Measuring impact:
How best to measure the third sector?

Pauline Hinchion *(www.scrt.scot)*

It is now becoming apparent that there is a disconnect between the types of social investment available, and the financial requirements of third sector organisations. This mis-match is creating an increasingly dysfunctional market with unrealistic expectations on both demand and supply sides, with the value of loans and investor returns at odds with the financial needs and repayment capacity of most organisations. As the social investment sector continues to develop, there is a need to avoid making similar mistakes around the emerging impact measurement scene and to do that it is crucial to explore 'how', 'who' and 'what' measurement is for.

Pauline Hinchion

Perhaps it was inevitable that as soon as the social investment concept started to gain traction that the thorny issue of measuring the impact of the investment would emerge. This is a move given added momentum by the establishment of the Social Impact Investment Taskforce in 2013. As a wide variety of measuring mechanisms and tools exist within the third sector, the ethical sector and now increasingly within the impact investment sector, the 'how' to measure was never going to be as problematic as 'who' it is for and 'what' is measured.

Not many within the third sector would disagree that measurement is good for organisations. Measurement can evidence what an organisation does and allow it to justify its charitable status and its values and ethos. Additionally, effective measurement can be used to win contracts, secure additional finances such as grants and investments, and to promote the organisation and its activities to a wide range of stakeholders.

Measuring impact is not new to the third sector. Indeed it has a long history of developing measurement mechanisms. As far back as 2004/5 there was the EU funded Guide 'Social Added Value'. In addition there are also 'Social Auditing' and 'Social Return on Investment' mechanisms along with the New Economics Foundation (NEF) 'Proving and Improving' model. With a focus primarily on 'Social Impact Measurement', NEF's model allows organisations to capture and articulate how their activities impact upon the social, economic and environmental issues they are set up to address. Equally, within the field of 'ethical investment', mechanisms such as ESG reporting (environmental, social and governance) exist and now in the 'impact investment' arena IRIS is one of the first mechanisms that exists to capture and measure impact as well as aid investors to make investment decisions.

Clearly there are many overlapping objectives between the measurement approaches of these three sectors. Measuring impact is thus a continuum of approaches that seeks to ensure that a financial decision produces the best outcomes for society as well as providing a return to investors. However, ultimately the three are not necessarily the same thing and recognising the distinction is fundamental if there is to be clarity on how to proceed with measuring the impact of the third sector.

From the outset it is important to recognise that measuring the impact of an investment is not the same as measuring the impact of an organisation. Although all third sector organisations strive to achieve triple bottom lines (economic, social and environmental), many of them prioritise one over the others and may receive investment based on this priority. Thus impact across the triple bottom lines might not be evenly spread. In a similar vein Alan Kay argues that measuring impact is not the same as measuring performance and in particular he argues 'impact measurement' does not

take into consideration the organisational approach, values and ways of operation that makes the third sector different from other ethical businesses.

The emergence of impact investment raises questions such as how long do we measure the impact of an investment? Indeed without a counterfactual it is very difficult to ascribe actual impact to a specific investment in most cases. Equally should measurement happen only for the duration of the investment? It is well known that there is often a time lag between financial inputs and the actual impact from any investment and that time lag can be significant.

From the outset it is important to recognise that measuring the impact of an investment is not the same as measuring the impact of an organisation. Although all third sector organisations strive to achieve triple bottom lines (economic, social and environmental), many of them prioritise one over the others and may receive investment based on this priority.

There are also fundamental differences in terms of who and what the measurement is for. The 2014 'Measuring Impact' paper by the Social Impact Investment Taskforce made a very clear call for 'a standardised impact measurement and reporting system that enhances the availability of material, reliable, comparable, additional and universal impact data' combined with an emphasis on the traditional concept of 'accountability'. If the primary focus of impact measurement is standardisation so that assessments between third sector organisations, social investments and results are easily compared, determined and tracked, it will put the needs of the investor squarely at the centre. An approach championed by the Global Impact Investing Network (GIIN), 'IRIS is developed with the needs of impact investors in mind'.

However, it is crucial that third sector organisations are at the centre of any impact measurement. The third sector is as creative as it is diverse, with most organisations striving for a triple bottom line in addition to generating profit. Existing third sector based mechanisms such as 'social impact measurement' or 'social auditing' allows an organisation to measure what it does in a much more organic manner that better reflects the differing priorities, needs and approaches of the myriad organisational forms, culture, size and business model that constitute the third sector.

A further question for this debate to consider is the 'cost' of measurement. Who bears that cost should be directly linked to 'who' measurement is chiefly for. Good measurement, irrespective of method, is not cheap to undertake and it can devour financial and human resources. This is a cost not easily borne by many organisations in the third sector but there seems to be little consideration of cost in the development of new impact-measuring processes.

Equally the question of 'who' is driving the measurement agenda is fundamental in framing what mechanisms and methods will become the norm going forwards. Thus far it is fairly evident that representatives from the third sector are in short supply when it comes to shaping and influencing this agenda. To quote Nigel Kershaw of Big Issue Invest: *"My fear is people who don't understand what it's like to fight poverty in the trenches are now determining whether they will invest in people… I'm absolutely for measuring impact but I think it has to be quite light and it has to be the social enterprises themselves who determine how they do that. My fear is there will be people coming out of mainstream finance who are used to having really heavy-duty metrics who will start to impose their own idea on how we measure change."*

In summary, contrary to perceptions, measurement is not a new concept within the third sector and a number of tools are available to allow the sector to evidence and prove the impact it has on people, communities and the planet. However, there is a need to recognise that the newly emerging field of impact measurement is placing investor needs at the core of measurement and is in danger of ignoring the needs and the history of the third sector. If the third sector is not more involved in the development of impact measuring processes; if there is no recognition of existing third sector models and if the cost of measurement is not considered, it is highly likely that, like social investment itself, there will be a disconnect between what investors expect and what the sector can deliver.

Pauline Hinchion *has held various senior posts within the third sector over the last 20 years. She is currently Director of the Scottish Community Re: Investment Trust (SCRT), a new financial initiative that that seeks both to harness the third sector's collective financial assets and expertise and to provide a family of financial services and products relevant to the needs of the sector.*