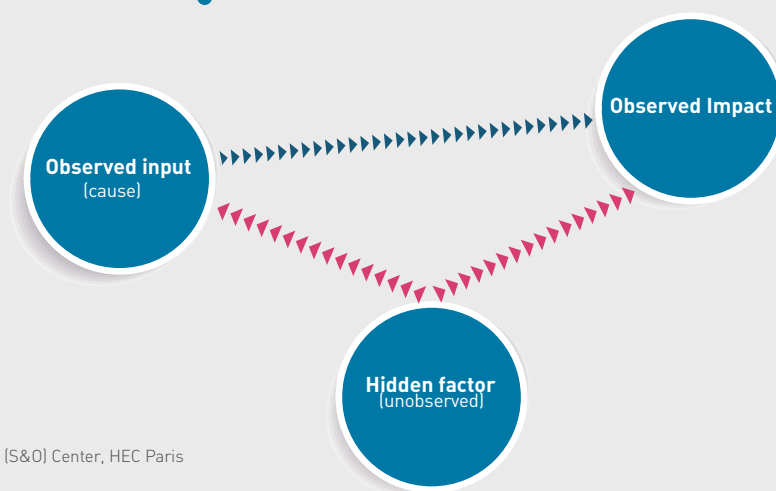
For example, United Nations Sustainable Development Goals (SDGs) for women empowerment and education might actually both be driven by a hidden third factor—eco-

nommic growth. In this case, if you are trying to maximize women empowerment and education, your social impact efforts might be more productive when focused on providing jobs to women in emerging economies, rather than empowerment trainings alone. Similarly, education may actually need local economic opportunity to make the returns from education pay off for individuals, rather than only upgrading local school facilities and teaching staff. It might also be true that education leads to women empowerment or that women empowerment leads to better education, but the hidden factor(s) should not be overlooked.

### Highlighted solution

Causal diagramming can be a helpful exercise to determine what likely causes relate to the intended positive social impacts. In addition, “missing” variables could be revealed and then leveraged to create multiple, positive social impacts at the same time. A causal diagram consists of simply illustrating the cause-and-effect relationship using “boxes” and “arrows.” The boxes that signify causes have arrows leading from them to boxes signifying effects. In the figure 22, while the observer associates positively the inputs (their actions) with the observed impact—the blue arrow expressing this cause-and-effect relationship—, in reality an hidden factor drives the variation of the two observed variables (the red arrows), making the former association spurious.

Figure 22: Identifying hidden factor



Source: Society & Organizations (S&O) Center, HEC Paris

## 5. Over-simplification: Ignoring multi-determination

### Definition

Ignoring multi-determination occurs when the multiple or most important causes and effects in a cause-effect relationship are ignored. In defining social challenges, social solutions, or designing program interventions, many social impact efforts fail to account for multi-causality. In fact, taken to an extreme, our earlier discussion related to  $X \rightarrow Y$  causal

validity errors can lead to this type of near-sightedness about how most causes create multiple effects and most effects are due to multiple causes. This can also be a large problem when the magnitude of effects is not taken into consideration. You may have identified a valid cause-effect relationship. But have you identified the most important one(s)?

Table 23: Ignoring multi-determination

| Ignoring multi-determination  | Social challenges and social solutions   | Program effectiveness  |
|-------------------------------|--|--|
| Effect of ignoring the issues | <p>Failing to account for the many challenges or the many causes of a challenge can result in simplistic program design that does not have the social impacts hoped for</p> <p>And</p> <p>Failing to account for the many challenges or the many causes of a challenge can lead to underestimation of the amount of influence necessary to create social impact [43]</p> | Failing to realize that the program is dealing with multi-causal challenges and solutions results in under-designed interventions and unmet expectations |

Source: Society & Organizations (S&O) Center, HEC Paris

### Illustration

By focusing only on a single cause, important factors can go unmeasured or be relegated to background noise. Strong focus on a single cause or solution can be helpful, but not without first ascertaining other causes, measuring them, and ruling them out as non-significant with data-backed insights. Of course, not all causes and effects can be accounted for. However, it is important to make these decisions after having conducted data collection and analysis. By accounting for multiple causes and their varying magnitudes of contribution to bringing about a particular effect, then the separate effect sizes can be singled out for assessment. Without controlling and adjusting for alternative explanations or multiple causes, you might mistakenly assign too much weight to the cause to which you are paying attention.

Consider a company-sponsored substance abuse rehabilitation program that is attempting to stop teen drug use by providing training on how to resist peer pressure. This may be a major, or even the main cause of teen drug abuse. However, the program would be short-sighted to not also address temptations from abusing home-available prescription drugs as well.

Keeping multi-determination in mind can help organizations ask generative questions about each step of the impact value chain (e.g., What other inputs / activities / outcomes are possible?). In addition, organizations can further understand and enhance their impact efforts by asking explorative questions: What positive social impacts are related to this intervention? What outputs should we be measuring that relate to this impact?

## **Implication**

Ignoring multi-determination will lead you to strategic short-sightedness, where you only attend to what is immediately in front of you. In the first place, organizations will rarely attend to factors that are not measured. Ignoring multi-determination can lead to the neglect of multiple solutions, measuring multiple types of outcomes, or marshaling multiple types of resources—especially including those in the hands of other organizations or stakeholders.

In some ways, as you take initial steps toward social impact, you may mistakenly assume that there is only one cause of challenges or only one solution. In this way, the problem of ignoring multi-determination can be more severe after making some initial progress by measuring the first cause—because now there is a target for organizational attention. This target may both lead to ignoring multi-determination, as well as to placing too much emphasis on the one observed cause and ignoring the other unmeasured, less visible causes.

This is related to the problem of causal validity—for example: causes may be ruled out despite being valid, non-exclusive causes; or two valid causes may be mistakenly presumed to be mutually exclusive.

Think of a company project that focuses solely on the wages paid to employees in an emerging economy, as an indicator of livelihood improvement. However, without attention to social services such as health insurance or savings, the company misses out on measuring its holistic impact on employee livelihood and well-being. By ignoring the multiple causes of well-being, the company fails to implement helpful support services for its employees. Also, the company fails to measure the implemented support services that are creating positive, but unrecorded, social impacts.

## **Highlighted solution**

Consider multiple possible causes of positive or negative impacts, rather than assuming exclusive causes or effects. Ensure that each is properly addressed. When implementing solutions, apply multiple solutions at once to increase the likelihood of success. The impact value chain could be used as a template for different points to look at instances of multi-determination.

A review of existing programs within your organization and in other organizations is a good strategy to capture the many causes and effects relevant to your impact efforts. Often, some of the relevant challenges and solutions that you are attempting to deal with have already been documented. By using prior experience of others, you can establish useful benchmarks and be sure to address the main causes first.

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## 6. Partiality: Failing to capture both downside and upside risks

### **Definition**

Many social impact assessments omit either the upside or the downside risks of an impact. This limits the completeness of the picture for social impact. Failing to address some social issues does entail risks to any organization—operational mandate, for instance. However, an exclusive focus on the downsides may fail to account for the potential upsides of engaging in social impact endeavors that can create real social and economic value. Focusing only on negative or positive information paints an incomplete picture of social impact efforts and outcomes.

### **Illustration**

Imagine a company that only considers the potential upsides from engaging in some local community building through donations to local charities—positive publicity and marketing exposure. This company will indeed be more likely to observe the benefits that accrue to philanthropic efforts and improving stakeholder relationships. However, without also considering downside risk management through CSR, they may fail to assess their potential negative social impacts. Then, their local community-building efforts may be seen as shallow attempts to cover up their shortcomings in other social impact areas. Organizations need to take a complete view—by both addressing downside risks of negative social impacts that require mitigation as well as the upside potential of engaging in social impacts. Then, companies can bring the two types of assessment together in an integrative solution [44]. For example, your company can continue to leverage positive exposure by supporting local charities, while at the same time targeting the charities that will specifically help mitigate your firm's negative social impact risks.

### **Implication**

Although appearing to mathematically cancel each other out, positive social impacts and negative social impacts are not treated as conceptually equivalent, so they often deserve to be examined separately. Loss aversion—that losses are treated as more painful than equivalent gains are pleasurable—is one example of a bias that would alter the way downside risks are treated as compared to upside risks. By ignoring one or the other, an incomplete picture leads to blindness about weaknesses and avoids fixing important ones. Or, it leads to blindness about potential opportunity to contribute to social impact.

## **Example**

ESG (Environmental, Social, and Governance) risk factors used by investors have been developed in recent years to help capture all of the potential downside risks that organizations face, and may destroy their business value. For instance, ESG analyses assess the risks (e.g., legal action or loss of employee engagement) an organization faces for not performing adequately in its social and other duties. Yet if impact assessment is solely focused on ESG factors, organizations may fail to perceive the positive gains from engaging in social impact efforts that build up the potential for positive returns around them. For instance, employee development may not only decrease turnover and absenteeism, but also strategic human capital and thereby employee productivity.

## **Highlighted solution**

In the same way that ESGs are evaluated by financial investors, these could be evaluated internally. Using an ESG or well-established framework, organizations could self-evaluate in order to increase their awareness of social and environmental impacts on their business. Yet, a conventional ESG framework would capture only the downside risks of ESG factors. In order to take advantage of potential gains related to social impact efforts, it is also crucial to evaluate upside opportunities.

Loss aversion could entail organizations framing social impact risks as downside in order to motivate action. Yet, that would also necessitate accounting for the loss of potential upside gains as well. Upside gains are often neglected in an ESG approach. Systematically looking both at downside risks as well as upside opportunities helps avoid partiality and an incomplete picture of how impact is achieved as well as how it affects business considerations.

Several management techniques exist to nudge decision-makers to adopt different roles and postures and help them see the case in point through different perspectives and to capture a fuller view of risks associated with social impact.

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## 7. Over-assuming: Lack of generalizability

### **Definition**

The challenge of over-assuming occurs when one instance is taken for being applicable across the board to many other situations whereas this instance is specific i.e. not generalizable. Generalizability is when something is true in more cases than just one. Generalizability signifies that something in a particular context (e.g., geography, industry, time, situation) can be applied in other contexts as well. Generalizability is violated when changes in: geography, industry, time, or situation result in differences for what collected data really represent, or for how social impact efforts are likely to succeed—a situation that is commonplace in impact assessment.

### **Illustration**

Organizations span multiple regions, cultures, countries or even continents. As they increasingly operate in emerging economy contexts—especially when targeting social impacts—differences across settings and intervention tend to be even greater. In fact, because developed economies have all undergone varying degrees of modernization that has led to a homogenizing effect, emerging economies can be more different from each other than they are different from developed economies (e.g., Zimbabwe and Cambodia may be more different from each other than Zimbabwe and South Africa—the economic differences with South Africa may be greater, but the localized cultural differences are greater with Cambodia).

Thus, the operating contexts for many social impact efforts are even more varied than traditional international business contexts. Therefore, impact efforts face larger hurdles adjusting to new contexts than do, say, luxury goods or technology products. To accurately customize impact efforts and impact measurement, diligent attention must be paid to contextual differences.

When data is gathered under different conditions of time, geography, demographic, or situation, it can be misleading to compare results, even if the same impact or impact efforts are being measured. The difficulty is compounded when comparing different types of impact efforts to each other and is subject to the challenge of “non-commensurability” or creating measures that are not actually equivalent and comparable.

Questionnaire-gathered data—a very common tool used to measure impact—face big hurdles when being used across contexts. Questionnaires may be literally translated but fail to appreciate cultural sensitivities that determine which questions can be asked, and which answers are socially desirable. This can lead to a variety of response biases that lead to problematic information collection. For some questions, individuals might be prone to exaggerate in one context, but to hide and under-claim in another. For example, they might exaggerate claims about their income if they think it would lead to greater potential for advancement or hide their income if they think it would lead to greater potential for taxation or negative social comparison.

### **Implication**

If you fail to appreciate and properly fine-tune for contextual differences, then impact evaluation efforts could lead to gathering of data and results that cannot be properly compared to data gathered in other contexts. Then, it will be difficult to make informed decisions about where resources are best invested on impact efforts.

You may also create improper benchmarks if you fail to account for and adjust for important contextual differences. Then, expectations will be out of line with the likely results because the expectations are based on outcomes achieved in other contexts.

Measurements can be highly contingent on context. Questionnaire items, KPIs, or other evaluation techniques may yield divergent qualitative and quantitative information across contexts, even when the tangible impacts do not differ in reality.

### **Example**

Lack of generalizability may be common for being blind to how context can change both the social challenges (what is at stake), social solutions (how to improve the situation), and what reported data really mean (measurement).

- *What:* Eliminating child labor from factories in one context may strongly benefit communities where the children that are not working now are able to attend school. It may have very different social impacts where unemployed children are forced into worse, illicit arrangements in other communities. Social impact initiatives are highly dependent upon local context for their ultimate impact potential.

- *How:* In one context, enforcing child labor laws in collaboration with local government leadership may provide helpful assistance. In other contexts, governments may be part of the problem, rather than the solution.

- *Measurement:* In some contexts, child labor may be proudly reported by parents supporting their children. In others, due to cultural or legal taboos, child labor may be under-reported. Social and other factors can highly influence both quantitative and qualitative information collected.

**Table 24: Analyzing generalizability by evaluating what, how, and measurement**

| <b>What it is and whether it is a challenge can change across contexts</b>                       | <b>How to improve the situation can change across contexts</b>  | <b>Measurement of data biased in different ways across contexts</b>  |
|--|---|--|
| e.g., Child labor as upward mobility out of slums or as oppressive opportunity cost of education | e.g., Working with local community leaders to develop sustainable solutions to child labor issues, or work to overcome the obstacles that local communities pose for solving child labor issues | e.g., Parents may be either proud or ashamed that children are working—leading to inflated or deflated reported measurements for the same underlying facts |

Source: Society & Organizations (S&O) Center, HEC Paris

Furthermore, the more subjective (i.e., subject to human judgment) responses are, the greater the risk of contextual issues. An example illustrates how perception can affect measurement, even when it seems that measures are being compared in order to assess before and after an intervention. Reliance on subjective instead of objective measures can be problematic (and beware that objective measures are also at some point or another, likely to be influenced by subjective biases). In one study, participants' health appeared to decline after going through a health education program. Yet, the measurement used to make this conclusion was a questionnaire asking the participants about their health problems and state of well-being. It appeared that rather than an actual decline in health, the lower health ratings were likely an effect of heightened awareness about health.

#### **Highlighted solution**

Contextual analysis can assess which aspects of context are likely to be similar and different for social impacts and evaluation techniques in one domain as compared to another. Contextual factors should be accounted for and compared to subsequent target contexts. Even if causation has been reasonably established that a positive social impact followed from a particular program, care must be taken to ascertain which contextual factors matter and serve as help or hindrance to success. It is important not to rely on other-context-bound expectations too heavily, as these can be misleading when changing context.

For measurement purposes, translation services can often provide some contextual input. But other times these can be misleading, and only provide the literal translations without all the relevant connotations. Translators may come from the higher-educated sections and multi-cultural of the alternative context, and thus not be situated in the contexts organizations focusing on social impacts need to be aware of.

Hence, the practical recommendation is that impact measurements systematically elicit the cultural, social, economic, and political conditions of each context, and predict their likely effects on social impact measures. By identifying these risks, steps can be taken to mitigate their effects or to adjust for them.

## **Summary of 7 measurement challenges**

We have reviewed 7 common and costly measurement challenges of impact measurement: (1) confusion: failing to identify distinctions in impact value chain, (2) inconsistency: unreliability of measurement, (3) misunderstanding: causal validity errors, (4) blindness: hidden factor correlation, (5) over-simplification: ignoring multi-determination, (6) partiality: failing to capture both downside and upside risks, and (7) over-assuming: lack of generalizability.

By referring to the definitions and illustrations, you can better identify where your impact measurement efforts have fallen into or are at risk of falling into the traps that we have identified. For each measurement challenge, we highlighted a specific example solution that you can use to mitigate its costs and negative consequences. These highlighted solutions are by no means the only solutions available. Depending on circumstances, they may not constitute the best solutions for your situation. However, by first identifying the trap, you will be better equipped to search for solutions, either by employing one of the highlighted solutions, referring to our recommendations later in this report, or by searching more broadly the experience and recommendations from organizations beyond this report. The first step is to properly identify the problem or shortcoming in your impact measurement. By being aware of and searching for these common and costly measurement challenges, you can better prepare for, guard against, and resolve their negative effects.

### III. STRATEGIC CHALLENGES OF IMPACT ASSESSMENT

In addition to the practical and measurement challenges, a different sort of challenge associated with impact measurement exists. The strategic challenges of (social) impact measurement consists of determining whether or not to communicate about it: too little communication and some opportunities are missed; too much, and the risks associated with hypocrisy or social-washing loom large.

**Under-usage** of social impact comes in four forms: (1) Doing nothing, (2) Doing something but not measuring business benefits, (3) Failing to communicate the positive accomplishments related to social impact efforts, and (4) Mismatching time horizons of intervention and impact. Each of these leaves both social impact and business benefit opportunities unrealized.

**Over-usage** of social impact concerns as well four situations: (1) Measuring too much compared to what is necessary, (2) Attributing too much to impact efforts relative to what is warranted, (3) Moralizing too much the social impact effort and entrenching in a cause that may not coincide with important stakeholders' objectives, and (4) Relying too much on the social impact measurements that are taken as representing a full picture, rather than a limited view.

Being aware of these strategic challenges precedes the taking of measures to address them proactively to bolster social impact initiatives and business benefits related to them.

#### A. Under-Usage of social impact: Dormant potential of impact assessment

##### 1) *Doing Nothing: Missed opportunities*

Sometimes organizations fall prey to the idea that if they cannot control everything to perfectly achieve a targeted impact, they must avoid doing anything at all. As a result, they refrain to engage and give up entirely actions associated with social impact, which may be foregoing both social impact and economic opportunities.

##### **Implication**

Many companies assume that either they have to radically change their entire business immediately, or change nothing to create social impact. Effective social impact initiatives take time, and are usually best implemented in stages. This is not an excuse to be mediocre in social impact effort—rather, an encouragement to take the first steps. And following those, to take subsequent steps, persistently building up over time. In this way, a (truly) sustainable competitive advantage can be built gradually.

##### **Illustration**

The U.N. Sustainable Development Goal (SDG) #5 is about Gender Equality. In a given organization, what would constitute a “gender equal” team / company / subsidiary? Ultimately, it would seem that the ideal is 50/50 representation

throughout various types of roles. However, when this ideal is best targeted to achieve may depend on the starting point of the organization, the roles, the industry, and so on. Some industries may have much smaller numbers of potential candidates in one or the other gender, and thus 50/50 may be less feasible. This should not deter the organization from pursuing the underlying ideal behind the 50/50 target (equality), though it may prompt the organization to focus on other aspects of equality—such as equal pay for equal work.

##### **Highlighted solution**

One approach is to retain the underlying principle behind the ideal, but to contextualize the tangible expectation. For example, in the gender equality case, it may or may not be feasible to quickly attain 50/50 gender representation in fields where the labor force is 90/10 in one gender or another. However, it may be feasible to do better than the status quo within the industry. It also may be that the organization could focus on other important, and perhaps groundwork-laying, types of gender equality impact, such as providing training and educational opportunities, and focusing on pay inequality rather than exclusively proportional representation equality. An organization can avoid letting feasibility serve as an excuse for mediocrity, while at the same time disciplining tangible targets in ways that are more able to be achieved with social impact progress.

## 2) *Doing but not seeing: Lack of Measuring Business Benefits*

Many organizations do have a positive social impact but do not measure business benefits from social impacts at all.

### **Implication**

By not attributing business benefit to social impacts, businesses are likely to underinvest in social impacts. Just as it is important to measure or at least estimate the pay-offs to different marketing efforts, in order to determine future allocation of marketing budgets, it is also critical to estimate the business benefits associated with impact efforts. Doing so will help both the impact efforts as well the business outcomes [43].

### **Illustration**

A common example is organizations acknowledging social impact efforts as “good PR”, but not going beyond that to actually measure the business benefit accruing. A highlighted solution would be to assess the amount of publicity gained and estimate the equivalent marketing purchase amount of value obtained.

As a second example, capital related to human and social factors are often developed inside the firm as a direct result of social impact efforts. Yet, this capital is rarely measured or even accounted for subjectively. By not accounting for this development, be it within the firm (e.g., human capital, social capital), or outside the firm (e.g., relational capital, reputational capital), again firms risk under-investing in impact efforts that increase their business benefits.

### **Highlighted solution**

Although many different types of business benefits can accrue from positive social impacts—from employee effort improvements to customer loyalty to regulatory ease—a common way to think about the business benefit of social impact is to consider that they contribute to the multiple forms of a firm’s capital, including social and relational capital. These non-financial capitals contribute indirectly to the monetary estimates of value brought about by a firm’s activities.

## 3) *Seeing but not saying: targeted communication*

Many organizations know but do not leverage the positive social impact investments that they are making, through

communicating to the relevant stakeholders. In the case of creating positive social impacts, often silence is costly, as it may be assumed by stakeholders to be lack of good news. Research suggests that many organizations fail to leverage the potential financial benefit for their firms from having created social value [44]. Other research suggests that press releases about your own social impact are very valuable for the first press release, but likely not for subsequent releases. This same research suggested very large benefits if the social impacts are communicated by a partner social purpose organization, such as an NGO [45].

### **Implication**

By not leveraging business benefits of impacts, the business misses out on direct and indirect financial gains, and may also underinvest in positive impact-producing activities. A key way that business benefits can be derived from impact efforts is through communicating them to stakeholders that can reward your firm. A balance must be stricken between “Do not speak too much about one’s good deeds” and “Business attitude is to just remain silent about any non-economic impact”.

### **Highlighted solution**

Through communication of positive social impact contributions, tailored to audience—whether strategic partners, customers, or employees, organizations should make their impacts more visible. It is a fine line between overclaiming or greenwashing and merely making visible existing positive impacts. Stakeholders need to be made aware of positive social impact initiatives, without, of course, being over-communicated.

## 4) *Timing Off: Mistaken Time Horizon*

Social impacts or business benefits often take time to materialize. Care must be taken to match up the measurement of an intervention with its effects properly. Without matching up the time horizon accurately, benefits may be mistaken not to occur at all and else being muted by the organization itself.

### **Implication**

Because of the lagged cause-effect relationship, it may be easy to mistake a lagged effect for no effect at all. It is difficult to match up appropriately a cause with an effect

that takes time. How long does a meaningful amount of social impacts or business benefits take to accrue? And should the accrual of a single time period be considered, or some sort of rolling average? In order to communicate appropriately about the impacts, organizations need to put in place people and methods that ensure some continuity over time, the more so as social impact measurement represent an insurance against future negative events that hit the organization [46].

#### **Highlighted solution**

When trying to ascertain the business or social impacts of an organizational activity, two solutions may be appropriate. One is to lag the supposed effect, to match it up with the likely cause—for example, to measure 2nd quarter referral increases compared to 1st quarter advertising campaign investment. This requires some estimate of the average time that a given social impact investment will take to mature or materialize.

Another approach is to broaden the entire time window. Multi-month or yearly aggregates may in some cases actually refine the accuracy of a picture of the social impact value chain, even though it involves zooming out and putting things together. A rolling average, or smoothed average—where multiple time periods are used with different relative weights—can also be used to refine the picture further.

## **B. Over-Use: Using impact assessment in inappropriate ways**

### *1) Analyzing too much*

Often times, firms over-invest when assessing the social impact of their first initiatives. A typical case concerns the use of surveys instead of sampling. A census is where every instance is exhaustively accounted for when measuring. Sampling is where a representative amount of accounts is taken, and then extrapolated to estimate values for the entire group.

#### **Implication**

Taking only a census approach to exhaustively measure all social impacts may be unnecessary. Often a sampling approach is adequate, and much more pragmatic and cost-effective. In addition, it can help tailor impact efforts in a way that provides broader application and broader benefits than an intense but narrower census impact evaluation might lead to.

#### **Highlighted solution**

Randomly selecting a subsample from a larger group is key to avoiding bias. In political or marketing polling, often only a small sample of potential voters or buyers is deeply assessed, and then the results are extrapolated to infer characteristics about the broader set. This makes it more feasible to conduct deep analysis to ascertain social impacts affordably.

### *2) Attributing too much*

#### **Definition**

Attributing all the surplus benefits observed in a region to the firm's social impact efforts can be overclaiming the business case for social initiatives. The surplus could proceed from many other factors, often unrelated to the social initiative itself and to the firm per se (e.g. presence of confounding factors in the region, such as other NGOs' actions, governmental initiatives, etc. Hence the need for a proper approach to impact evaluation avoiding the measurement challenges stressed in the previous chapter.

#### **Implication**

Overclaiming business benefits for social impacts may cause a loss of credibility. Even if the attribution is partially true, many will realize that the breadth of the overreaching benefit claim is too large, and may reject the case for business and other benefits entirely. This in turn may make it more difficult for social impact initiatives to be undertaken in the name of achieving a double bottom line, both socially and financially contributive.

#### **Highlighted solution**

Be sure to claim the business benefits associated with impact efforts. But also take care not to overclaim benefits without evidence. Remember that all of the unaccounted-for positive outcomes are not necessarily due to your impact efforts and that unsupported claims may hamper the credibility of future actions geared toward increasing social impact.

### 3) *Moralizing too much*

#### **Definition**

Impact efforts are often motivated by appeals to underlying moral values ([47]). Yet, this creates a risk that the values motivating an impact effort may be narrowly held by only a subset of organizational stakeholders. Worse, the values may not only be different from the values of other stakeholder groups, they may even contradict stakeholder groups' values. Narrowly-held values pose risks when they contradict the values of others within the organization, the same organization in the past, or of important stakeholders.

#### **Illustration**

Achieving social impacts related only to narrowly-held values may alienate certain stakeholders. This is especially true when the values themselves, or particular issues tied to the values, have been politicized—for instance, in democratic electoral contests. Which issues or values are politicized is often location-dependent. Therefore, a knowledge and sensitivity to local cultural values and political debates is essential to mitigate the risks of trumpeting values that are only narrowly held or contradict other stakeholders' values.

#### **Implication**

Unlike financial impacts, social impacts often are not exchangeable for other types of impacts, if values of the organization change or do not align with each other internally. Providing shelter and counseling for abuse victims is not exchangeable, after the fact, for hurricane relief supplies. Thus,

those whose values are not aligned with particular social impacts will not appreciate when organizations achieve them, and may even negatively view their achievement.

The challenge is to achieve balance. At one extreme, social impact efforts could be based on values that are at odds with the values of important stakeholders or important proportions of stakeholders—whether they be employees, communities, customers, or investors. At the other extreme, social impacts could be watered down enough to have no appeal to values at all. In this case, it would not be satisfying to any stakeholder. Social impacts need to be strong enough to create a positive difference that is valued by a significant subset of stakeholders, while at the same time assessing which value appeals might offend certain stakeholders.

#### **Highlighted solution**

Disentangling values from issues offers a conceptual lens from which to sort out values that are broadly held versus narrowly held by stakeholders within and outside the firm.

In addition, within each value or issue, there are almost always narrow-framing and broad-framing approaches to take. By searching for underlying values that touch upon issues of concern to multiple perspectives, you can avoid being trapped in narrower slices of the moral domain.

#### 4) Relying too much on Tangible Benefit Measurement

##### **Definition**

Impact efforts often accrue more than just the visible, immediate, financial benefits. And sometimes the benefits are related to well-being or other intangible factors. In any event, measuring the financial benefit may help leverage which right things are more or less affordable and best to pursue. Quantifying the intangible can provide good information, but care must be taken not to rely too much on only the measurable indicators.

##### **Implication**

By getting started with measuring select aspects of impact, organizations risk becoming over-attentive and over-reliant on those particular measures, even though they may have only recently become visible to the organization. It is important to keep in mind that measured impact is not necessarily the positive impact itself. The measurement is a *means*, not an *end*.

##### **Highlighted solution**

Even in cases where impact measurement is only collecting quantitative, numerical data, qualitative data can also be gathered. For example, explicit prompts to organizational members or social impact beneficiaries can ask for answers to specific open-ended questions. “Other” options with text boxes can be included in survey questions, and even occasional beneficiary or impact-focused ethnographic-style observations can be conducted and reported on in order to understand better what is and is not being captured by the numerical data. This more fine-grained understanding can be supplemented with transcribed text responses, video footage, or photographs.

### Summary

Social impact is strategically challenging in many ways. In addition to the measurement challenges discussed, it is also strategically critical to decide when and if to measure impact, how to do so, and what to communicate to whom. There are cases where silence is not golden and cases where over-using social impact hampers the building of trust and credibility. Just as for measuring and communicating financial performance, measuring and communicating social impact must conform to rules and principles to be received as objective and credible.



# PART 3:

## YOUR SOCIAL IMPACT STRATEGY

We conclude with a section of recommendations, bundled with tools for you to apply to your social impact measurement efforts. On the basis of our review and research of social impact measurement, we have developed a series of 10 tools for you to use in your social impact measurement efforts. By applying these, you can guard against and address the practical, measurement, and strategic challenges discussed in Part 2. We present these tools in a logical order, from setting or revising the goal(s) of your social initiatives (1st Stage), to planning the assessment (2nd Stage), improving the assessment (3rd Stage), and finally, strategic use of the social initiatives (4th Stage). Of course, you may find it useful to apply the tools out of order, or to skip some of the steps depending on where your impact efforts are in most need of improvement. The outline of recommendations is as follows:

### 1st STAGE. Setting/revising the goal(s) of social initiatives

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- Recommendation 1 - Check assumptions
- Recommendation 2 - Do not focus on too narrow objectives

### 2nd STAGE. Planning the assessment

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- Recommendation 3 - Invest in assessment
- Recommendation 4 - Compare contexts before measuring impact

### 3rd STAGE. Improving the assessment

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- Recommendation 5 - Constantly improve your impact assessment
- Recommendation 6 - Map and engage the impact value chain
- Recommendation 7 - Do not over-rely on quantitative metrics

### 4th STAGE. Strategic use of social initiatives

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- Recommendation 8 - Do not only focus on benefits or risks
- Recommendation 9 - Search for and extend the benefits
- Recommendation 10 - Leverage goodwill for increased business and social impact

## 1st STAGE. SETTING/REVISING THE GOAL(S) OF SOCIAL INITIATIVES

### Recommendation 1 - Check assumptions

*Rather than presuming that social challenges and initiatives will perform as anticipated, follow-up to check the assumptions that your impact efforts rely upon.*

Any social impact effort includes a series of assumptions about cause and effect. These assumptions underlay what your efforts assume are causing the social challenges you address as well as what you are presuming your social impact efforts will lead to. By explicitly articulating the causal models, you can unveil your assumptions. Then, you may subject your assumptions to analysis of evidence. We recommend the following steps: (A) Articulate and analyze the causal model behind the social challenges you are addressing, and (B) Do the same with your social impact causal model. Evaluate whether the conditions are in place for your plan to work. “What would have to be true?” is the key question that you should ask in order to discern whether your impact effort is built on solid ground. Consult the model of cause(s) and effect(s), as presented in Figure 19 (page ##) of this report. Cause-and-effect models are representations that help unearth your assumptions about how the world works.

The following steps illustrate how to apply causal modeling to depict and then consider the cause-and-effect models that undergird your efforts.

### Step A: Evaluate assumptions about your Social Challenge model

The general model of cause(s) and effect(s) is a framework that allows you to specify the multiple, potential causes of the effects that you are assuming need to be true for your social impact efforts to be effective. The framework points to specifying not only the causes and effects, but also the means or “mechanisms” by which the causes bring about the effects. Being more precise about these mechanisms allows you to more deeply explain the reasoning behind the causal associations you expect to find for your social challenges and social impacts.

Applying this idea, Table 25 adapts Figure 19 to help you elaborate and explicitly model (1) what social challenge is being targeted, (2) what evidence suggests that you have properly identified the causes of the challenge, (3) what is the reasoning behind why the causes lead to the social challenges, and (4) what evidence supports that the social challenges exist where you intend to address them. One firm that we worked with set up an impact initiative to solve a particular social problem. It seemed like a reasonable basis for the initiative. And yet, when actually carrying out the intervention, the firm realized that the social challenge did not even exist in the areas that it was setting out to implement their solution. The social challenge was thought to exist for society at large, but it was not pressing in the areas where the firm was involved.

Table 25: Example of a causal model: Teen Illiteracy as a Challenge

| Social Challenge Model   | Cause(s)  | ► “lead to”   | Social Challenge(s)   |
|--|---|---|---|
| <b>Example: education and employment</b>   | <i>Low parental education levels and ability to support homework completion<br/>Low amount of local school teacher attention devoted to instruction</i> | <i>Lead to</i>  | <i>Teen Illiteracy and unreadiness for employment</i>   |
| <b>Corresponding evidence: (Evidence can include pilot project results, prior research, expertise, experience)</b> | <b>What evidence do you have that the alleged causes exist in these particular instances?</b>   | <b>What reasons do you have that the causes actually lead to the social challenges?</b> | <b>What evidence do you have that the social challenges exist in these particular instances?</b>            |
|  | <i>Government local census survey information; in-school observation study</i>  | <i>Study 1, Study 2; Social worker interviews; Nonprofit job placement group study</i>  | <i>Placement statistics and drop-out rates for local secondary school; unemployment levels for locality</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

While the future cannot be perfectly forecasted, it can be reasonably estimated. Using a causal model (as in Table 26) to explicitly identify causes, effects, and evidences,

likely scenarios can be anticipated. Social impact analysis can be rigorously undertaken, as seriously as for strictly financial investments.

Table 26: Questioning the causal model of your initiative

| Social impact model | Your initiatives                                | ► “lead to”   | Social impacts  |
|---------------------|---|---|---|
|                     | <i>After-school homework assistance program</i> | <i>Better uptake of instruction time at school; better learning outcomes for students</i> | <i>better completion and employment placement rates for youth</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

### Step B: Evaluate assumptions about your social impact initiatives

Applying the same pattern as Table 26 to your initiatives enables you to make explicit expectations and the reasons why you expect them. Table 27 illustrates this idea. Then, aim at modeling your social impact initiatives based on the

following questions: (1) What will your initiatives consist of? (2) Is there adequate structure in place to rigorously assess your initiative’s impact? (3) What evidence do you have that positive impacts are the result?

First, a series of questions can help you to **evaluate your initiative:**

**Table 27: Questioning the causal model of your initiative**

| Question   | Your answer   | Ideal evidence to test your answer   | Available evidence to test your answer  |
|--|---|--|---|
| <b>Are you actually accomplishing the initiative? Are the essential elements in place to achieve the intended impacts?</b>         | <i>Yes, positive learning objectives are achieved, but need longer term to know if impacts will be realized</i>     | <i>Before / after testing of academic results for students in and out of program</i> | <i>Before / after testing of academic results for students in the program</i> |
| <b>Is the on-the-ground reality close to the strategic plan? Are there positive departures (e.g., adjustments or innovations)?</b> | <i>Many students are tutoring each other and benefiting rather than only relying on program teacher instruction</i> | <i>Observation of program and in-school instruction</i>                              | <i>Observation of program</i>   |
| <b>Is the on-the-ground reality close to the strategic plan? Are there negative departures (e.g., errors or shortcomings)?</b>     | <i>Placement rates are lower than anticipated, youth unemployment rates still high</i>                              | <i>Longer term observation; start apprenticeship program</i>                         | <i>Interviews of youth employment placement workers in other regions</i>      |

Source: Society & Organizations (S&O) Center, HEC Paris

For Table 27, as you consider the questions, you are also asked to specify the ideal evidence that could be used to test your answers. Articulating the ideal evidence that could be used to test your answers helps to reveal “what would have to be true” tests to allow dispassionate review of your assumptions. “Ideal” evidence is ideal precisely because it is laser-focused on supporting or discrediting an answer, rather than on what might be cheaply or practically available. In the final column, “available evidence” rotates the question to what types of evidence can be readily gathered and analyzed. After stipulating the ideal evidence, and comparing it to the available evidence, decide whether you should invest in gathering more data to use to test your answers. In most cases “evidence” is equivalent to “data”, but we use the word evidence deliberately to signify a broader meaning. Beyond mere data, evidence could also include extant research, expert opinions, and other logical arguments that support a particular answer.

After evaluating the causal models associated with the social challenges you are attempting to address, you can evaluate the causal link between your initiative and intended social impacts. In particular, Table 28 focuses on establishing causality through establishing “control” and “treatment” groups, where the control group is measured without benefiting from your social impact effort and the treatment group does benefit. In this way, net impact can be ascertained. Randomized control trials (RCTs) are often treated as the gold standard in this field, but there are other ways of establishing counterfactuals. Thus, control and treatment groups may actually be represented by “before” and “after” treatment groups or other forms of matching. For most of these approaches, the following questions apply.

Table 28: Example: Probing the causal links

| Question   | your answer   |
|--|---|
| Is there a credible control group that resembles in every way possible the treatment group? (including most importantly, the desire and qualification to opt in to the initiative) | <i>No, because participation is voluntary, it is not randomly assigned</i>  |
| What is the process for becoming a part of the treatment group? (how similar is it to becoming a part of the control group?)   | <i>Teachers recruit participants from the general classroom environment—those attending regularly are more likely to be recruited</i>   |
| How do the <i>qualifications</i> of the treatment group members differ from the control group?   | <i>Grades are slightly higher for those opting into the treatment group</i>   |
| How does the <i>motivation</i> of the treatment group members differ from the control group?   | <i>Dedication to attending the after-school program is higher for attendees than for those that do not attend. Could possibly change this by holding program during school hours.</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

In addition to evaluating the suggested causal models, you can assess whether the impact effort is indeed bringing about the intended impacts. Table 29 walks through

some questions to consider in order to ascertain whether the social impact model is working as anticipated.

Table 29: Assessing impact of your initiative

| Question  | Your answer | Ideal evidence to test your answer | Available evidence to test your answer |
|---|-------------|------------------------------------|--|
| Are positive impacts occurring?                             |             |                                    |  |
| Are these positive impacts connected to your initiative?    |             |                                    |  |
| What is the likelihood that these impacts will be enduring? |             |                                    |  |

Source: Society & Organizations (S&O) Center, HEC Paris

By checking the assumptions behind your model of social challenges and social initiatives, you can better ascertain where to collect data. After collecting the right data, you can begin to analyze whether the expected models

of challenge and change are accurate. Failing to rigorously check assumptions jeopardizes the understanding and accomplishments of any social initiative.

## Recommendation 2 - Do not focus on too narrow objectives

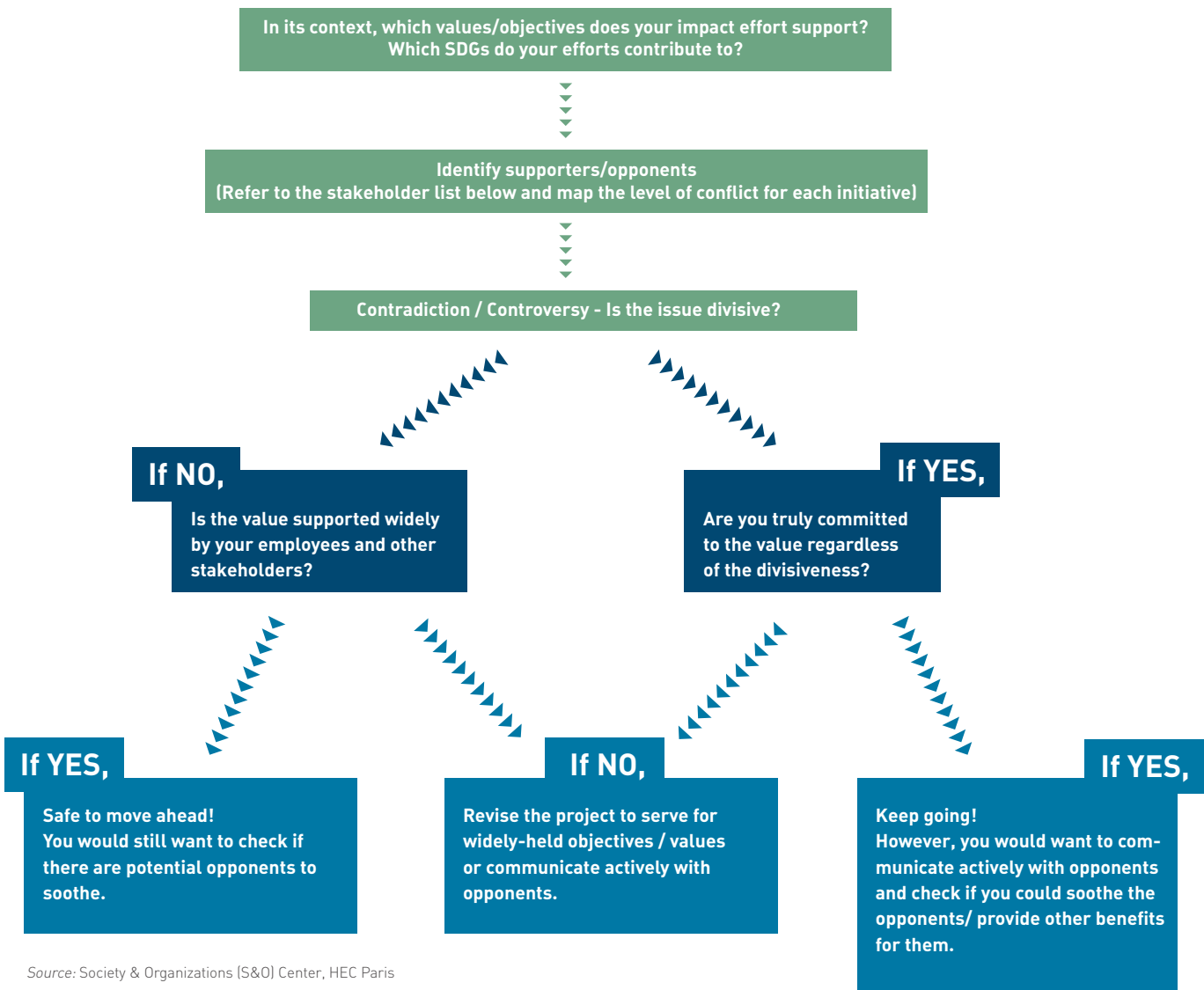
*Rather than get focused on narrow initiatives, aim at addressing consensual objectives among your stakeholders.*

Many types of social impact initiatives are attached to underlying values. By spending resources to tackle particular social challenges or to bring about particular social impacts, you are inevitably leaving out others—and perhaps even contradicting them (e.g., providing jobs in a coal power plant may help provide jobs but hurt local residents' health through pollution). In terms of SDGs, many initiatives help bring about some SDGs while neglecting or even harming progress on other SDGs. By championing an initiative, you may be implicitly endorsing a set of objectives which prioritize progress toward some achievements at the expense of others. Some objectives are broadly held across the stakeholder groups related to your organization. Others may be based upon contradictory values between stakeholder groups related to your organization and objectives. One of the most common contradictions is that between shareholders' interests and social impact when it does not appear to contribute to financial performance. Another one of the most common types of contradictions is among different SDGs—e.g., social impact that appears to undermine environmental conditions.

To ensure that you are aware of potential risks of focusing on narrowly held values, complete the following steps: (A) Identify the group(s) benefited or supported by your impact effort and value(s) attached to the effort, (B) Check if the level of controversy is manageable and the base of support is wide enough, and (C) If needed, revise your plan, communicate with the opponents, and/or provide other benefits for the opponents.

The following decision tree illustrates in further detail how this process could be approached (Figure 30). As illustrated in the figure, first you identify who is intended to be benefited by your impact effort. Next, identify which values or objectives your initiative supports. After identifying the values and objectives, evaluate support and opposition towards them. Look for whether there is divisiveness. If it is not divisive, then simply proceed, and ensure that it is supporting the objectives and values of your stakeholders. If it is divisive, then you need to see if there are ways to reconcile controversial stakeholder objectives. In some cases, you may decide that the controversial objective is still worth pursuing. If pursuing a controversial initiative, you should still evaluate how you can mitigate the risks of conflict.

Figure 30: Balancing Objectives Decision tree



Source: Society & Organizations (S&O) Center, HEC Paris

Table 31 provides a list of different stakeholder groups. These can serve as starting points for you to generate a list of relevant stakeholders. Consider distinguishing between internal and external stakeholders. Often internal and external stakeholders have considerable differences in independence (e.g., external stakeholders are more independent from your organization than internal stakehol-

ders) and communication (e.g., external stakeholders may rely more on formal communication channels than internal stakeholders). You may wish to divide into value-specific groupings where applicable. Consider not only different types of stakeholders, but also different socio-cultural contexts either within (upper vs. lower socio-economic classes) or across geographies (Asia vs. Latin America).

**Table 31: Stakeholder list**

(Depending on the objective/value, subdivide each group if different segments exist)

| Internal stakeholders   | External stakeholders   |
|---|---|
| <p><b>Owners</b><br/> <b>Management</b><br/> <b>Employees</b><br/>                     ....</p> | <p><b>Customers</b><br/> <b>Media</b><br/> <b>NGOs</b><br/> <b>Local religious organizations</b><br/> <b>Government</b><br/>                     ....</p> |

Source: Society & Organizations (S&O) Center, HEC Paris

Then, you can complete conflict risk mapping for stakeholder groups. By identifying specific stakeholders and how much they support / oppose particular SDGs, issues, and values, you can analyze conflict risk. In general, the larger the distance between scores, the higher the risk of conflict. Conflict increases the larger the distance between stakeholder

scores for opposition or support of specific issues and values. The following ranges of differences between stakeholder positions correspond to risk profiles: 7-10 (high risk), 4-6 (medium risk), 2-3 (low risk), and 0-1 (negligible risk). Table 32 provides an illustrative example highlighting the risk of conflict for a social initiative.

**Table 32: Conflict risk mapping for stakeholder groups**

| Stakeholders  | Stakeholder positions on specific objectives<br><i>Employment in a local forestry exploitation</i> |   |   |   |   |   |   |                      |   |                                       |
|---|--|---|---|---|---|---|---|----------------------|---|---------------------------------------|
| <p><b>Stakeholder A</b><br/><br/><i>Local Union</i></p>   | <p><b>10</b><br/>Strong Support<br/></p>   | 9 | 8 | 7 | 6 | 5 | 4 | 3                    | 2 | <p><b>1</b><br/>Strong Opposition</p> |
| <p><b>Stakeholder B</b><br/><br/><i>International Environmental NGO</i></p>   | <p><b>10</b><br/>Strong Support</p>  | 9 | 8 | 7 | 6 | 5 | 4 | <p><b>3</b><br/></p> | 2 | <p><b>1</b><br/>Strong Opposition</p> |
| <p>Distance between stakeholder position scores: <math>10 - 3 = 7</math></p> <p><b>7-10 high risk</b><br/>                     4-6 medium risk<br/>                     2-3 low risk<br/>                     0-1 negligible risk</p>   |  |   |   |   |   |   |   |                      |   |                                       |
| <p><b>Different prioritized concerns:</b><br/> <i>Local prosperity is most important (union), deforestation is a problematic activity contributing to CO2 level increases in the atmosphere</i></p> <p><b>Shared prioritized concerns:</b><br/> <i>Safe local living conditions</i></p> |  |   |   |   |   |   |   |                      |   |                                       |

Source: Society & Organizations (S&O) Center, HEC Paris

## 2nd STAGE. PLANNING THE ASSESSMENT

### Recommendation 3 - Invest in assessment

*Rather than write off social impact measurement as too difficult to tackle, remember that financial measurement is difficult too, and requires rigorous training, extensive protocols, and dedicated personnel to do well.*

We recommend the following steps to investing in social impact assessment “infrastructure”: (A) Identify current measurement approach, (B) Compare different auditing options, (C) Assess impact reporting, and (D) Identify financial measurement resources that can be shared.

### Step A: Identify current measurement approach

It is important to take stock of how many resources are dedicated to social impact assessment. In many cases, the investment is low, but the expectations are very high. A good comparison point is with financial performance measurement. Throughout most organizations, considerable investments of time and resources are made in tracking, understanding, interpreting, and reporting financial performance measurement. A key rhetorical question to begin with for your organization is, what is the ratio of accounting and finance staff to staff working on impact assessment? Ask yourself: What can I expect, given our current level of investment, and are we investing adequately in impact assessment? Use Table 33 below to estimate your current impact assessment infrastructure:

Table 33: Impact assessment infrastructure check

|                              |   |
|------------------------------|---|
| <b>Data collection</b>       | Q. How is your impact data gathered?<br><br>(Internal integrated, internal independent, or external?)   |
| <b>Auditing</b>              | Q. Who audits your social impact assessment?<br><br>(Internal integrated, internal independent, or external?)   |
| <b>Impact reporting</b>      | Q. To whom is your social impact reported?<br><br>(Internal stakeholders, external stakeholders)  |
| <b>Financial measurement</b> | Q. What does your financial assessment infrastructure look like?<br><br>(What processes and resources are used for: data collection, auditing, reporting) |

Source: Society & Organizations (S&O) Center, HEC Paris

## Step B: Compare different auditing options

There are challenges and advantages to each type of auditor. We have highlighted some in the Table 34. Organizations can make adjustments to mitigate potential challenges and capitalize on the advantages of alternative approaches in order to refine the auditing arrangement selected. For many organizations, ultimately the cost/accuracy and legitimacy

trade-off is well-balanced when engaging external auditors that supplement the work done by internal auditors. In Table 34, the two main approaches of internal or external auditing are listed with their typical challenges and some ways to mitigate those challenges. In addition, the advantages of each approach and how to capture these advantages regardless of approach are also presented.

Table 34: Impact auditing options

| Who?            | Typical challenges  | Potential Mitigation Tactics  | Advantages  | Capturing advantages in different configuration   |
|-----------------|---|---|---|---|
| <b>Internal</b> | <p>Bias towards more favorable results</p> <p>Appearance of bias</p>  | <p>Decouple control of recording and reporting impact from those who stand to benefit or lose out from results</p> <p>Follow up with periodic external auditing</p> | <p>On-the-ground experience</p> <p>Cost effective</p>   | <p>Consult internal actors closely when designing impact assessment</p> <p>Use internal, same group for some of the data collection; perform periodic or semi-random auditing</p> |
| <b>External</b> | <p>Potentially expensive</p> <p>Do not develop internal expertise</p> | <p>Reduce the scale of involvement</p> <p>Hire internal dedicated staff to train and work with external partner</p>   | <p>Appearance of objectivity</p> <p>Leveraging expertise from firms working on other, similar firms</p> | <p>Engage external auditors for periodic or select portions and projects for auditing</p> <p>Consult or perform external benchmarking</p>   |

Source: Society & Organizations (S&O) Center, HEC Paris

## Step C: Assess impact reporting

Another crucial question to be asking is how impact assessment is being used for communication, both internally and externally. Impact assessment can be used in communi-

cation to attract resources, motivate action, and plan future efforts. By explicitly attending to internal and external communication strategy, organizations can better evaluate which types of impact assessment information is best to collect and share.

**Table 35: Impact reporting to internal and external stakeholders**

|  |  |   |   |
|--|--|---|---|
| <p><b>What impact assessment is used for INTERNAL reporting?</b></p> | <p><b>To whom?</b></p> <p>(List stakeholders)</p> <p><i>Employees</i></p>        | <p><b>For what?</b></p> <p><i>Awareness of positive social impacts</i></p>  | <p><b>Content?</b></p> <p><i>Case studies to enrich picture of impact; statistics to highlight scale</i></p>  |
| <p><b>What impact assessment is used for EXTERNAL reporting?</b></p> | <p><b>To whom?</b></p> <p>(List stakeholders)</p> <p><i>Development Bank</i></p> | <p><b>For what?</b></p> <p><i>To recruit blended financing support and potential co-sponsorship of intervention</i></p> | <p><b>Content?</b></p> <p><i>Budgeting demonstration with benchmarks to substantiate efficiency; RCT to demonstrate effectiveness of intervention</i></p> |

Source: Society & Organizations (S&O) Center, HEC Paris

After determining which stakeholders are reported to, the motivation, and the content, check whether any stakeholders are missing. Look for potential economies of scale where you have stakeholders that may benefit from the same types of reporting content. Consider also the format and communication medium through which content is reported to each stakeholder group and whether untapped resource attraction, action motivation, or planning can be advanced.

For instance, take the example of an organization reporting to its employees and a Development Bank, as in Table 35. By specifying objectives of awareness and seeking finance, the organization can determine the appropriate types of content to generate and use for these assessment efforts. In

this example, RCTs are important for rigorous demonstration of effectiveness to the development bank, but case stories are more important to illustrate impact for employee awareness.

**Step D: Identify financial measurement resources that can be shared.**

Finally, consider your organization’s existing financial assessment and reporting resources (using Table 36 for example). Where can these be in helping to perform impact assessment or distribute impact assessment reporting? Refer to some of the reporting initiatives, such as <IR> or PRI for examples of ways that financial and impact assessments have been integrated.

**Table 36: Financial assessment and reporting resources for cross-utilization**

|  |   |
|--|---|
| <p><b>Leveraging existing financial assessment resources</b></p> | <p>Which existing financial accounting systems could be adapted for use in impact assessment?</p> <p>Which existing financial accounting systems could incorporate impact assessment measures?</p> <p>Which existing financial reporting systems could include impact assessment?</p> |
|--|---|

Source: Society & Organizations (S&O) Center, HEC Paris

Cross-utilization of assessment resources not only creates potential economies of scale on assessment resources, it also can be a catalyst for a more strategic approach to managing social impact. In organizations more prone to emphasize

the business value approach, stronger integration of social and financial evaluation resources is also an effective way (see Figure 9 p20 of this report) to encourage more integrated strategic decision-making.

## Recommendation 4 - Compare contexts before measuring impact

*Rather than rolling out measures too widely at once, ensure that your measures are reliable across different measurement-takers and across different contexts.*

In order to ensure that your measurements are consistent across different measurement-takers and across different contexts, complete the following steps: (A) Evaluate how the contexts differ, (B) Determine if the differences matter, and (C) Resolve the differences

### Step A: How do the contexts differ?

Fill in the following table by describing Context A, then Context B, and then describing the differences. Use this tool repeatedly as two-by-two comparisons before synthesizing the Differences across pairs of contexts.

Start by describing context A, in terms of each column label category. Next, describe context B. Then use the third row to tabulate the differences between contexts A and B in each category. See the illustrative case in Table 37.

**Table 37: Context description and differences identification**

|   | Measurement methodology  | Language   | Local biases   | Geography  | Industry           | Time period               | People  |   |
|---|--|--|--|--|--------------------|---------------------------|---|---|
|   |  |  |  |  |                    |                           | Partners  | Beneficiaries   |
| <b>Context A</b><br><i>Agricultural worker support in France</i>      | <i>Surveys filled out by stakeholder beneficiaries</i>               | <i>French</i>  | <i>Freely share complaints</i>   | <i>Near HQ, highly developed infrastructure</i>  | <i>Agriculture</i> | <i>End of recent year</i> | <i>Training and mentorship local nonprofit</i>  | <i>Largely literate, smallholder farmers</i>  |
| <b>Context B</b><br><i>Agricultural worker support in Puerto Rico</i> | <i>Surveys filled out by interviewers</i>                            | <i>Spanish</i>   | <i>Tendency to be optimistic</i>   | <i>Caribbean location, smaller local economy</i> | <i>Agriculture</i> | <i>End of recent year</i> | <i>International NGO</i>  | <i>Illiterate, tenant farmers</i>   |
| <b>Differences?</b>   | <i>Who is filling out the survey / layer of interaction involved</i> | <i>Translation issues not too major—both related language; differences in nuance</i> | <i>Evaluations likely to be more negative in French context than in Puerto Rican context</i> | <i>Ease of communication differences</i>         | <i>N/A</i>         | <i>N/A</i>                | <i>Local social workers vs. international expat aid workers; local leadership vs. international NGO programming</i> | <i>Difference in education and ownership of agricultural output and ability to benefit from different types of training</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

## Step B: Are the differences across contexts important?

Of course, contexts will differ. However, the crucial question is: Are the differences important? Here are a few areas in which you can evaluate whether the differences meaningfully affect:

- (1) **Measurement results:** How will each difference in Table 37 affect how measurement results turn out? Here the focus is on how the numbers and reports will turn out differently, based on contextual differences. For instance, one context may have a cultural bias for displaying humility when asked evaluative questions, and the other context may have a cultural bias for displaying confidence when asked evaluative questions. Thus, we would expect evaluative questions to be deflated in one context and inflated in the other. In the illustrative example in Table 37, note that the differences in optimism and thinking critically can strongly affect the evaluations respondents give.
- (2) **Social challenge causal models:** What is the reasoning behind your targeted social challenges? In other words, what cause→effect models are you relying on for your model of social challenges? (see Figure 19 and recommendation 1) How do the differences here affect the causal models that you are assuming?
- (3) **Effectiveness of impact initiative:** How does the effectiveness of the impact initiative differ across contexts? This may be based on observed evidence and experience, or on how you might anticipate them changing across contexts. In addition, evaluating the causal model for your impact initiative can also provide insight.

For each of these three aspects, refer to the differences between contexts that you identified in Step A. Then record how you anticipate those contextual difference affecting the causal models, measurement results, or effectiveness of impact initiative.

## Step C: Mitigate the differences

Finally, steps must be specified and undertaken in order to mitigate the important effects that differences between contexts may have on your causal models, measurement results, and the effectiveness of your impact initiative.

Refer to the differences identified in Step B that would lead to inconsistencies with the social challenge causal model, Measurement results, or effectiveness of impact initiative. Then, resolve upon mitigation steps. Mitigation steps typically include strategies toward: Reconciliation (reduce the differences), Adjustment (keep the differences, but adjust for differences in the data to standardize with a weight factor, for instance), or Retain (the differences are not consequential or problematic).

Hence concretely, you write an action plan for each difference that you want to correct. For instance, for the illustration in Table 37, you might consider Reconciliation of the differing survey administration techniques—e.g., have both sets of participants answer the questions through a survey conductor. Adjustment might work well where the critical and optimistic perspectives in the two contexts merit a sort of discounting answers affected strongly by the one context or the other.

## 3rd STAGE. IMPROVING THE ASSESSMENT

### Recommendation 5 - Constantly improve your impact assessment

*Rather than leave the many potential benefits of upgrading your impact assessment approach on the table, take impact measurement seriously. Seek and keep continuous impact assessment improvement.*

No well-run company would dream of making decisions without estimating their financial impact. Neither would they conduct business without keeping track of financial aspects. You should also measure your social impacts. Because in the long-run, they are often closely related. We recommend three steps to evaluate your impact assessment in order to ultimately work toward its improvement: (A) Take stock of current and retrospective impact assessment and (B) Check whether your impact assessment is avoiding the common measurement challenges detailed in Part 2.

### Step A: Take stock of current and retrospective impact assessment

Impact assessment needs to take place both currently (monitoring) and retrospectively (evaluation). Some evaluation is on collected data, other types of evaluation considers a larger, integrated picture of the progress on a particular social challenge. What follows are some current and retrospective evaluative questions to assess your impact measurement from a higher, strategic level. Score your organization on each of the following aspects, from very low (1) to very high (10), by following the question prompts in Table 38 (Social impact KPIs, Intentionality, and Impact effectiveness studies) and Table 39 (Impact auditing, social challenge and business unit-level reporting).

**Table 38: Current impact assessment checklist**

| Assessment aspect   | Status for your firm? |   |   |   |   |   |   |   |   |                  |
|---|-----------------------|---|---|---|---|---|---|---|---|------------------|
| <b>Current</b>  |                       |   |   |   |   |   |   |   |   |                  |
| <b>Social impact KPIs</b><br><br>How much monitoring do you use to track progress in real-time related to social impacts?   | 1                     | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10               |
|   | <b>Very Low</b>       |   |   |   |   |   |   |   |   | <b>Very High</b> |
|   | <b>Notes:</b>         |   |   |   |   |   |   |   |   |                  |
| <b>Intentionality</b><br><br>How clear are your goals and intentions for impact? Have you clearly agreed on why you are assessing impact?                                 | 1                     | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10               |
|   | <b>Very Low</b>       |   |   |   |   |   |   |   |   | <b>Very High</b> |
|   | <b>Notes:</b>         |   |   |   |   |   |   |   |   |                  |
| <b>Impact effectiveness studies</b><br><br>How much RCT testing and field observational studies have you done in order to probe the effectiveness of your impact efforts? | 1                     | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10               |
|   | <b>Very Low</b>       |   |   |   |   |   |   |   |   | <b>Very High</b> |
|   | <b>Notes:</b>         |   |   |   |   |   |   |   |   |                  |

Source: Society & Organizations (S&O) Center, HEC Paris

Table 38 offers some areas in which to monitor your impact assessment efforts. Each offers a different benefit. By asking about the use of KPIs, you can evaluate how well your real-time information collection is working. Explicit intentionality allows you to check whether you have made clear what your goals for impact assessment are. And finally, deeper impact effectiveness studies can substantiate whether your initiative or parts of your initiative are working.

Table 39 provides two additional areas to evaluate your impact assessment. Auditing allows for increased reliability and credibility of your assessment efforts. Retrospective evaluation of challenge-specific or organization-level assessment can help crystallize key learnings and connect to broader network of organizational efforts concentrated on your targeted social challenges.

**Table 39: Retrospective impact assessment checklist**

| Retrospective   |          |   |   |   |   |   |   |   |   |           |
|---|----------|---|---|---|---|---|---|---|---|-----------|
| <b>Impact auditing</b><br><br>How much do you use auditing to ensure the accuracy of your impact assessment, and that your impact measurement is capturing the important information?               | 1        | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10        |
|   | Very Low |   |   |   |   |   |   |   |   | Very High |
| Notes:  |          |   |   |   |   |   |   |   |   |           |
| <b>Challenge and business unit-level reporting</b><br><br>How consistent is your impact reporting in gathering together key learnings and progress reports for social challenges or business units? | 1        | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10        |
|   | Very Low |   |   |   |   |   |   |   |   | Very High |
| Notes:  |          |   |   |   |   |   |   |   |   |           |

Source: Society & Organizations (S&O) Center, HEC Paris

### Step B: Check whether your impact assessment is avoiding common measurement challenges

In the following section, we present a scorecard (Table 40) to evaluate how well performing your impact measurement is compared to the measurement challenges that we identified and presented in Part 2 of this report. By using the descriptions of a “low performing” compared to “high performing” level on each measurement challenge, fill in the score that represents where your organization is performing. In each category, 1 is the lowest, and 10 is the highest. Filling in this scorecard will help to identify the low performing areas of your impact measurement efforts, and also give a sense for your performance overall with respect to these common and costly impact measurement challenges.

In addition to identifying the score, take care to make notes on what led to your score. In the next column, “Getting to the next level”, identify either aspects that need to be fixed (especially if below high-performance category) or leveraged (strengths that can be used to benefit other areas of business or social impact). You can refer to the highlighted solutions presented in Part 2 for each challenge. After identifying the next steps for fixing or leveraging, decide on a timeline, one person who takes ownership of the execution, and one person who takes ownership of the follow-up. We present in Table 40 an illustration for the first measurement challenge.

Table 40: Impact measurement challenges scorecard

| Performance Scale and anchored descriptions                          |   |                                  |   | Your score?   | Getting to the next level:   |
|--|---|----------------------------------|---|---|--|
|  | 1<br>Low performing   | 5<br>Middle performing           | 10<br>High performing   |   | Fixing & Leveraging  |
| <b>Confusion: Failing to identify distinctions in impact</b>         | Impact chain is unmapped  |                                  | Impact value chain is both mapped and used for evaluation and analysis  | Score: <b>7</b><br><br>Notes: <i>We have mapped our impact value chain, but only rarely use it for analysis</i> | Next Steps: <i>Incorporate the impact value chain into our regular strategy planning</i><br><br>Timeline: <i>Before next quarterly meeting</i><br><br>Ownership: <i>William, reporting to me</i> |
| <b>Inconsistency: Unreliability of Measurement</b>                   | Measurements taken at different times or by different measurers are not consistent              |                                  | Measurements taken at different times or by different measurers are consistent  | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Misunderstanding: Causal validity errors</b>                      | Causal model is unmapped  |                                  | Causal model is mapped and supported by evidence  | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Blindness: Hidden factor correlation</b>                          | No rigorous causal evidence of social challenge or impact model has been collected              |                                  | Plenty rigorous causal evidence of social challenge and impact model has been collected                                     | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Over-simplification: Ignoring multi-determination</b>             | Impact effort is single-dimensional; evaluation of social challenge is only aware of one factor |                                  | Impact effort is multi-dimensional; evaluation of social challenge is aware of multiple factors (but appropriately focused) | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Partiality: Failing to capture both upside and downside risks</b> | Only positive benefits of CSR are touted, or only the ESG risks are feared                      |                                  | Both positive CSR and negative ESG risk reduction measures are taken  | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Over-assuming: Lack of generalizability</b>                       | Assessments of impact are applied across contexts without adjustment                            |                                  | Assessments of impact are applied across contexts with appropriate adjustment   | Score:<br><br>Notes:  | Next Steps:<br><br>Timeline:<br><br>Ownership:   |
| <b>Sum of Scores:</b>  | 0-21<br><br>(Low performing)  | 22-49<br><br>(Middle performing) | 50-70<br><br>(High performing)  | <b>Your total score:</b>  | <b>Overall ownership, coordination of next steps:</b>  |

Source: Society & Organizations [S&O] Center, HEC Paris

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As in the filled-in example for the challenge of “Confusion” in Table 40, using the scale guide you pick a number, and add some notes to explain how you chose the number. For next steps, select specific remedial action(s), then a deadline, and finally a line of accountability from who is doing the job to who that person is reporting to. After performing the same process for each of the rows, add all of the scores together and assign an overall manager of accountability for the next steps. Then you can continuously monitor and improve your impact assessment by facing and overcoming the different measurement challenges.

## Recommendation 6 - Map & engage the impact value chain

*Rather than overlook the distinctions between different parts of the impact value chain, actively map and engage the impact value chain for troubleshooting problems as well as building up strategic vision.*

Mapping and engaging the value chain allows both troubleshooting and innovation. Complete the following steps to apply the impact value chain to your social impact efforts: (A) Ask troubleshooting questions to identify potential upgrades and improvements (Table 41), (B) Ask generative questions to identify new opportunities (Table 42), and (C) Identify the potential financial contributions and benefits throughout the chain (Table 43).

**Step A: Asking troubleshooting questions allows for identifying opportunities for continuous improvement and upgrading.**

**Table 41: Impact value chain: troubleshooting analysis**

|   | Inputs   | Activities   | Outputs   | Outcomes  | Impacts  |
|---|--|--|---|---|--|
| Basic value chain mapping:  |  |  |   |   |  |
| <i>Early childhood nutrition program</i>                          | <i>Provide company resources (funding, training, volunteers, and supplies)</i> | <i>Train parents and caretakers on proper nutrition, and provide supplies for kids to be cared for</i> | <i>People trained, supplies provided; Caretakers and children trained in healthy habits; supplies provided to increase proper nutrition</i> | <i>Persistent, better nutrition habits adhered to by children and caretakers</i>  | <i>Healthier children</i>  |
| <b>Troubleshooting Questions:</b>                                 |  |  |   |   |  |
| Where are our breakdowns / gaps / bottlenecks occurring?          | <i>Shortage of volunteers at the community and company level</i>               | <i>Healthy foods not always compatible with existing, local diets</i>                                  |   | <i>Habits only kept when given supplies directly</i>                              |  |
| Which links between value chain parts are not working?            |  | <i>Trainings being delivered, but not by locally knowledgeable volunteers</i>                          | <i>Training not leading to habit change</i>   |   | <i>Healthy habits not persistent enough to increase long term health</i>                             |
| Where do we have poor measurements (unreliable, unclear, absent)? |  | <i>We don't know if the trainings are actually being well-received or understood by beneficiaries</i>  |   | <i>How can we measure habit change for something done outside our facilities?</i> | <i>We are not measuring children adequately at the beginning of the program to track improvement</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

Troubleshooting questions help to identify where problems might occur in your impact value chain. These help to facilitate continuous improvement by identifying bottlenecks, measurement problems, and connection problems between multiple parts of a chain. Subsequent steps, by contrast, are related to asking generative questions that allow you to identify potential growth opportunities. Step B focuses more on impact-related opportunities, while Step C focuses attention on financial resourcing and leveraging.

### Step B: Asking generative questions allows for identifying opportunities for growth and innovation.

Asking generative questions focused on brand new opportunities increases the likelihood that you will be able to identify potential innovations. As for the troubleshooting question impact value chain analysis, ask the question for each link in the value chain. Identify what each link really means for your organization. Then consider how the question applies to each link.

**Table 42: Impact value chain: generative questions**

| Generative Questions:  | Inputs  | Activities   | Outputs  | Outcomes  | Impacts                   |
|--|---|--|--|---|---------------------------|
| If we wanted to strengthen the downstream link (the "result") of each part of the chain, what would we do?       | <i>Increase local volunteers to make the training more customized and relevant</i>    | <i>Include local supplies not from our donations in the training so that caretakers can utilize existing resources</i> |  | <i>Improve hygiene to improve health</i>  | <i>Proper measurement</i> |
| Holding the rest of the chain constant, what different possibilities are there for changing just the focal link? | <i>Partner with a water supplier to increase the purity of the local water supply</i> | <i>Add exercise activity training</i>  | <i>Involve beneficiaries in training other beneficiaries</i> | <i>Partner with local medical care workers to incorporate childhood nutrition into caretaker and children check-ups</i> | <i>Proper measurement</i> |

Source: Society & Organizations (S&O) Center, HEC Paris

**Step C: Identify the potential financial contributions and benefits throughout the chain.**

Consider also the financial needs and gains from your initiatives to help you assess where your action could be the most beneficial and/or with the highest return on impact.

**Table 43: Impact value chain: generative questions**

| Generative Questions:   | Inputs   | Activities   | Outputs  | Outcomes  | Impacts  |
|---|--|--|--|---|--|
| If we had a large investment to make in each section, what would we do with it?                       | <i>Give beneficiaries larger stockpile of nutrition supplies</i> | <i>Support local school efforts and sponsor school lunch nutrition enhancement</i> |  |   | <i>Increase childhood nutrition, education, and other aspects related to quality-of-life</i> |
| If we wanted to reap financial benefits from successes in each part of the chain, how would we do it? | <i>Leverage NGO or government cost-sharing of program</i>        | <i>Increase employee capabilities and engagement through involvement</i>           | <i>Develop and include versions of our products that support program goals and could be affordably purchased subsequently by beneficiaries</i> | <i>Improve stakeholder relations by publicizing positive benefits generated</i> |  |

Source: Society & Organizations (S&O) Center, HEC Paris

Ensure that you consider each part of the Impact Value Chain through the lens of the questions. These tools can be utilized at specific junctures—in periodic reporting or major project events, for instance—or on an as-needed basis. They help funnel generative questions towards tangible aspects of your social impact efforts, and may help to unveil otherwise invisible problems and opportunities.

## Recommendation 7 - Do not over-rely on quantitative metrics

*Rather than becoming too data-driven too soon by relying heavily on limited quantitative data, make room for collecting qualitative feedbacks from your teams and beneficiaries.*

Follow three steps to avoid the risk of pre-mature data fixation, we suggest you: (A) Make room for incorporating unforeseen metrics encountered in on-the-ground experience, (B) Also collect qualitative information, and (C) Allow for subjective ratings that integrate holistic picture including non-quantified information.

### Step A: Make room for developing future metrics through on-the-ground experience.

After designing impact tracking, leave room to ask explicitly for the parameters that are important to impact assessment, but have not been anticipated by those that designed the tool. When designing the impact measurement metrics, it is important to keep track of relevant metrics that the tool itself did not anticipate for the particular context or usage case. Ensure that your impact measurement approach reserves a place for later adding as-yet unforeseen metrics (Table 44).

**Table 44: Incorporating unforeseen factors into assessment**

| Assessment aspect   | Status for your firm? |   |   |   |   |   |   |   |   |    |           |
|---|-----------------------|---|---|---|---|---|---|---|---|----|-----------|
| <b>Current</b>  |                       |   |   |   |   |   |   |   |   |    |           |
| <p><b>Allow room to incorporate unforeseen factors into impact evaluation</b></p> <p>Rather than exclusively rely on what you foresaw, make sure to explicitly elicit and incorporate other elements in your impact measurement.</p> <p>Do you prompt evaluators to include other metrics in the tool that are not already included? Is there a way to include unforeseen indicators in the measurement tool?</p> | 1                     | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |           |
|   | Very Low              |   |   |   |   |   |   |   |   |    | Very High |
|   | <b>Notes:</b>         |   |   |   |   |   |   |   |   |    |           |

Source: Society & Organizations (S&O) Center, HEC Paris

## Step B: Also collect qualitative information

Another way to avoid unwarranted metric fixation is by leaving room in the assessment to gather qualitative data, that does not fit your predefined frames of evaluation.

By using open-ended questions that elicit responses outside your frames, you avoid missing potentially vital information. Qualitative information collecting can be as simple as an “additional comments” box for those reporting data or for respondents to surveys.

**Table 45: Qualitative information collecting assessment**

|   |  |   |   |   |   |   |   |   |                  |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |
|---|--|---|---|---|---|---|---|---|------------------|---|----|-----------------|--|--|--|--|--|--|--|--|------------------|---------------|--|--|--|--|--|--|--|--|--|
| Assessment aspect   | Status for your firm?  |   |   |   |   |   |   |   |                  |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |
| <b>Current</b>  |  |   |   |   |   |   |   |   |                  |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |
| <p><b>Qualitative information collecting</b></p> <p>In addition to quantitative metrics, do you also collect qualitative data as part of your impact assessment, such as open-ended survey responses, semi-structured interviewing, or ethnographic observations?</p> | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;">1</td> <td style="width: 10%; text-align: center;">2</td> <td style="width: 10%; text-align: center;">3</td> <td style="width: 10%; text-align: center;">4</td> <td style="width: 10%; text-align: center;">5</td> <td style="width: 10%; text-align: center;">6</td> <td style="width: 10%; text-align: center;">7</td> <td style="width: 10%; text-align: center;">8</td> <td style="width: 10%; text-align: center;">9</td> <td style="width: 10%; text-align: center;">10</td> </tr> <tr> <td style="text-align: center;"><b>Very Low</b></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><b>Very High</b></td> </tr> <tr> <td colspan="10" style="padding: 5px;"><b>Notes:</b></td> </tr> </table> | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8                | 9 | 10 | <b>Very Low</b> |  |  |  |  |  |  |  |  | <b>Very High</b> | <b>Notes:</b> |  |  |  |  |  |  |  |  |  |
| 1   | 2  | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10               |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |
| <b>Very Low</b>   |  |   |   |   |   |   |   |   | <b>Very High</b> |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |
| <b>Notes:</b>   |  |   |   |   |   |   |   |   |                  |   |    |                 |  |  |  |  |  |  |  |  |                  |               |  |  |  |  |  |  |  |  |  |

Source: Society & Organizations (S&O) Center, HEC Paris

## Step C: Allow for subjective ratings for integrated situational view, including non-quantified information

Numerical, “objective” data have many advantages. However, subjective ratings—especially bolstered by strong auditing—can fill in where integrative assessment is important and cannot be accomplished by simple addition of numerical data. A primary example is the project evaluation system used by the World Bank.

The World Bank rates many of their projects using a subjective rating that is grounded in an integrative assessment of a lot of qualitative and quantitative information. In this way, they are able to synthesize a lot of information into an overall, easy-to-understand metric. The World Bank provides guidance in a codebook on how to use the different ratings (on a scale from highly satisfactory to highly unsatisfactory).

Then these subjective ratings are produced, along with supporting evidence and data, for four different aspects: Outcome, Risk to development outcome, World Bank performance, and Borrower performance. These correspond to impact, long-term stability of impact, your performance, and your partner’s performance.

Finally, the subjective ratings are assessed by two or three different stages. The first evaluation is conducted on the ground by the project managers. Next, an evaluation is conducted using the same data, by a centralized internal auditing group. Finally, a third (optional) review is conducted if the project has been flagged for extra review or if the discrepancy is large between the project and central review.

The following selection from the World Bank Independent Evaluation Group codebook (Table 46) shows the guidelines for assessing Outcomes, using an integrative, subjective scale [48].

**Table 46: World Bank Group subjective scale ratings**

**Outcome rating**

Definition: *the extent to which the operation’s major relevant objectives were achieved, or are expected to be achieved, efficiently.* The project outcome rating is thus a composite rating based on three separate criteria - the relevance of the project’s objectives and design, achievement of the objectives (efficacy), and efficiency.

Variable: IEG\_Outcome

Type: Alpha string

Rating Scale:

|                                  |  |
|----------------------------------|--|
| <i>Highly Satisfactory</i>       | There were <b>no</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance.          |
| <i>Satisfactory</i>              | There were <b>minor</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance.       |
| <i>Moderately Satisfactory</i>   | There were <b>moderate</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance.    |
| <i>Moderately Unsatisfactory</i> | There were <b>significant</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance. |
| <i>Unsatisfactory</i>            | There were <b>major</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance.       |
| <i>Highly Unsatisfactory</i>     | There were <b>severe</b> shortcomings in the operation’s achievement of its objectives, in its efficiency, or in its relevance.      |

In the rare instances where lack of sufficient information or other circumstances make it impossible to assign one of the above ratings, “Not-rated” is assigned.

Source: World Bank Independent Evaluation Group, “Project Performance Ratings Codebook”

## 4th STAGE. STRATEGIC USE OF SOCIAL INITIATIVES

### Recommendation 8 - Do not focus exclusively on either benefits or risks

*Rather than focusing only on positive or negative aspects that your initiative addresses, pay attention both to benefits and risks*

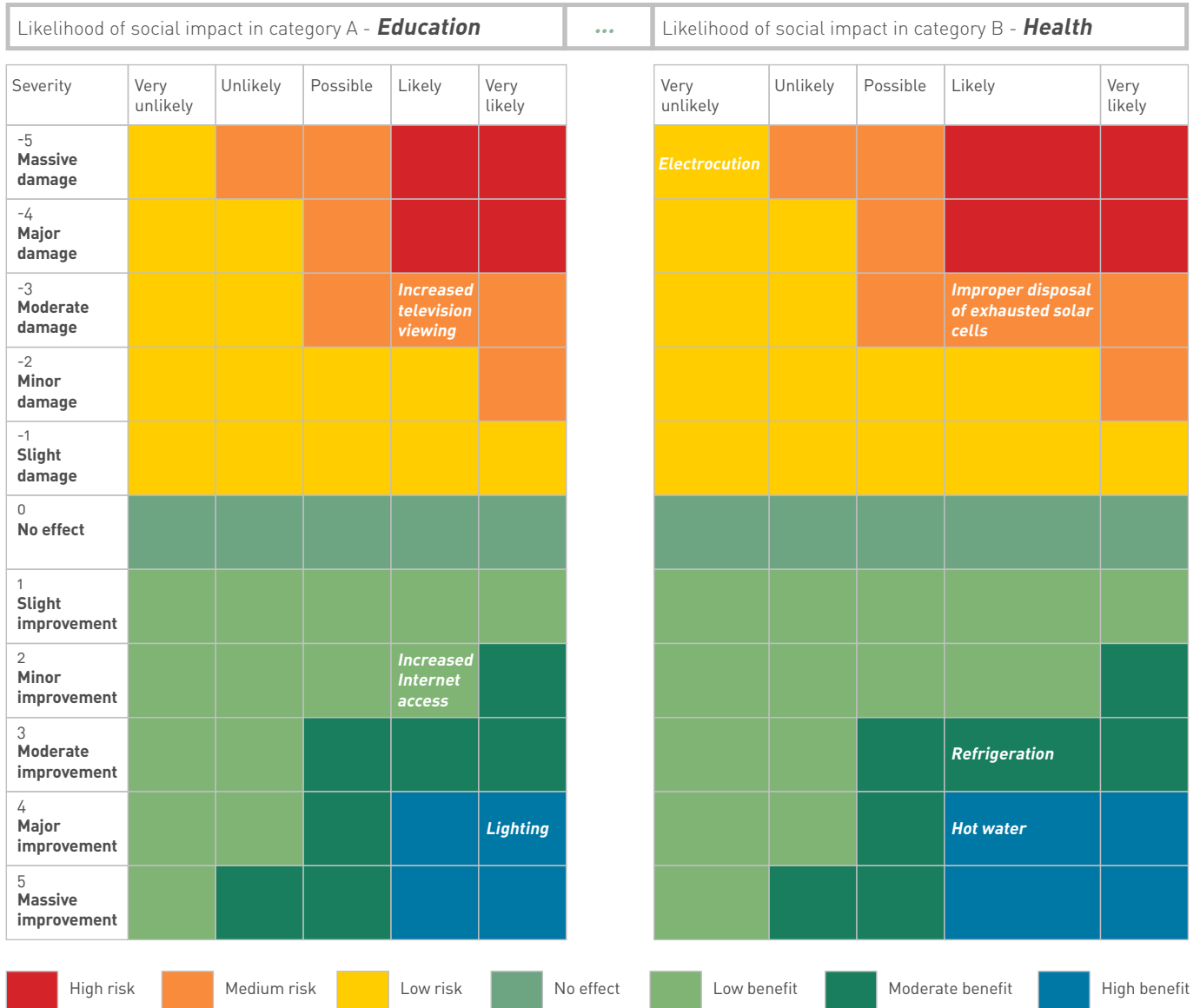
Some organizations place primary emphasis on the legal or financial exposure to risks related to ESG (Environment, Social, Governance) factors. Others place more emphasis on the reputational benefits of philanthropic or CSR (Corporate Social Responsibility) initiatives. Yet if you only focus on risk management such as framed by ESG factors or generating benefits such as through CSR reputational effects, then you will miss out on the full amount of leverage behind paying attention to social impacts. We recommend the following steps to capture a well-rounded picture of your initiatives for both the benefits they generate and the risks they create or mitigate: (A) Forecast both the benefits and risks related to your initiatives in different areas, (B) Determine which risks you can minimize/turn to benefits and which benefits you can amplify, and (C) Map impact from the focal project in the context of your other projects.

### Step A: Forecast both the benefits and risks related to your initiatives in different areas

In each area of health, education, employment, and community development, assess the level of damage/improvement your business activities/impact efforts are potentially making. Then, predict the likelihood of those damages and improvements.

Mapping your risks and benefits in different areas will enable you to assess your risks and benefits comprehensively. In Figure 47, you can plot the size of the effect and the likelihood of the effect occurring for two different impact areas. A thorough analysis would include a variety of areas.

Figure 47. Social risks and benefits check sheet



Source: Society & Organizations (S&O) Center, HEC Paris

### Example: Solar Power Generators

Suppose you are providing solar power generators to an area short of electricity. For this project, you can estimate risks/benefits in health and education. (1) Having electricity will bring minor improvement in health of the benefited by providing them a safer living environment through increased access to food refrigeration, and the likelihood of the benefit occurring is quite possible. Then, you write down "refrigeration" in a cell where the column "3: moderate improvement" and the column "likely" meet, which falls into "moderate benefit" category. Electricity may also allow for increased hygiene if used for heating water. At the same time, there is the risk of electrocution for children unaccustomed to household electrical use, though this is highly unlikely. You may estimate that in this context the more likely but less extreme risk is that improper disposal of exhausted

solar cells contaminates the local environment in the future. Each of these are filled in the corresponding cells related to their effects and likelihood. (2) Having electricity is likely to improve education moderately by providing lighting. You write down "lighting" in a cell where the column "4: major improvement" and the column "likely" meet, which falls into "high benefit" category. Electrical access could also possibly improve Internet access, which may lead to increased ability to access educational material or information (though plenty of less educational material will also become more readily accessible as well). Downside risks related to educational outcomes are that electrical access renders television more likely, which often leads to moderately lower educational outcomes.

### **Step B: Determine which risks you can minimize/turn to benefits and which benefits you can amplify**

Based on the check sheet you made, identify the areas you can improve on and plan how to do so. For example, if you decide to amplify your community development benefits, you can create activities and/or hire a community program manager to increase the benefit from electricity toward community development.

### **Step C: Map impact from the focal project in the context of your other projects**

As you consider the different impact areas for each initiative, also take a comprehensive look at your various initiatives together. In the example, your initiative contributes to health and education. If these are the areas that you want to specialize in or invest more resources, then your performance may be on track. You will not be able to make this judgment until you have evaluated your initiatives from multiple angles and considered how they match up against the intended benefits that you seek to create.

## Recommendation 9 - Search for & extend the benefits

*Rather than only assuming that some business benefit is probably occurring, actively measure the business benefits from impact efforts. In measuring your business benefit, be flexible about the payoff horizon. Business benefit takes time to accumulate.*

To capture the business benefits appropriately, it will be useful to systematically diagnose implications of your impact efforts to the business. We suggest steps you can follow to identify, predict, and quantify different benefits occurring both immediately and in longer term: (A) Categorize potential benefits, (B) Quantify those benefits, and (C) Forecast the residual value.

In quantifying benefits, look beyond immediate results and forecast cumulative values. Some benefits have longer life spans than others. We suggest you forecast the residual value of benefits for a longer term (see Table 48). The example below includes forecasts in 1 year, 2 years, and 3 years, but the time period should be adjusted based on the nature and goals of your project.

### Step A: Categorize potential benefits.

In addition to helping the beneficiary, your impact effort potentially helps your business. We list different categories in the table below to help you identify where potential benefits are likely to derive from: marketing, “negative event insurance” (e.g., reputation scandal, legal battle, or regulation), footprint expansion, and capability building. Within each of these, we have suggested sub-categories, but these are not exhaustive. Look for different benefits specific to your business that may also accrue.

### Step B: Quantify the benefits.

For each category of business benefits, estimate its financial value. In the second column, we have provided outlines for some equations that can be used to calculate amounts (Table 48). You may adapt and fill in these equations with figures from your own initiatives, industry averages, or research studies, where available.

### Step C: Forecast residual value.

To extend the benefits from impact effort and fully grasp the potential benefits, forecast residual value of benefits in the extended period of time. Many benefits from increased social impacts accrue to businesses over the long-term, so do not neglect to include estimates for these as well.

**Table 48: Categorize, quantify, and forecast financial benefits of social impact**

| Benefit category  | Value  |
|---|--|
| <p><b>Marketing</b></p> <p>Free media exposure:<br/>Positive image building:<br/>Social media attention:</p>  | <p><b>Estimated saving of marketing expense (€ / \$):</b><br/>Initial value (Y1): .....Mid-term value (Y2 – Y3):</p>   |
| <p><b>Reputational, legal, regulatory “negative event insurance”</b></p> <p>Reduced damage to brand by bad news:<br/>Reduced risk of lawsuit:<br/>Reduced risk of levels of required punitive or damages to plaintiffs:<br/>Reduced risk of regulatory penalties:</p> | <p><b>Estimated savings = Cost of bad outcome * (risk probability level – reduction in risk probability level)</b><br/>Initial value (Y1): .....Mid-term value (Y2 – Y3):</p>  |
| <p><b>Footprint expansion</b></p> <p>Reaching new customer segments:<br/>New alliance/partnership development:<br/>License to operate in new markets:</p>   | <p><b>Estimated market size, revenue created (€ / \$):</b><br/>Initial value (Y1): .....Mid-term value (Y2 – Y3):</p> <p><b>Estimated benefits from alliance/partnership (€ / \$):</b><br/>Initial value (Y1): .....Mid-term value (Y2 – Y3):</p>          |
| <p><b>Capability building</b></p> <p>New knowledge:<br/>Employee development &amp; retention:</p>   | <p><b>Estimated savings of R&amp;D expense (€ / \$):</b><br/>Initial value (Y1): .....Mid-term value (Y2 – Y3):</p> <p><b>Estimated savings of training and recruitment expense (€ / \$):</b><br/>Initial value (Y1): : .....Mid-term value (Y2 – Y3):</p> |

Source: Society & Organizations (S&O) Center, HEC Paris

## Recommendation 10 - Leverage goodwill for increased business and social impact

*Rather than keep secret or hide your impact initiatives, make sure that the right audiences know about your contributions.*

Increasing the business benefits of your impact initiatives can both help your business and your initiatives. To maximize your business benefits, we suggest two steps: (A) Make known your organization's social impact internally and (B) Make your organization's social impact known externally.

### Step A: Make known your organization's social impact internally

In many cases, impact efforts are driven by a small number of people in charge, although the implications and the benefits from the efforts are potentially for everyone. Often, much of the organization may remain unaware of the positive social impact initiatives being pursued throughout your organization. This can become a missed opportunity to improve relationships with various internal stakeholders—especially employees—that are vital to the success of your business. Employees and potential employees often give more effort and value to companies that they trust are operating for the benefit of others. Social initiatives may be an effective way of increasing this trust and the extra value that employees can decide to give.

Communicate about your social initiatives actively with different departments and business units. By soliciting their active involvement in these initiatives, you also may develop ways to increase potential marketing benefits, “negative event insurance”, footprint expansion, and capability building.

### Step B: Make your organization's social impact known externally

By coordinating and communicating impact efforts with external organizations or stakeholders effectively, you multiply your impact and business benefits. Here are two examples of actions that diffuse your impact to external parties:

#### 1) Partnering for credibility

Discover the value of partnership. Collaborating with organizations (often nonprofit organizations) specialized in the sector you are contributing to will make your contribution not only more effective, but also more public. Nonprofit organizations often bring experience, perspective, and even reputation that you can leverage for social and business benefits in your social initiatives.

#### 2) Visibility through serving with core competence

In-kind donations of goods or services related to your business are more easily recognized and remembered than cash donations or donations of unrelated goods or services. It also allows you to provide social impacts related directly to your core areas of expertise and capability.

After all of the work on increasing your effectiveness by using assessment to monitor the social impact of your initiatives, do not neglect sharing them with important stakeholders. Much of what you learn through impact assessment can help solve yours and others' problems in dealing with social challenges. The very fact that you are engaging in social initiatives can already help to improve stakeholder relations with both your internal and external stakeholders.



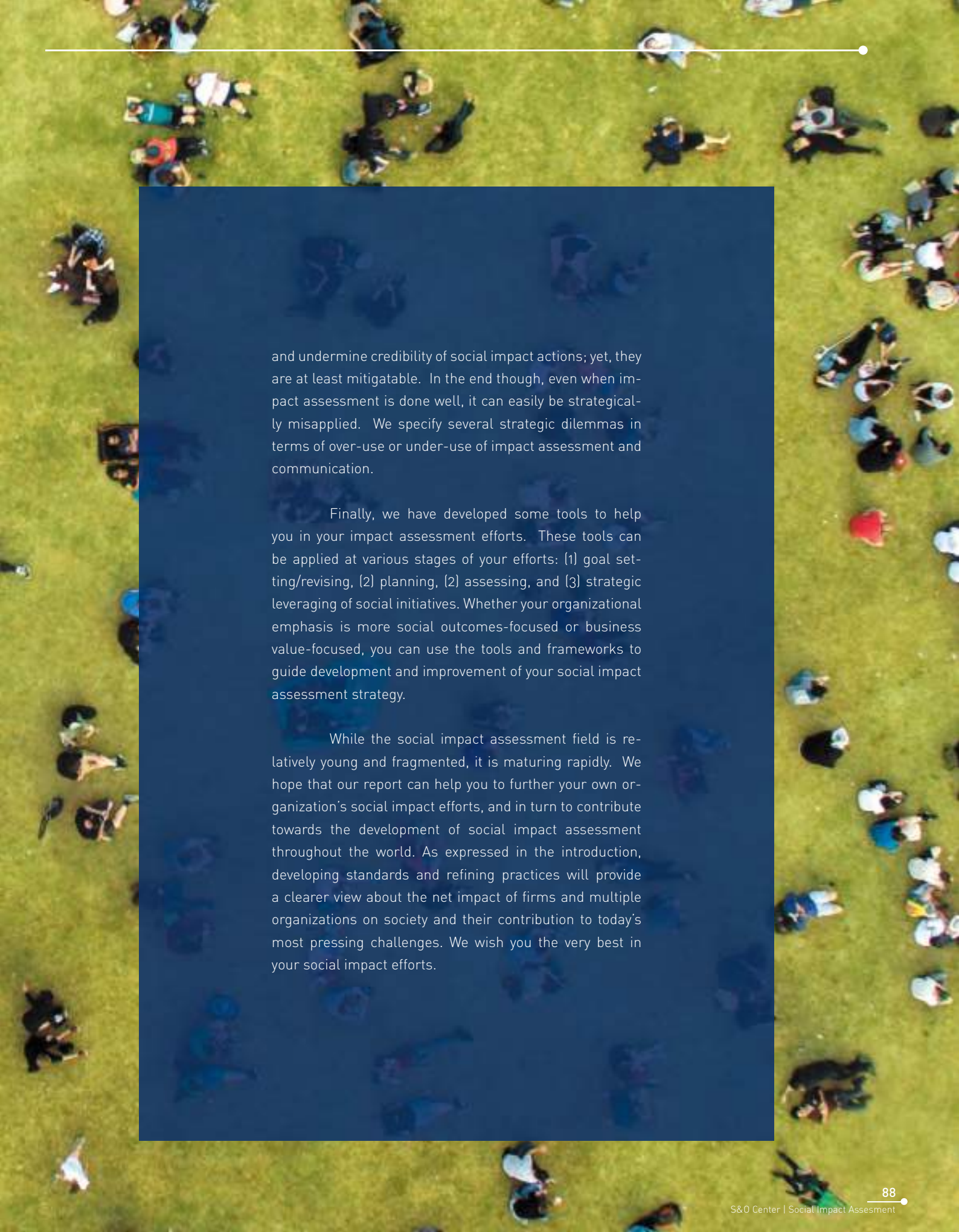
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## CONCLUSION

Our hope at the HEC Paris Society & Organizations Center is that this report can help to crystallize and further some of the thinking in the field on social impact assessment. We expect its content will assist the social impact assessment efforts of practitioners and serve as a useful resource for teachers and trainers in the field.

This report offers a broad view of the social impact assessment landscape. By developing a sense of this landscape, you can better evaluate both the social impact efforts that your organization and organizational partners undertake. Being aware of the various actors, you may begin to see why “best practices” are not usually universal across different categories of social impact evaluators. Each category of organizations has the opportunity to learn from the relative strengths and weaknesses of alternative approaches. Your general awareness of the variety in impact assessment can help you to better communicate your impact efforts as well as to understand others’ impact efforts and reports.

We have also portrayed many of the obstacles to impact assessment. As you become aware of these, you can hone your organization’s social impact assessment and interpretation of other organizations’ impact reporting. Some challenges are unavoidable, which we have illustrated by contrasting social impact assessment in contrast to financial measurement. Measurement challenges are common



and undermine credibility of social impact actions; yet, they are at least mitigatable. In the end though, even when impact assessment is done well, it can easily be strategically misapplied. We specify several strategic dilemmas in terms of over-use or under-use of impact assessment and communication.

Finally, we have developed some tools to help you in your impact assessment efforts. These tools can be applied at various stages of your efforts: (1) goal setting/revising, (2) planning, (2) assessing, and (3) strategic leveraging of social initiatives. Whether your organizational emphasis is more social outcomes-focused or business value-focused, you can use the tools and frameworks to guide development and improvement of your social impact assessment strategy.

While the social impact assessment field is relatively young and fragmented, it is maturing rapidly. We hope that our report can help you to further your own organization's social impact efforts, and in turn to contribute towards the development of social impact assessment throughout the world. As expressed in the introduction, developing standards and refining practices will provide a clearer view about the net impact of firms and multiple organizations on society and their contribution to today's most pressing challenges. We wish you the very best in your social impact efforts.

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