

What Would Google Do? Designing Appropriate Social Impact Measurement Systems

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No one as concerned as I have been with efforts to bring measurement and analysis to the social sector and civil society could fail to be impressed by the creativity and commitment that was evident at the recent Federal Reserve conference on measuring the nonfinancial impacts of social and environmental interventions, or by the background article by Ben Thornley and Colby Dailey, which provided the basis for it.¹ Yet, at the end of the day, it is also hard to escape the conclusion that the field of nonfinancial impact measurement, while becoming long on metrics, remains somewhat short on concepts. Thornley and Dailey are more charitable in their excellent overview, in which they describe the current state of the nonfinancial performance measurement field as “uncoordinated innovation.”² But uncoordinated innovation not guided by a clear strategic concept can do more than lose its way: it can do actual harm.

This is so because metrics are not neutral. They not only measure impact, they can also shape it. And if they can shape it, they can also misshape it. They can do so by advantaging certain outcomes because they are easier to measure and disadvantaging others for which measurement is more difficult. In the process, they can incentivize activities and outcomes that maximize results different from the ones actually being sought. To paraphrase Albert Einstein’s famous dictum, “Not everything that can most easily be counted counts.” In fact, some readily countable things can be counter-productive. For example:

- If we count jobs, when we are really seeking empowerment;
- If we count houses, when we are really trying to build community;
- If we count the production of services, when what really makes a difference is advocacy or community organizing to open opportunities that are currently closed;
- Or if we neglect to recognize the time dimension that real social change often requires, a point that received scant attention at the conference that gave rise to this volume, but that is of special concern to me as the author of a long-term evaluation of a New Deal land reform program that was declared a failure within five years of its initiation, but that ultimately gave rise to the small, black landed middle class that provided the

1 Ben Thornley and Colby Dailey, “Building Scale in Community Impact Investing through Nonfinancial Performance Measurement,” *Community Development Investment Review*, 6(1) (2010): 1-46.

2 *Ibid.*, p. 25.

critical backbone for the Southern civil rights movement thirty years later.³

Even the number of measures can have unfortunate effects. Too many metrics can lead to “grade inflation,” where every intervention gets a pass, or even an A, by having some measures on which to score highly. Just as “green-washing” overstates environmental benefits and impacts, wholesale “impact-washing” may result from such overdose of indicators in social impact measuring systems, potentially discrediting the entire impact investing movement.

The way to minimize these problems is to bring a clear strategic sense not only to the design of the interventions being measured with new impact measurement systems, but also to the design of the measurement systems themselves. To illustrate this point, I want to focus on three strategic questions that need to be tackled in the design of social impact measures, but that seem to have attracted too little explicit attention in the measurement systems that now exist.

Whose Priorities?

In the first place, it is important to be careful about the specification of whose interests and priorities should be the focus of social impact measurement. To their credit, Thornley and Dailey are fairly up-front about their answer to this question, and their answer seems to be driving much of the activity in this field. That answer is: private investors. “Investor demand,” they assert “will, and should,” determine the form that nonfinancial impact measurement should take. “Whatever the endgame,” they suggest, “the process is certain to be investor-centered.”⁴

This is a reasonable position, of course. Private investors are clearly crucial stakeholders in the new financing models emerging to support social and environmental innovations.⁵ Metrics that deter their participation must therefore be avoided. The problem, however, as Thornley and Dailey show, is that few investors have thus far displayed much inclination to measure or report nonfinancial returns. Left to their own devices, therefore, investors may continue to rely on favorable anecdotes, push for laundry-list measurement systems that provide enough indicators for every investor to claim success, or push for metrics that are easiest to measure even if this fails to incentivize the social returns really needed (e.g. by failing to encourage attention to the most difficult clients or the most challenging fields of endeavor).⁶

What, then, is the alternative? Thornley and Dailey provide a useful clue when they concede that, “To the extent that investors measure and report nonfinancial performance,

3 Lester M. Salamon, “Follow-ups, Let-downs, and Sleepers: The Time Dimension in Policy Evaluation,” in *Public Policymaking in a Federal System*, edited by Charles Jones and Robert Thomas (Beverly Hills: Sage Publications, 1976).

4 Thornley and Dailey, “Building Scale,” p. 39.

5 Jessica Freireich and Katherine Fulton, *Investing for Social and Environmental Impact* (San Francisco: Monitor Institute, 2009), and Lester M. Salamon, *New Frontiers of Philanthropy: A Guide to the New Tools and Actors that Are Reshaping Global Philanthropy and Social Investing* (San Francisco: Jossey-Bass, 2012).

6 For an illustration of this latter strategy in the context of performance indicators in the welfare reform field, see Peter Frumkin and Alice Andre-Clark, “When Missions, Markets, and Politics Collide: Values and Strategy in the Nonprofit Human Services,” *Nonprofit and Voluntary Sector Quarterly* 29 (1) (2000): Supplement: 141-63, esp. 150-152.

they often do so because they are required to.”⁷ This suggests that the priorities of those requiring reporting from investors should figure at least as prominently in the design of measurement systems as the priorities of the investors themselves. More generally, since social investment often requires special financial or regulatory incentives, such as tax credits, first-tier financing from foundations, or the kind of requirements embodied in the Community Reinvestment Act, a better strategy for the design of nonfinancial measurement systems is to encourage the active involvement of those providing the incentives and requirements in the specification of the metrics. The objective, moreover, should not be to maximize the number of measures, but to reduce them to the fewest considered absolutely necessary. Only in this way will we get finely targeted scorecards rather than grade-inflating grab-bags.

Unit of Analysis

A second crucial strategic issue in the design of social impact metrics concerns the unit of analysis to use. At the end of the day, nonfinancial impact data must be gathered from some entity. What should that entity be?

This choice, too, can have important consequences for the conclusions that are reached, advantaging some outcomes over others, often with little understanding of the basis for the judgments. From the evidence available, this issue has not attracted much attention in the social impact measurement arena. It certainly does not surface as a focus of the Thornley and Dailey overview. Indeed, most of the existing nonfinancial impact measurement systems they analyze take a rather narrow approach to this issue. The dominant approach, evident in GIIN’s IRIS system and in the work of organizations such as Pacific Community Ventures, is to use the ventures receiving social investments as the source of the impact data. This places a heavy reporting burden on these ventures, however, and leaves open the possibility of self-serving perceptions, or worse, creaming of potential beneficiaries. A second approach, evident in the CARS system,⁸ focuses on the perceptions and levels of satisfaction of the investors. But this approach results in measurements that are two steps removed from the impacts being measured.

Is it possible to imagine a third approach?

What Would Google Do?

This brings me, then, to my third strategic question: What would Google do? While we may not think of it this way, Google has actually created a powerful model for impact measurement. The key to this model is a simple belief: “Focus on the user and all else will follow.”⁹ Google determines the value of particular organizations by systematically measuring

7 Thornley and Daily, “Building Scale,” p. 36.

8 CARS™, the CDFI Assessment and Ratings System, is the only comprehensive, third-party assessment of a CDFI’s impact performance and financial strength and performance.. More information is available at: <http://www.carsratingsystem.net/>

9 Jeff Jarvis, *What Would Google Do?* (New York: HarperCollins, 2009), p. 4.

the web traffic they attract from millions of users. Could it be that this simple belief holds a lesson for the design of an effective system for nonfinancial impact measurement? After all, who knows best about social impact if not the people being served?

Yet, at the present time, beneficiaries have no real say in social investing. Since the products of social investment, unlike the products of market investment, are primarily nonmarket goods and services, there is no true market test for them. There is thus no effective feedback loop, and the dominant social impact measurement systems do little to correct this. There was thus no reference to user perceptions in any of the impact measurement systems that Thornley and Dailey reviewed. Nor was this approach mentioned at the Federal Reserve conference inspired by their article until introduced by the present author during the concluding panel. As noted above, the existing measurement systems look to the ventures or the investors as proxies for the beneficiaries, but as I have suggested, these are imperfect proxies at best. Far better would be to tap the opinions of users more directly.

This is not a new idea, of course. It lies at the root of the emergence of customer satisfaction surveys as a supplement to sales and other financial data on corporations.¹⁰ Such surveys have proven to be an effective predictor of shareholder value. Those designing social impact measurement systems might therefore be wise to follow this lead and move beneficiaries closer to the center of impact metrics.

This is the approach recommended by David Bonbright, founder of Keystone: Accountability for Social Change. Bonbright has created in what he calls “constituent voice” a social-sector counterpart to the market-sector’s concept of “customer satisfaction.” Constituent voice is tapped through straightforward surveys designed to assess participant perceptions of the social or environmental impacts of programs in which they are involved. As Bonbright argues: “If you want to measure and communicate social impact, ask the people who are meant to benefit from your work.”¹¹ Neither constituent voice nor any other manifestation of user perceptions offers a silver bullet for dispelling the obstacles to effective nonfinancial measurement in the impact investing field, but they certainly deserve to be part of the ammunition that is brought to bear.

Conclusion

In short, enormous progress is being made in the design of metrics to assess the consequences of social interventions. But four considerations could still usefully be given greater salience in the design of social impact measurement systems. In the first place, it is important to recognize that metrics have consequences, and not all of these consequences are benign. Therefore, we must pay more attention not just to the metrics, but also to the strategies and concepts that underlie them. Secondly, this implies greater sensitivity to whose priorities

10 C. Sewell, *Customers for Life: How to Turn that Onetime Buyer into a Lifetime Consumer* (New York: DoubleDay, 1998); and C. Denove and J.D. Power, *Satisfaction: How Every Great Company Listens to the Voice of the Customer* (New York: Penguin Group, 2006).

11 Keystone: Accountability for Social Change, *Prospectus* (2010): 2011-13.

the metrics should serve, and particularly to the relative weight to place on the priorities of private investors and those who are incentivizing their involvement. Third, care needs to be taken to make sure that the unit of analysis used in gathering the needed evidence is capable of providing real insight into the nonfinancial impacts being achieved. Finally, we should follow Google's lead and make more room in the design of measurement systems for the perspectives not just of investors and the ventures they support, but also of the beneficiaries of their actions.

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