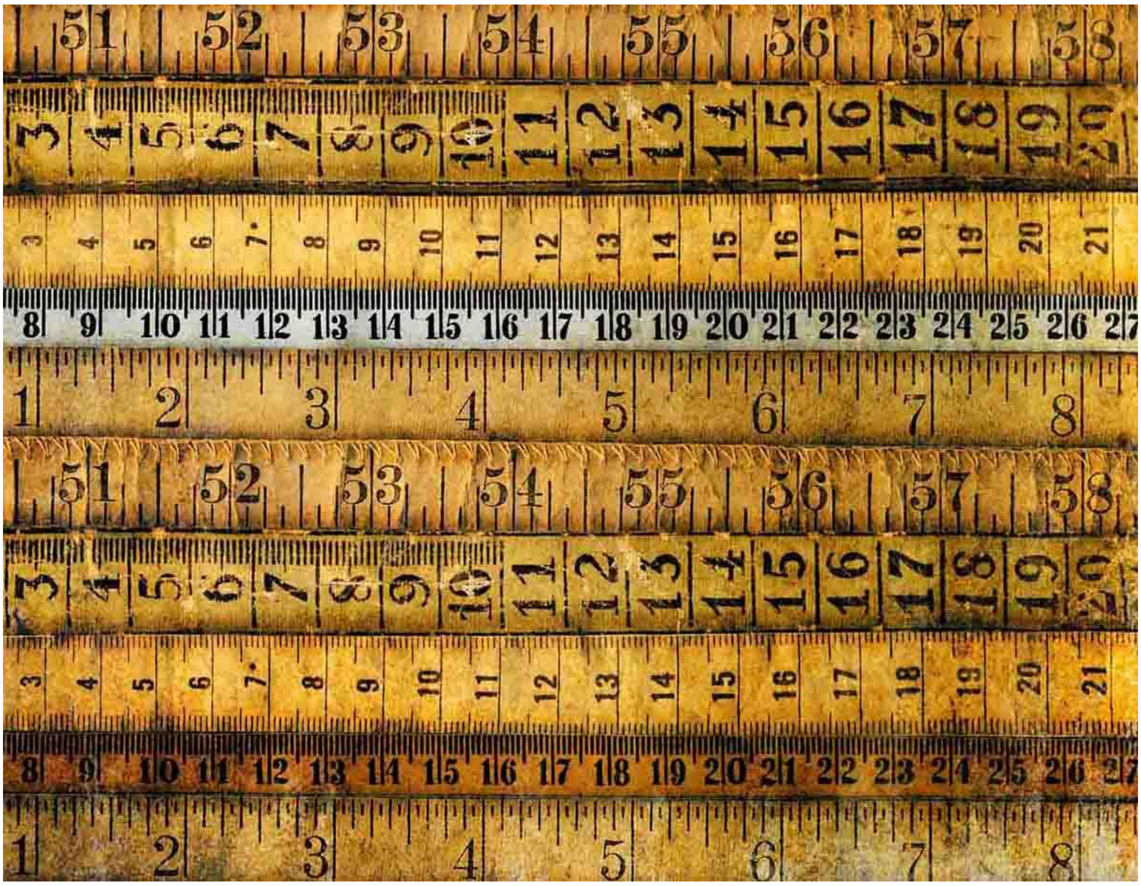
Valuing social impact: measuring beyond economic performance

Source: Barcelona School of Management



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Organizations should be able to create economic value for their shareholders, but also environmental and **social value** for all their stakeholders. This is what professors Porter and Kramer stated in 2011 in their theory of the creation of shared value. Techniques to measure this value are needed if we are to account for it. Although it was an unknown field for the general public, there were already pioneering applications for **measuring social impact** some years ago. For example, in 1966, NASA was already using indicators to measure the social impact of its programmes. They continue to use this type of indicator nowadays.
A lot of water has passed under the bridge since then and the measurement of social impact has evolved considerably.

Impact measurement

The first thing that happened in recent years is that the measurement of social impact changed from being an activity developed by social enterprises and non-

profit entities to measure the achievement of their mission, to being applied in all types of companies and organizations, and in all types of sectors (finance, education, real estate, etc.).
A second change is that we have gone from having a few methods and tools for measuring social impact focused on the area of social economy and the third sector, to multiple conceptual frameworks, methods, and tools. According to a recent study carried out by ESIMPACT, more than ten different methods are used in Spain alone. Other sources speak of more than 100 different impact measurement methods. This diversity causes confusion in organizations that need to prepare information and in the users of that information. In addition, there is an increase in the cost of preparing the information.
In Spain alone, more than ten different methods of measuring social impact are used, which causes confusion in organizations and users

A third change is the array of objectives for measuring impact. Some organizations measure social impact to ensure they are fulfilling their mission, while others aim to inform their stakeholders. Some organizations simply measure social impact to comply with regulations.

Creation of value

Currently, a paradigm shift is taking place concerning the creation of value in organizations. This paradigm shift is supported by at least three key factors:

- In the first place, there is the aforementioned theory of the creation of shared value by Porter and Kramer, which says that organizations should also generate social value for workers, customers, etc.
- Secondly, there are the Sustainable Development Goals (SDGs) published by the United Nations in 2015, and which have a broad international consensus. The SDGs are a guide so that states and organizations can define their objectives for the creation of social and environmental value based on the 17 SDGs or the most relevant challenges for the planet.
- And thirdly, the definition of new frameworks and legal figures adapted to this new paradigm of value creation. Recently, a manifesto was presented to create a new legal figure called a “company with a purpose” in Spain. These types of legal figures already exist in other neighbouring countries, such as France or Italy.

Another important and necessary factor to consolidate this new paradigm is the measurement of social and environmental value.
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Challenges

The evolution of social impact measurement seems unstoppable due to the information needs of organizations and their stakeholders. This raises some important challenges when attempting to improve the measurement:

- A first challenge is to establish a common definition of social impact. This could be interpreted as a purely theoretical or academic question, but in practice it would make it possible to clarify what is and what is not social impact, and would help to improve the measurement of the impact of organizations. Currently, there is already an initiative by the European Commission to define a social classification in the field of sustainable finance. Recently, UPF Barcelona School of Management professors have published an article on good practices in generating and measuring the impact of value-based banks that are part of the Global Alliance of Banking on Values (GABV). This article is part of a project to identify good practices to help design the social classification.
- A second challenge is to move towards a common conceptual framework and rules for measuring impact. This is not an easy challenge to achieve due to the diversity of objectives and activities carried out by organizations that measure social impact. But it is important to have a framework and common rules to build trust and legitimize the information obtained. Currently, there are divergences in the dimensions of social impact and in the scope of the impact, with it sometimes focused on the organization and sometimes on its stakeholders, among other things.
- A third challenge is to focus on measuring effects and not the efforts made when generating social impact. According to a study by the NYU Stern Business School, a very high percentage of organizations that measure social impact are actually measuring efforts made to generate impact (resources and activities developed), instead of measuring effects (changes generated in a set of people).