

# **The role for evaluation in measuring social impact and addressing wicked social problems**

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# The Centre for Social Impact

- An independent research centre & “do-tank”
- Collaborative DNA – 4 university partnership
- Operates at the intersection of the 3 sectors.
- Strategic engagement with:
  - Wide range of not-for-profit organisations & social enterprises
  - Commonwealth, state and local governments
  - Corporates including Macquarie Group Foundation, PwC, NAB, Stockland, JBWere, Corrs Chambers Westgarth
- Focus on social innovation / entrepreneurship / enterprise / finance / impact
- Focus on evidence & measurement.

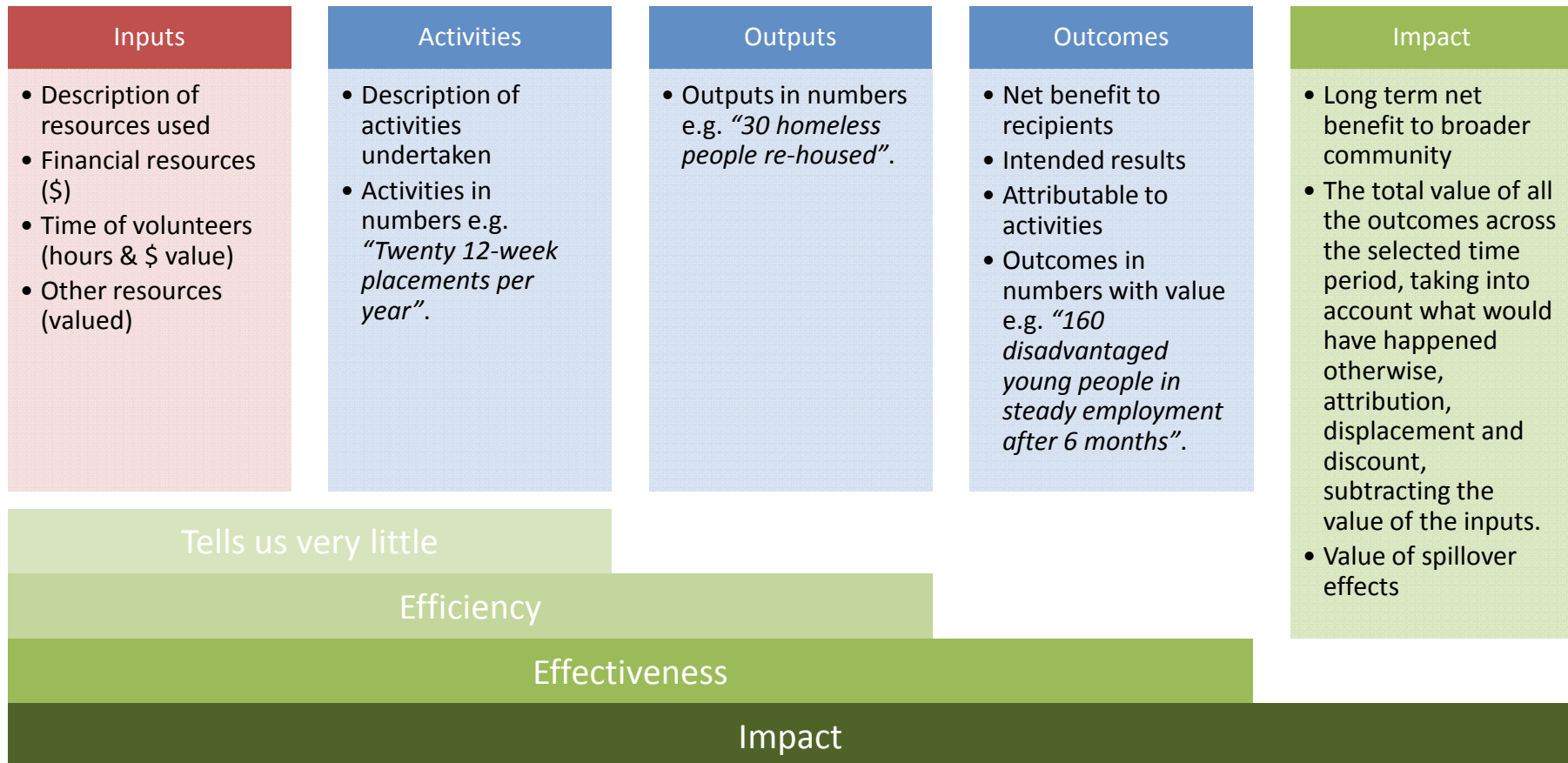
# What is Social Impact?

- A mission statement or a measurable goal?
- Positive social impact – including minimising negative social impact.
- All types of organisation can seek to achieve social impact – so can individuals.
- Demonstrating and measuring social impact is a particular type of performance measurement.

# Social impact performance measurement

- To track progress
- To ensure scarce resources are being used to most effect
- To inform strategies
- To assess relationship between mission and activities
- To improve public policy outcomes
- To engage diverse stakeholders
- To increase accountability and maintain public trust
- To exhibit to benefactors the social return on their funds
- To raise public profile

# Inputs to impact:– net benefit to society



# Why measure social impact?

## Eight transformations

- **Not-for-profit organisations:** From grant dependence to long term sustainability through social enterprise (core & ancillary)
- **Government:** From short term activity/output driven procurement to long term outcome based commissioning – “payment by results / for success”
- **Government & NFPs:** shift in focus to early intervention and breaking the cycle.
- **Individuals:** From philanthropy to social impact investing

## Context: Eight transformations cont'd

- **Private and institutional investors:** from single purpose economic return to blended return.
- **Corporates:** shift from short term shareholder value to long term creation of shared value.
- **Reporting:** Traditional corporate financial reporting plus sustainability reporting to integrated reporting
- **Financial Innovation:** Financial mechanisms that blend commercial & social returns e.g. Microfinance & social impact bonds .

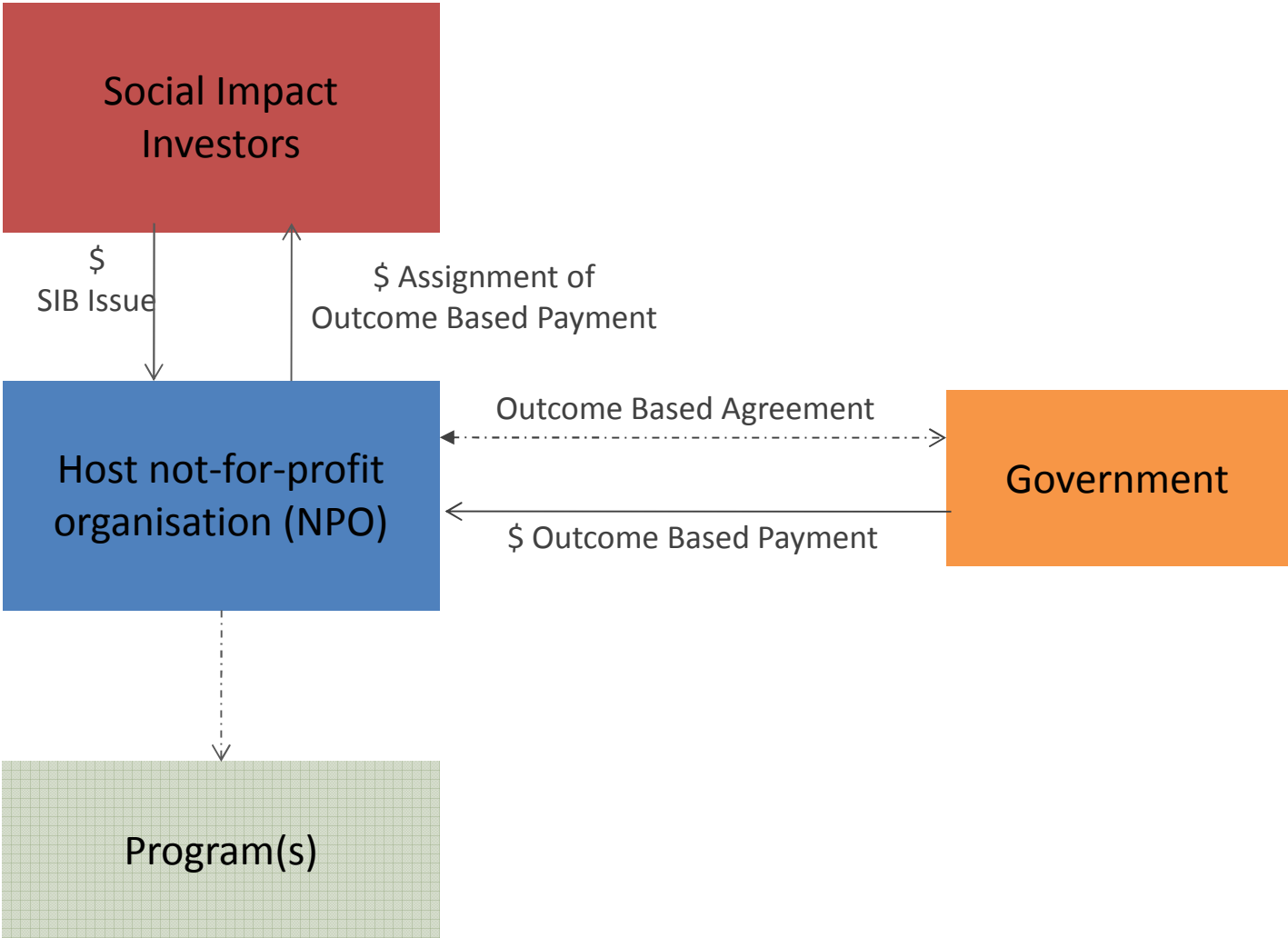
# Case Study: Social Impact Bond

A social impact bond comprises:

- A bond-issuing organisation raising capital from investors as part of a contract with government to deliver improved social outcomes through programs run by not-for-profit (NFP) organisations.
- These improved outcomes generate future costs savings for government, which are used to pay investors a reward in addition to the repayment of the principal.
- SIBs provide capital to fund long-term programs implemented by NFPs, which can range from three to seven years.
- An intermediary may facilitate these relationships.



# SIB structure



# CSI's overarching conclusions

CSI believes that:

- The SIB concept is both desirable and feasible
- NSW (and Australia) has the necessary ingredients

**BUT**

- Not a panacea – access private capital to scale up proven interventions
- There is much work to be done to deliver a SIB proposition – as evidenced by NSW SBB and UK
- The SIB structure must be customized for the policy field and local context
- ***Evidence and measurement are the biggest challenges***

# Social Impact Bonds

Social Impact Bonds have the potential to exploit the eight transformations - especially innovation in social finance

**And align incentives for key stakeholders – the challenge is to optimise these incentives**

Progress to date:

- **Recidivism**
  - Peterborough Prison (Social Finance UK, St Giles Trust)
  - NSW Social Benefit Bond Trial (Mission Australia consortium)
  - New York (Goldman Sachs, Bloomberg Philanthropies, MDRC)
- **Out of home care / problem families**
  - 6 pilot SIBs in UK
  - NSW SBB Trials – BenSoc Consortium (Westpac & CBA) and Uniting Care Burnside Consortium

# CSI: 3 SIB models tested

Option A	Principal and reward payment to social impact investors is fully dependent on the achievement of an agreed outcome.
<b>Option B</b>	<b>Balance of risk-sharing between government, the NPO and social impact investors. Standing charge covers part of program running costs. Remaining costs and reward payment dependent on achievement successful outcome.</b>
Option C	Social impact investors preference to protect their capital.

## Option B: Failure / downside risk

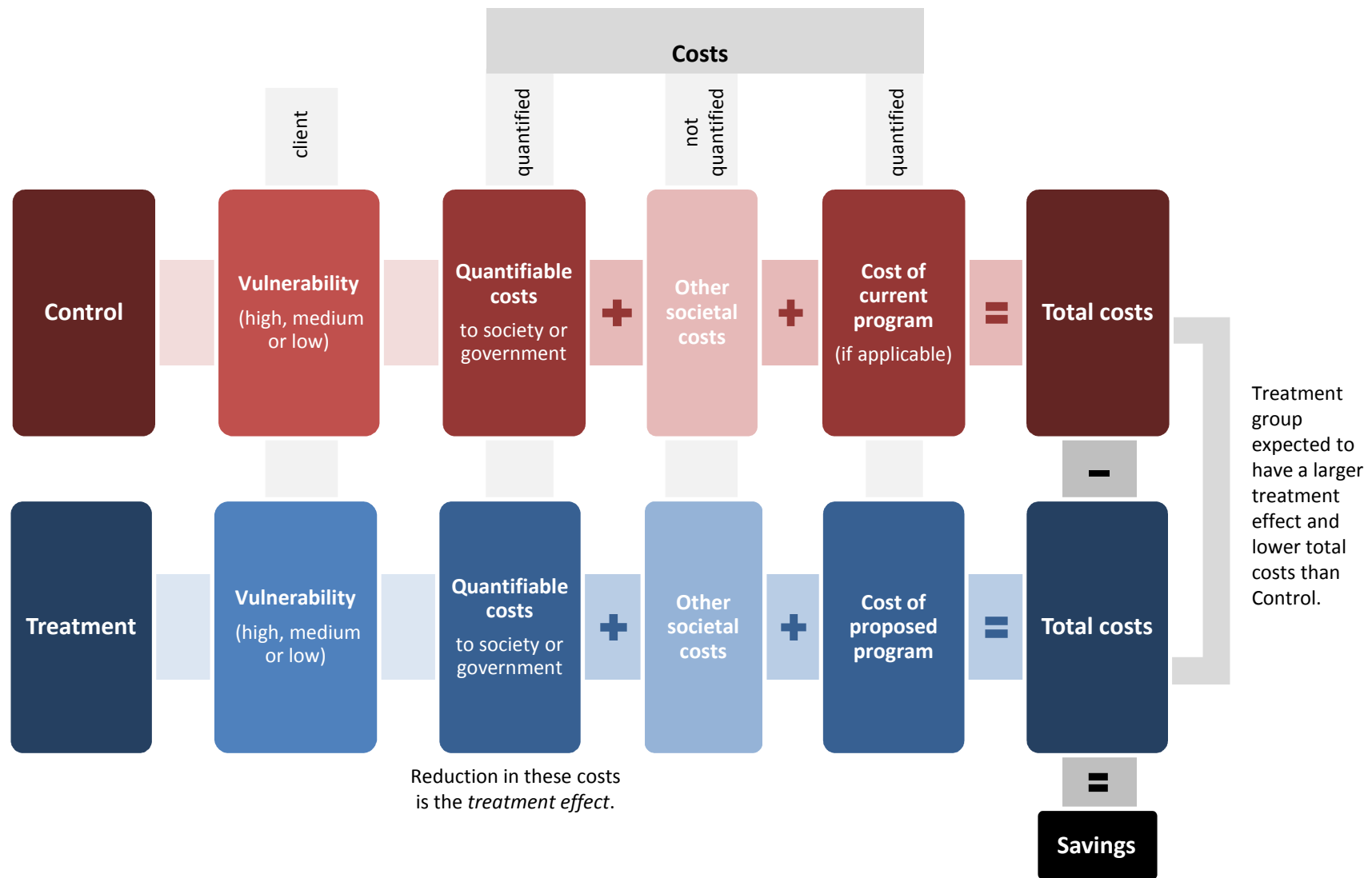
<b>Government</b>	<ul style="list-style-type: none"><li>• Pays NPO for 70% of cost of program.</li><li>• Cancels program doesn't pay for unproductive programs.</li></ul>
<b>Host NPO</b>	<ul style="list-style-type: none"><li>• Loses credibility with government.</li><li>• Loses credibility with social investors.</li></ul>
<b>Social Impact Investors</b>	<ul style="list-style-type: none"><li>• Receives only 70% of principal back, losing 30% of principal and receiving no economic return for deployed capital.</li></ul>

# Support for risk sharing model

*“Entirely performance-based payments are rarely optimal under standard economic theory. When outcomes are partly determined by service provider’s effort and partly determined by factors beyond the service provider’s control, optimal contracts generally involved a fixed or cost-based payment component, and a performance-payment system.” (Liebman, 2011).*

# CSI Hybrid Approach

- Hybrid comprising:
- Logic models
  - Theory of change, client segmentation, definition of desired outcomes, program attributes and costs
- Evaluation / evidence of treatment effect
  - maximise utility of existing evidence and if necessary create new
- Cost benefit analysis
- Social Return on Investment
- Counterfactuals – non-treatment, alternatives
- Sensitivity analysis
- A social and economic impact model

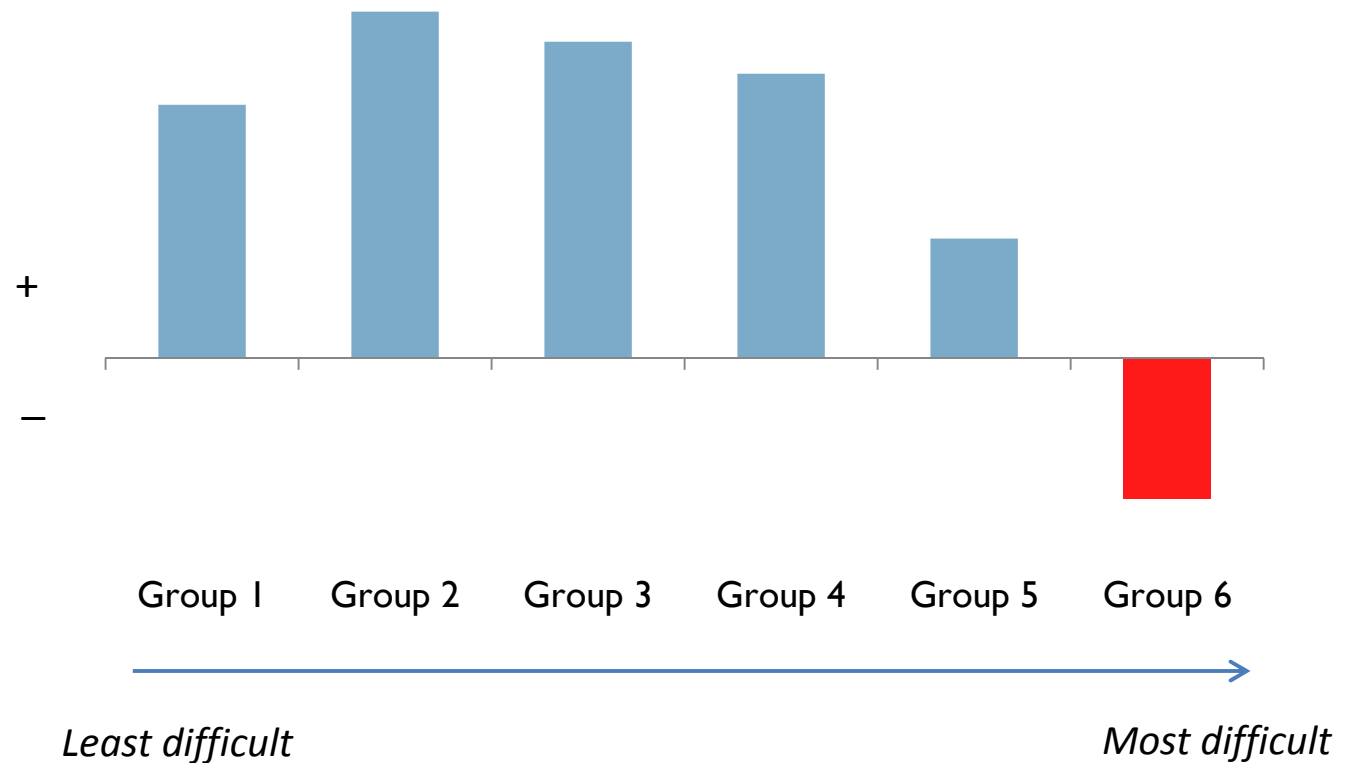


## Social and economic impact model



# Importance of client segmentation

*Example of the varying social return across client difficulty groups*



# Key challenges ahead

## Robustness of evidence and measurement

- Of the efficacy of program interventions
- Of the desired outcome – financial and social
- Of the target client cohort

## Tools

- Economic and financial models
- Social return on investment
- Case management systems
- Longitudinal measurement methodologies

# What constitutes robust evidence?

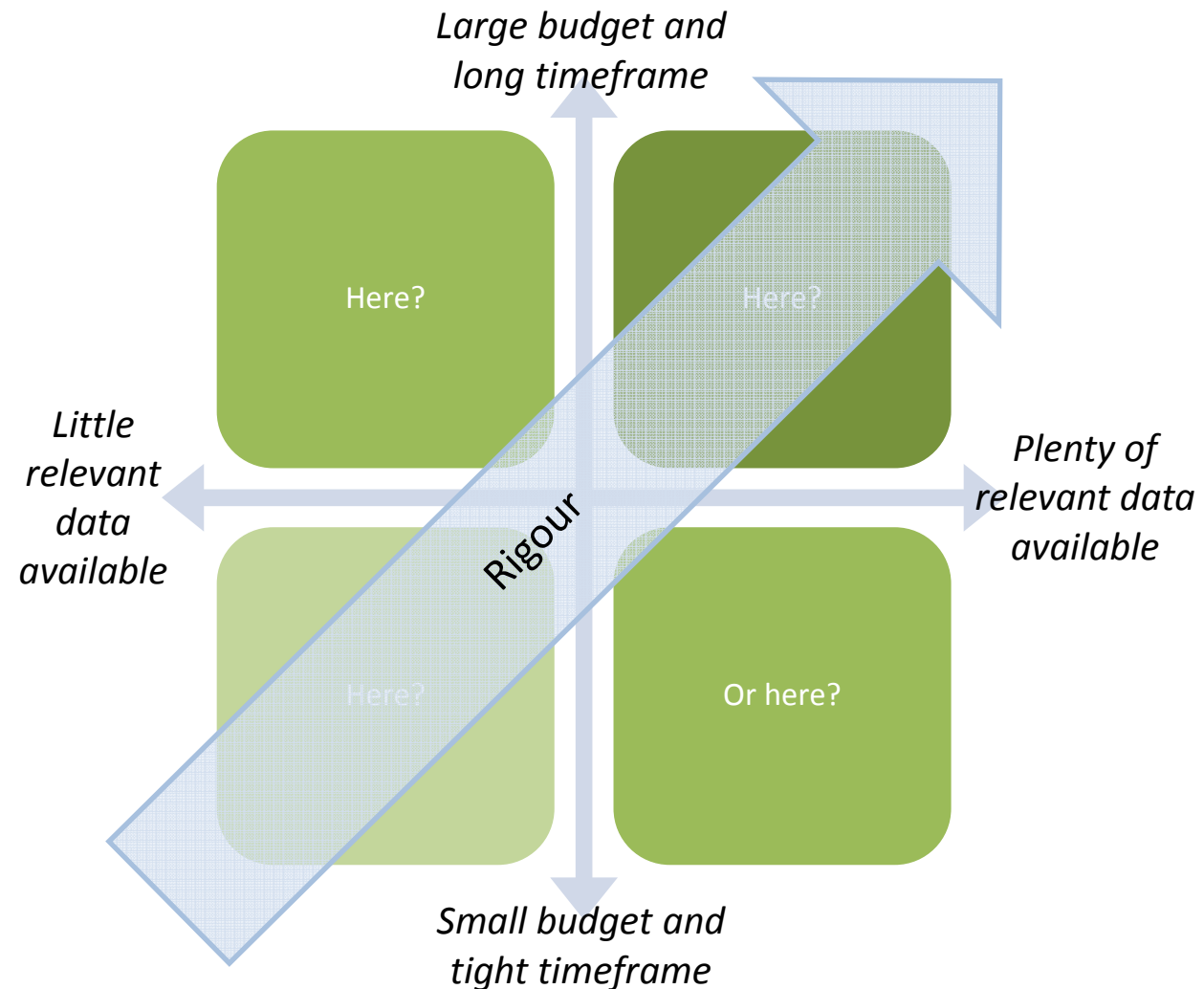
Criteria for robust evidence for policy, practice & investment

- **Random control trials** in medicine – treatment & control
- Paucity of use in social sphere – difficult, resource intensive and ethically challenging
- **Quasi-experimental** – survey & time series
- Paucity of use in social sphere – difficult & resource intensive (bespoke longitudinal surveys due to lack of relevant facts in large surveys)
- Australian versus international evidence?
- Pragmatism

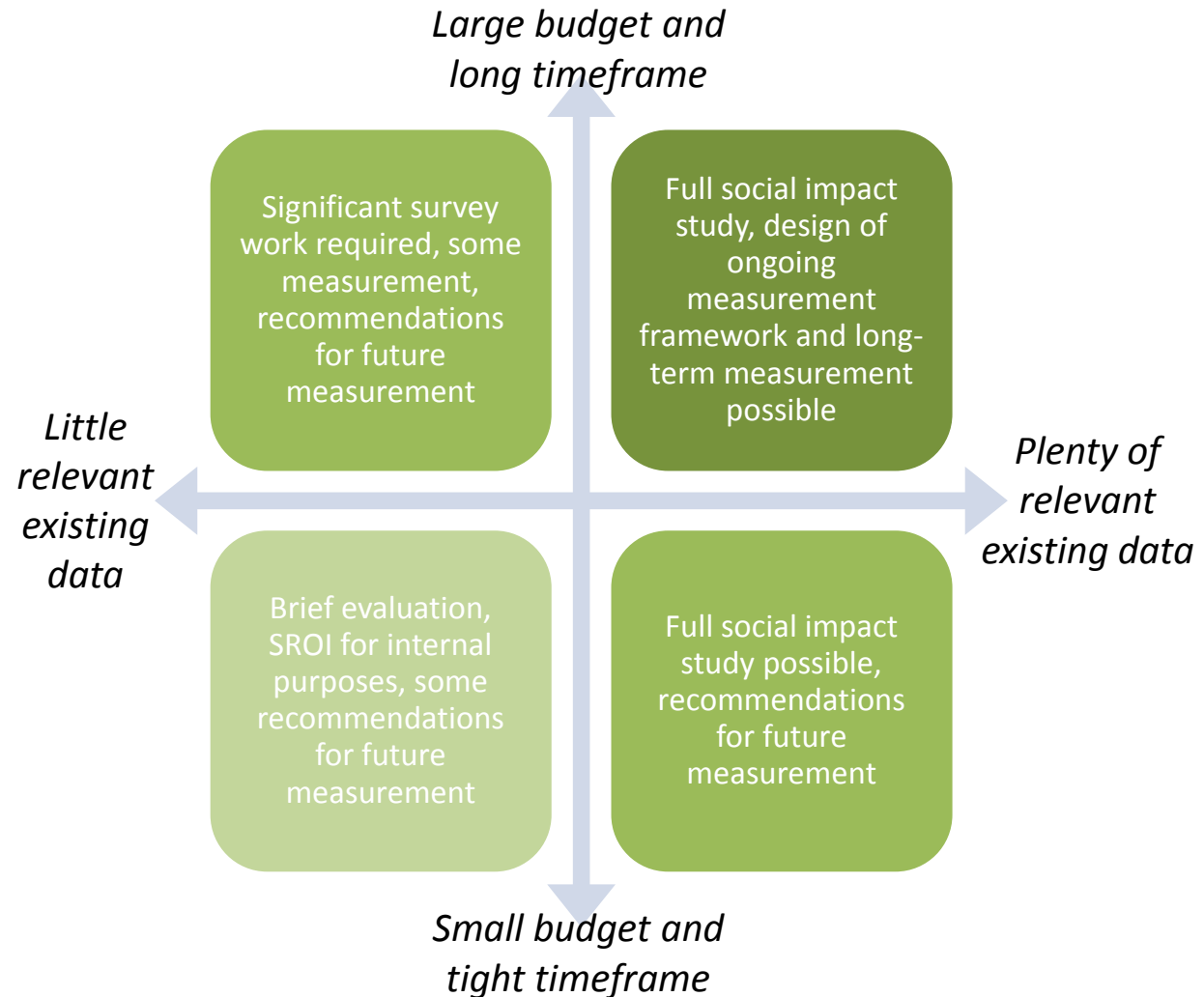
# Key elements for robust measurement

- Emphasis on client outcomes –clearly defined outcomes which articulate success & failure (continuum)
- Longitudinal methods - not short term inputs & outputs
- Cohort definition & segmentation – in the context of the wider population
- Measure the “treatment” effect
- Invest in understanding & measuring the counterfactual
- Linked (Government) administrative data sets
- Link program & organisation data to administrative data
- Evaluate using both social & economic dimensions – VFM & SROI

# Matrix for designing study: Where does the project sit?



# Determining the scope



# CBA and SROI

- Comparison of the initiative with a counterfactual
- Assessment of differential impact
- Dollar valuation of costs and benefits of initiatives
- Valuation of non-market activities
- PV calculations

# Market and Non-market prices

- Most costs & many benefits have market values – some do not
- Assignment of benefits (costs) is via ‘willingness to pay’ (‘willingness to accept’).
- How do we measure willingness to pay or willingness to accept?
  - Look at behaviour [What people do not what they say]
    - **Revealed preference** – e.g., hedonic pricing and time travel models
  - Look at statements of preference [What people say]
    - **Stated preference** – e.g., Contingent valuation and choice modelling



## BOX 10: VALUATION TECHNIQUES

Determine whether

Impacts can be measured and quantified

**AND**

Prices can be determined from market data

If this cannot be readily done

Use 'Willingness to Pay' for a benefit

'willingness to pay'

determined by

Inferring a price from observing consumer behaviour

'revealed preference' or a subset of this called 'hedonic pricing'

If this does not provide values, determine whether:

Willingness to pay can be estimated by asking people what they would be willing to pay for a particular benefit

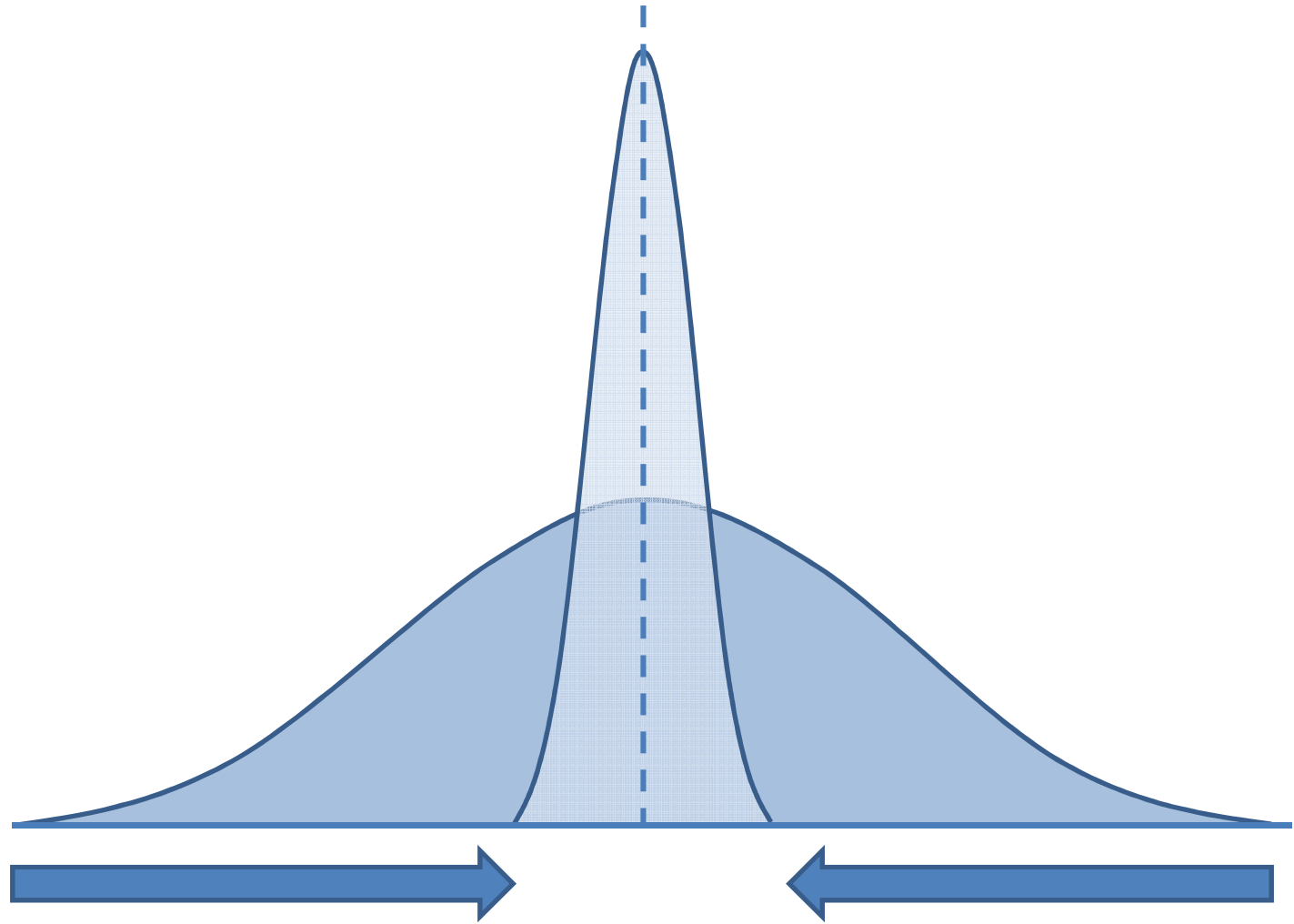
'stated preference'

or whether

In the case of a cost:  
identifying the amount of compensation consumers would demand in order to accept it

'willingness to accept'

# Social impact measurement: A learning process



# Challenges

- Misuse of single monetary value
- Resource intensive – especially if doing retrospective SROI
- Prospective = speculative?
- Significant organisational change needed for longitudinal measurement
- Case by case development of methodology

# Measuring social impact: Next steps

## **Government:**

- Shift focus from short to long term
- Focus on outcomes – outcome based funding agreements - payment by results / for success – reward early intervention / breaking cycle
- Build outcome measurement in to all funding agreements
- Learn through measurement – “experiment” projects – measure everything
- Ensure administrative data is capturing key data necessary
- Link data across silos – data sharing protocols
- Make data available to bona fide researchers

# Measuring social impact: Next steps

## **Embedding the measurement of social impact within organisations – NFPs and social enterprises**

- Shift focus from short to long term
- Develop & maintain longitudinal data sets focused on outcomes
- Profile & segment clients and define success for each segment
- Client management systems
- Not just treatment effect – but counterfactual
- Link to government administrative data – data sharing protocols
- Investor relations

# Measuring social impact: Next steps

- Adoption by “evaluators” and analysts
- Maximising utility of existing evaluations and evaluation methodologies – ***Productivity Commission recommendation to establish a Centre for Community Service Effectiveness***
- Integration of service delivery data systems and government data systems – implementation and maintenance of service delivery system infrastructure – case management systems
- Moving on from the case by case approach – focus on system level analysis – collective impact

# Measuring social impact: Next steps

- Measurement and reporting of social value to be (***should be***) most material element of new ACNC reporting system
- Adoption by audit and accounting profession – Institute of Chartered Accountants Australia – exploit the potential of “*Integrated reporting*”
- “Assurance” of social impact measurement
- Scaffolding: - Knowledge integration – templates, models, methodologies, common metrics, system level / shared approaches.