
By Ericka Costa and Caterina Pesci

As the social enterprise sector grows in scale and importance, so does the urgency of effectively measuring the impact these organizations have on society. Current methods used by social enterprises and firms to measure their impact often sideline the views of stakeholders such as investors, employees, and beneficiaries. This Giving Thoughts article proposes a transparent, five-step “multi-constituency” approach which places stakeholders at the heart of impact measurement decision-making.

Measuring Social Enterprise Impact: The Debate

Social enterprises—organizations or initiatives that marry the social mission of a nonprofit with or government program with the market-driven approach of a business—are a rapidly growing movement in the United States and emerging factor in the global economy. This growth has been accompanied by increased scrutiny by public and private investors, taxpayers and other stakeholders. In pursuit of greater transparency and accountability, both academics and social enterprise practitioners are exploring ways to better measure and disclose these organizations’ use of resources and funds, and their social impact.

The debate is being driven both by funders’ need to know whether their investment is making a difference in solving societal problems and social enterprise leaders’ desire to gather better information on the outcomes and impacts of their activities, amid increasing competition for funds.

Two broad approaches to measuring social impact have emerged from this ongoing debate:

- Defining “standardized-universal” measurement units that facilitate comparisons between organizations and over time
- Developing specific metrics that tailor social impact measurements to their stakeholders’ needs.

Both approaches may lead to measurement dilemmas, since the concept of impact as the long-term results of an organization’s activity in terms of economic, environmental and societal change is not easily quantifiable. Critics of efforts focused on finding a standardized quantitative metric, such as Social Return on Investment (SROI) point out that this approach attributes financial value to social outcomes that often cannot be expressed in monetary terms. Critics of efforts to conduct a more detailed impact assessment focused on outcomes for specific stakeholders, such as beneficiaries, may criticize those efforts’ subjectivity.

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1 “What Is A Social Enterprise?” Social Enterprise Alliance, [https://socialenterprise.us/about/social-enterprise/](https://socialenterprise.us/about/social-enterprise/).
Standardized-Universal Metrics

Investors are the key constituency behind the efforts to develop standard metrics for social impact that can be applied across sectors and organizations. From an investor perspective, comparability and consistency in how social enterprises measure their impact make it easier to identify and financially support the activity capable of generating the highest social impact.\(^5\) As a result, forums such as the G8 Social Impact Investment Task force have recommended “a standardised impact measurement and reporting system that enhances the availability of material, reliable, comparable, ‘additional’ and universal impact data.”\(^6\) While investors favor standardized approaches, challenges include the diversity of sectors in which social enterprises operate, including finance, agriculture, health and social services, and the need to develop a framework and metric that is as simple as possible to avoid overburdening social enterprises.\(^7\) In addition, academics and practitioners are questioning the helpfulness of traditional performance measurement models suitable for for-profit companies (such as profit margin, return on assets, return on equity) in quantifying the impact of social enterprises.\(^8\)

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Figure 1 below illustrates standardized academic and practitioner approaches to social impact measurement by social enterprises. Adapted from the G8 Impact Measurement Working Group’s 2014 formula, the only step where this process involves stakeholders is in asking for their feedback during review of the chosen metrics.

<table>
<thead>
<tr>
<th>Plan</th>
<th>Set Goals: Establish a clear investment thesis to form the basis of strategic planning and ongoing decision making and to serve as a reference point for investment performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Develop Framework and Select Metrics: Develop an effective impact measurement framework; utilize metrics that align with existing standards</td>
</tr>
<tr>
<td>Do</td>
<td>Collect and Store Data: Capture and store data in a timely and organized fashion and ensure that information technology, and methods used to obtain and track data function properly.</td>
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<tr>
<td></td>
<td>Validate Data: Validate data to ensure that impact data is complete and transparent by cross-checking calculations and assumptions against known data sources.</td>
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<tr>
<td>Assess</td>
<td>Analyze Data: Review and analyze data to understand how investments are progressing against impact goals.</td>
</tr>
<tr>
<td>Review</td>
<td>Report Data: Share progress with key stakeholders. Distribute impact data coherently, credibly and reliably to effectively inform decisions by all stakeholders.</td>
</tr>
<tr>
<td></td>
<td>Make Data-Driven Investment Management Decisions: Assess stakeholder feedback on reported data and address recommendations to make changes to the investment thesis.</td>
</tr>
</tbody>
</table>

* Phases involving stakeholders are shown in grey

Source: Costa and Pesci, 2016
Targeted Metrics

A plethora of methodologies and metrics also exist to support social enterprise decision-making and accountability to their stakeholders by focusing on the specific contexts in which they operate. However, these approaches lack a conceptual basis, and pose the risk that organizations may opportunistically select social impact measurements that demonstrate higher levels of impact. The lack of conceptualization governing social impact measurement can result in social enterprises camouflaging unsustainable programs. In the current fragmented environment, social enterprises are able to select the social impact metric that best demonstrates that they are high-impact and valuable organizations.

Investors and some institutions argue that developing standardized measures will overcome this problem. However, the prospect of developing a “gold standard” capable of universally capturing the social impact of all social enterprises, across very different sectors, is unrealistic. Instead, there is an urgent need for a theoretical conceptualization to underpin a more robust multi-stakeholder approach to impact measurement.

This article argues against the gold standard approach, encapsulated by the G8 Social Impact Investment Task Force, as unfeasible, and in favor of the multiple-constituency approach. Under this organizational theory, the effectiveness of an organization is not considered an objective reality but a social construction that depends on the viewpoints of its various stakeholders. While some existing metrics and methodologies used by social enterprises already incorporate stakeholders’ perspectives into their processes, the multiple-constituency theory can be used as an overall guiding framework to select impact metrics.

Applied to the notion of social impact and its measurement, this new perspective:

- Offers a framework of analysis for considering stakeholder needs
- Operatively supports practitioners and academics in proposing coherent social impact measurements that meet the different informational needs of a social enterprise’s constituents, through a five-step multiple-stakeholder approach.

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Multiple Constituency Theory Explained

Social enterprises are “double bottom line” organizations: their primary objective is anchored to the creation of social value, while their secondary objective is the creation of economic wealth in order to enable them to self-maintain over time. This mission focused on the public good does not mean that social enterprises are not required to undertake strategies to guarantee economic and financial efficiency. On the contrary, they must constantly create economic value in order to guarantee their survival over time and to make further investments in activities that create social impact. However, because social enterprises are social value oriented, traditional economic and financial indicators (such as return on assets, return on equity, and market share) are meaningless in evaluating their performance. Broader, multiple accountability mechanisms are required.

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Multiple-constituency—or multiple-stakeholder—theory can fill this need. The theory stems from the approach to performance measurement, which views organizations as networks of stakeholders who compete to influence the criteria for organizational effectiveness.\(^\text{14}\) This approach argues that effective assessment of an organization depends upon taking into account the preferences of multiple constituencies/stakeholders for desired performance outcomes.

Within a social enterprise context, different constituencies require different kinds of effectiveness measures for different types of decisions or needs. For example, donors seek to understand whether (and how) the money they invest in a social enterprise is properly spent. They are therefore interested in calculating effectiveness measures that demonstrate that funds have been applied the way donors intended. Other stakeholders, such as social enterprise management, may prefer measures of organizational effectiveness related to guiding managerial decisions.

In the same way that multiple-constituency theory is used as a reference point to evaluate organizational effectiveness performance, it should be adopted by social enterprises in all sectors to measure their social impact on society.

To apply the theory effectively to measure whether a social impact organization is meeting stakeholders’ needs, these stakeholders must express their informational needs and propose the most appropriate metrics for measuring them (Sandownik, 2013).\(^\text{15}\) Multiple-constituency theory provides a means to distinguish between different stakeholders’ specific needs, rather than balancing the interests of each group in a universal standard. How this works in practice is shown below.

### A Five-Step Approach to Elevating Stakeholder Engagement in Social Impact Measurement

Social enterprises operate in complex environments with a wide and varied range of stakeholders—often including employees, public investors, donors, volunteers, customers, suppliers, beneficiaries and local communities. To operate effectively and transparently, they need to engage in deliberative dialogue with these stakeholders, including on the critical question of how they measure the social impacts defined by their mission.

Multiple-constituency theory supports social impact measurement processes in a social enterprise context, in which every stakeholder can influence the view of the organization’s social impact. Figure 2 summarizes how social enterprises can translate this theory into a five-step process. In place of the common approach characterized in Figure 1, which considers stakeholders late in the process, the model below begins with identifying stakeholders and their varied interests and considers their viewpoints throughout the development and implementation of impact metrics.

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Step 1: Identifying stakeholders
The multi-constituency approach begins with social enterprises mapping every stakeholder organization or group that affects, or is affected by, the social enterprise’s operations, and identifying the connections between them. This involves two main challenges. First, social enterprise leaders must shift their perspective to viewing their organization as the coordinator of multiple stakeholder groups. Second, it’s important to identify stakeholders that fall into several categories, such as beneficiary and local community.

Step 2: Categorizing stakeholders correctly
After identifying stakeholders, the social enterprise should divide these groups into primary and secondary categories, depending on the power, urgency and legitimacy of their claims to influence the organization. M.B.E Clarkson provides a classification system which can help narrow the scope of engagement required. This in turn simplifies the impact measurement process and helps avoid engagement burnout.

Step 3: Understanding their interests
Next, organizations should engage their stakeholders to understand their needs and claims as well as the information they require to effectively participate in the impact measurement process. For instance, managers might perceive the impact of social enterprises as their ability to be effective and to meet social, economic and environmental purposes. Beneficiaries or clients may prefer concrete outcome measures that help them evaluate the quality of services or products delivered, while employees may support measures that offer job quality. This sensitive and critical phase needs to carefully evaluate differences in perceptions among stakeholder groups.

Step 4: Assessing relevant metrics
In selecting metrics to measure impact, social enterprise management must assess candidate metrics against the relevant stakeholder needs identified in Step 3. Major stakeholders should also be invited to help decide which impact measures to select.

Step 5: Considering stakeholder feedback
Feedback should be solicited both on the metrics used and the impact measurement process adopted. To guarantee accountability throughout the stakeholder-based process, social enterprises must continually and actively consult with stakeholders and heed their perspectives and perceptions on the organization’s impact.

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Key considerations for effective stakeholder engagement

Because stakeholders’ importance to social enterprises varies, management should ultimately choose the appropriate metrics to respond to their primary stakeholders’ information needs. However, this choice should result from an ongoing dialogue with all stakeholders, rather than a unilateral decision by the enterprise. The five-step approach in Figure 2 provides a pathway for such an approach.

However, the effectiveness of these engagement efforts depends on social enterprises adopting consultative forums that increase accountability to stakeholders, rather than acting as a rubber-stamping exercise. Types of engagement can include participation in surveys, roundtables and focus groups. Some social enterprises go further, enabling stakeholders to advance their own proposals regarding decision-making on impact measurement.
Effective stakeholder engagement processes for measuring social impact also require social enterprises to:

- Adopt inclusive approaches that fairly represent, and give a voice to, all relevant stakeholders.\(^{21}\)
- Balance conflicting interests among their stakeholders, especially when these represent multiple groups and cultures or when stakeholders have unequal power and influence over the organization (Friedman and Miles, 2006).\(^{22}\)
- Ensure all stakeholders understand the social impact measure(s) selected. (Stakeholders could also nominate professional consultants to represent their interests or propose independent verification of the chosen measurement method’s utility.)

### The Multi-Constituency Model in Action

Figure 3 explains how social enterprises can operationalize the five-step multiple-stakeholder approach summarized in Figure 2. It builds out the first and second steps, and highlights the information needs of key stakeholders as well as relevant metrics to meet these needs.

Using this approach, each social enterprise can choose among different methodologies and metrics to measure their social impact, based on relevant stakeholder needs. A public investor that pays a social enterprise to deliver social services might need information in order to, for example:

1. Provide access to microfinancing;
2. Build up the capacity of microfinance providers
3. Support the development of the social investment market.

Metrics to satisfy this need include using established SROI methodology to quantify the organization’s effectiveness in fulfilling its mission. A private investor, on the other hand, would seek to measure social impact in ways that quantify interest, profit or capital gain.

To be most effective and accountable, social impact metrics should not be defined theoretically but empirically, responding to specific scenarios based on the needs of a key stakeholder or stakeholders. As Figure 3 (Assessing relevant metrics) demonstrates, a variety of metrics are needed to capture the range of impacts that stakeholders seek.

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\(^{22}\) Friedman and Miles, *Stakeholders: Theory and Practices*. 
Conclusion

Current approaches to social impact measurement fall between two alternatives:

- A standardized, universal measurement of social impact
- Specific measurements that fit the needs of each organization’s individual stakeholders.

This paper argues that the latter approach is more effective because it does not consider social impacts that improve society as an all-purpose concept. The five-step process outlined recognizes the importance of, and incorporates, stakeholders’ varying viewpoints on how to generate and measure positive social impact.

The debate seeking to prove that one metric is more complete than another misses the ultimate objective of the discussion, which is to expand the positive impact of social enterprises on society. This paper contributes by shifting attention away from technicalities toward a broader logical framework that provides a universal basis for establishing metrics of social impact.

Transferring the right and duty to select the most appropriate social impact measure to the same stakeholders whose interests depend on obtaining the most appropriate metric, will support efforts by the growing social enterprise sector to improve and evaluate its impact on society.
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