Making measurement matter for the social economy

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Against a backdrop of crisis in global capitalism, the UK has in recent years witnessed an explosion in the social enterprise economy. More people are setting up social enterprises than even before and political support continues to grow at all levels and across party political divides. Underlying this growth in social entrepreneurship has been a rapid increase in the supply of social investment and philanthropy capital, fuelling the growth and ambitions of social enterprises up and down the country.

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If estimates are to be believed, then we could just be at the tip of the iceberg when it comes to philanthropy capital. Research from Worthstone and Big Society Capital in 2013 suggested that the investor market could generate £165 million of new social investment capital over the next three years and £480 million over the next five years. The report was based on research by Ipsos Mori highlighting unmet appetite for social investment amongst High Net Worth Individuals, who wanted their money to 'do good'.

The growth in supply of social investment to meet demand should not be taken for granted. As the market for social investment and philanthropy capital matures, so does the requirement to demonstrate the impact of that capital. The UK is currently rich with charities and social enterprises who are working hard to deal with some of the most challenging issues in the UK – such as youth unemployment, financial exclusion, environmental impact and homelessness. But how can they ably demonstrate the impact of their work to provide some form of 'return' for investors?

Getting measurement right is absolutely central to ensuring the future growth of the social investment marketplace.

In many ways, social investment is the same as a traditional investment – investment for a return. Financial return is in many ways, easier to understand by conventional investors under standard metrics – an interest rate, revenue share or simply repayment of the amount.

The concept of return for social investment is somewhat more complex. Of course, the foundation of any business model must be sustainability and profit - generating business models. However, when it comes to social investment, the social return is equally, if not more important, not only as the sector matures but also because we may be asking investors to take a lower financial return in exchange for the social impact.

The need to demonstrate social returns has created a whole industry around social impact measurement with a range of competing methodologies and tools – some of them proving very helpful while others are not so useful. An interesting example is the idea of a Social Return on Investment which attempts to attribute financial values to social impacts, such as improved confidence, which can be very subjective. However, there are a range of other tools and techniques, including social accounting methodologies, with similar strengths and limitations in equal measure.

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What's become increasingly apparent, as the sector matures, is that social investors have a range of motivation and different interests. Measurement tools simply cannot be the same across different sectors. For example, measurements to show the impact of an organisation that helps get young people into jobs are unlikely to be suitable for a cultural organisation. Such measurements cannot, therefore, be easily aggregated across social investment portfolios. The impacts are not less important, just different.

At Social Investment Scotland, we decided earlier this year to use the Big Society Capital (BSC) Outcomes Matrix, introduced by BSC as a tool to help grow the marketplace and to help investors make investment across a range of different outcome areas.

This Outcomes Matrix allows organisations to report their social impact using a range of beneficiary level indicators that are appropriate to what they do, or to use other indicators that are more appropriate for them. More importantly, these indicators allow for better storytelling and case studies. While statistics are vital in the hunt for evidence of success, the power of a good story is more powerful than any statistics and much more likely to engage investors looking for a home for their money. The Matrix also allows for the easier aggregation of relevant outcome data with comparable organisations, so as not to be comparing 'apples with pears'.

SIS' 2015 Social Impact Report (http://www.socialinvestmentscotland.com/social-impact-report-2015/) is available to view on the SIS website. There are eight case studies telling eight stories of impact, alongside headline social and economic impact data for the full portfolio of SIS activity. For example, the Outcomes Matrix means we now know that 51% of the beneficiaries of SIS investees are children, young people and families; and 48% those experiencing long-term unemployment – powerful data we were not previously aware of. With SIS investment activity creating over 450 jobs and sustaining over 3,000, a compelling and easily understood story of performance develops.

We must also not forget the role of the social investor. Whilst the industry has focused its attention on the actions required by social enterprises to become better at reporting and measuring, so there must also be a responsibility for social investors to make it easy for organisations to report on their impact. Reporting should not be a barrier to service delivery, particularly when resources at many of these organisations are already stretched.

Ultimately it is incumbent on all parties to develop an effective way of demonstrating social impact, by focusing on the specific impacts that they are looking to achieve – whether cultural, economic, health or environmental. A one size fits all approach will never work within this sector. Whatever the methodology employed, organisations must be able to highlight progress against objectives in order to satisfy a social investor's appetite for making a difference. Highlighting positive outcomes will benefit both parties and, in a broader sense, help to contribute to the growing base of evidence demonstrating the worth of social investment to both our economy but, more importantly, the well-being of people's lives in communities across the UK.

***Alastair Davis** has been Chief Executive since September 2011, although he has worked with SIS since 2009 when he joined to run the investment team. Before joining SIS, Alastair worked with Bank of Scotland community banking and therefore has extensive experience of social investment. In 2012, Alastair completed the prestigious 'Strategic Perspectives Non Profit Management' programme at Harvard Business School. He is also Big Society Capital's nominee on the board of the North East Social Investment Company in England and serves on the board of the Community Development Finance Association. @AlastairSIS*