

Simple Measures for Social Enterprise

I would not give a fig for the simplicity this side of complexity
but I would give my life for the simplicity on the other side of compleity.

—attributed to Oliver Wendell Holmes, Jr.

Over the last two decades, social entrepreneurs have become darlings of the social sector. From the pioneering work of Ashoka to the global stage presented by the Skoll World Forum and the inspiring work of their Skoll Fellows, a new breed of innovative people and enterprising institutions are literally promising to change the world. Ranging from non-profits with highly scalable models looking to transform national education policy to for-profit businesses looking to serve the “base of the pyramid” at affordable health clinics, this diverse range of social enterprises offers alternatives to traditional charity or development assistance. Even big businesses are taking social enterprise seriously as they explore new ways to tap into underserved markets in emerging economies.

But for all the innovation, the question remains: So what? Have these new approaches led to enduring change? Are people drinking cleaner water, living healthier lives, or moving out of poverty because of the new products designed to be affordable and accessible to the poor? We think so, but the evidence is nascent and mostly anecdotal. Our objective at Acumen Fund has been to push hard on these questions of measurement and impact: if what we are doing is a real innovation in philanthropy and development assistance, then we should have evidence that what we are doing matters for the lives of millions of people.

This is not a simple problem. This article describes our efforts to get an answer to those questions within Acumen Fund and dives into the complexity of measuring social change. The article reviews our work to develop a manageable and somewhat simple approach to this complex challenge, and then looks at how the field of measurement might evolve in the coming years. My aim is to provide some very practical advice about how to produce or consume claims of social impact (or,

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more appropriately, evidence of social outputs), and to offer some observations about the barriers to adopting these practices.

THE CHALLENGE OF MEASUREMENT

Acumen Fund is a seven-year-old social investment fund with roughly \$35 million of approved investments in ventures that deliver health, water, housing, and energy products and services to the poor. Our investors, philanthropic donors, expect us to use their charitable contributions to invest money—often on slightly less than commercial terms—to build financially sustainable and growing businesses that provide measurable social or environmental value. Any of the “patient capital” returned to Acumen Fund is recycled for new investments. We believe that the market-based delivery of goods can complement traditional charitable efforts and often serves as a listening device: if our enterprises are not delivering value—social or economic—their customers will not return and their businesses will not grow.¹ Measuring the expected and actual financial returns of our investments is relatively straightforward for Acumen Fund and for our peers. Like most investors, we project net income, free cash flows, terminal values, and likely exit multiples; we then discount these cash flows back to the present day to establish financial value. Or, if we make a loan, we can expect a future stream of interest and principal repayments to come back to us over the five to seven years of our average loan. And once we exit the investments, it is very easy to look retrospectively at our net financial return.

Measuring the social or environmental returns of our investments is not so straightforward. The first challenge is defining what specifically we mean by “social impact.” This can range from a proof of concept of our model—that we can invest risk capital in social enterprises and see it returned—to knowing that our investments in malaria are leading to reductions in the incidence of malaria or that our investments in drip irrigation are moving smallholder farmers out of poverty. Second, once it is clear what threshold of outcomes we are aiming for, it turns out that it is actually quite hard and expensive to “prove” anything. Later I’ll discuss why we count outputs (e.g., bednets sold) instead of seeking to demonstrate outcomes (e.g., reduction in incidence in malaria), but we are familiar with the challenge of moving beyond anecdotes and data towards making a rigorous case for impact.

Finally, we would love to understand, but don’t have the capacity to measure, the economic multipliers or unintended consequences of our work. If the textile mill creates 5,000 jobs in Tanzania, what sort of impact does this have on the local or regional economy or national tax receipts? Conversely, does the change in patterns of water collection in rural India change the social dynamics in a way that harms rather than helps? Ted London at the University of Michigan writes coherently about the need to account for the positive and negative impact of social ventures working at the base of the pyramid, and has developed a framework that “drives improvements in a venture’s poverty alleviation performance by enhancing

positive outcomes and mitigating potential negative ones.”² This kind of comprehensive framework is extremely valuable in pushing us to think through the anticipated and unexpected outcomes of our investments, but at this point it is tricky to implement at the business level.

Given these challenges, we start from the premise that to get better results and improve our work on a continuous basis, we need to measure what we manage.³ We also owe it to our donors to ask whether philanthropic investments into Acumen Fund have made a difference relative to their other charitable options. We owe it to ourselves as professionals trying to effect change to understand what is working and what is not—and why. We owe it to the entrepreneurs that we invest in to not impose burdensome reporting on them but to include them in a system that helps them think about and anticipate key performance challenges as they grow their business and serve the poor. And, finally, we owe it to the end users of these services to think clearly about how the businesses we are building will make a difference in their lives, in their children’s lives, and in their communities.

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TAKING THE PULSE OF ACUMEN FUND’S INVESTMENTS

Metrics and evaluation are to development programs as autopsies are to health care: too late to help, intrusive, and often inconclusive. Equipped with a range of best practices and precedents (see Appendix), we set out to build a performance management process that would “take the pulse” of our work: frequent, simple measures that would allow us to refine our thinking, change our course, and diagnose problems before they became too significant.

As a result, our metrics work extends across our entire investment process. It is a series of loosely connected exercises bound more tightly by our organizational values and our team’s curiosity than a well-defined process or an integrated soup-to-nuts technology system. It is not perfect, and it is continuously evolving, but we think it reflects the state of the practice in the social investment and non-profit sectors. It is worth reviewing in some detail how at each stage of our investment process, along what we call the “chain of accountability,” we think about connecting the donors to Acumen Fund, to the investments we make in businesses, and to the difference those businesses make in the lives of the customers they serve.

During Due Diligence

After we have found a social entrepreneur with a compelling business model, one that seems to align with our aspirations, we commence with “formal due diligence”

of the opportunity. Most of the diligence is focused on the business model, the unit economics, the customer need, the quality of the organization, the integrity of the leadership team, and the financial plan. A significant part of the diligence, however, seeks to understand whether or not the business creates meaningful social value.

To do this, we rely on three separate steps. First we review the literature on the state of practice to understand if the investment's main activity "matters." This includes discussions with our internal staff portfolio team, advisors, and experts in the field. Second, we estimate the number of people in the "base of the pyramid"⁴ who will be served by the business over the life of the investment. Third, we assess whether or not the delivery of those "outputs" to our target constituency will compare more or less favorably to the "best alternative charitable option" available to our donors. Let me take each of these steps in turn.

We start each of our investment discussions with a focus on the customer: How does this product help the poor? Do people need this product or service? Are they willing to pay for it? And if they do get it, what evidence exists that their lives will be measurably better for having used the service? For example, take anti-malarial bednets. There was considerable debate about whether or not people will (or should) pay for the long-lasting anti-malarial bednets,⁵ but there is little debate that their proper use, particularly throughout an entire village, can lead to significant reductions in the incidence of malaria.⁶

With community clean water systems, the evidence is a bit more ambiguous. Of course it makes intuitive sense that the proper treatment of surface water for drinking should lead to improved health outcomes, but a lot of things happen after customers collect water from a central village water-treatment system: they transport the water, store it for a few days, and drink it out of potentially dirty cups. To us, the empirical evidence that selling clean drinking water from centralized distribution points in rural India will lead to reductions in waterborne illnesses is not as robust as the evidence that delivery of bednets to Kenyans can reduce the incidence of malaria.

Once we have established whether or not an intervention matters—or more exciting, whether our investment can contribute to the world's understanding of what works—we know what outputs to start counting. It is important to pause on the word outputs for a minute. In evaluation parlance, some combination of inputs (investment money, technology, staff) helps generate a certain set of outputs (bednets delivered, liters of clean water filtered), which might lead to an outcome (reduction of incidence of malaria, fewer people getting sick from drinking bad water) that translates into the impact: knowing for certain what would not have happened were it not for our investment or invention. Defining the outputs is critical. For us, it is not just "bednets," but some dimension of "bednets" properly deployed and used. Moving from narrow definitions of outputs as "products" toward definitions with some dimension of product service and quality acts as an important check on a race to least-cost delivery models.

Moving from outputs, however sophisticated the definition, to understanding

outcomes and proving impact is extremely complicated and seems to require randomized control trials that demonstrate the counter-factual.⁷ We had discussions with researchers affiliated with MIT's Poverty Action Lab on how this might be possible to do with some of our investments and have conducted two rigorous studies on retail distribution strategies for the anti-malarial bednets and on the link between delivering clean water and community health. But these studies are expensive, and it is impractical to spend \$250,000 researching the impact of a \$500,000 investment—unless such a study could be used to understand the impact of similar investments in our portfolio and others for years to come. So our strategy has been to review the literature and consult the experts, to establish the clarity and certainty of a specific output's links to impacts, and to focus on counting those outputs.

As an investment moves forward in due diligence, another critical step in the process is to compare the projected outputs delivered per unit of philanthropic input (in this case capital) compared with the “best available charitable option” (or BACO, as we call it). More simply, if a donor who cares about malaria gives Acumen Fund a million dollars, we want to be able to compare how many bednets our factory makes over five years (or better, the years of malaria protection that the nets provide) with what the donor could buy on the “charitable marketplace.” The charitable marketplace is fragmented and inefficient, but it does exist. For example, a moderately curious donor could learn that Malaria No More offers to deliver one long-lasting bednet for \$10, so any investment from Acumen Fund would need to deliver at least one bednet for every \$10 our fund receives. We have written more extensively about BACO, the methodology, and its limitations on our website,⁸ so I won't go into too much detail here, but let me reflect on how this “back of the envelope” approach helps us.

The BACO methodology is important for our process in a few ways. First, it forces the team to think about who is doing the best or prevailing work on solving the same or similar problems. Second, it forces us to think about the marginal cost decision a hypothetical donor is making. In the absence of absolute standards of performance in the social sector, we need to think about how else the donor could have invested their money. Finally, it is a very practical tool that is easy to use. A portfolio associate can conduct a BACO exercise using a simple Excel workbook, some web research, and an expert interview or two. The steps are straightforward, the assumptions clear, but the analysis doesn't dictate our final decision. We need to be more disciplined about repeating the BACO analysis annually for each investment to see how our forecasts compare against reality, but at the points when we start and then close out an investment, the BACO methodology offers a useful benchmark for comparing our work to one prevailing approach in the field.

During Deal Structuring

After we have approved the investment but before we disburse funds, we face the most critical step in the process. Working with our Director of Portfolio

Management, Raman Nanda, our portfolio teams sit with the entrepreneurs to discuss what financial, operating, social, and environmental metrics we plan to collect. Our mantra during these meetings has three parts:

- We don't want to collect anything that is not fundamentally important for the company to manage their business (which includes serving the poor).
- We don't want to collect any information that cannot be generated by the company's existing management information systems.
- If the current information systems cannot capture the kind of data that is important to managing business, we will help the business think about medium-term improvements to their systems that strengthen their ability to manage (and in at least two cases we have helped build new management information systems for our investments).

We don't want these conversations to be about what "reports" the entrepreneur must send us on a quarterly basis; instead, we are laying the groundwork for how we will think about performance management over the life of our investment. For businesses with hybrid or cross-subsidy models like the 1298 ambulances in Mumbai, the most difficult metrics to collect are the socioeconomic status of their customers (20% of whom we expect will be from the base of the pyramid). Rather than conduct a "wallet biopsy," the management team of 1298 simply uses the destination hospital as a proxy for income level. If they take you to Breach Candy Hospital, a private, relatively expensive hospital in Mumbai, you can afford to pay for the ambulance ride and you are considered middle or upper income. If they take you to the free government hospital, the assumption is that you can't afford the ambulance ride and that you fall into the less than \$4/day income segment that matters to us.

These discussions serve as an important marker to show that we are serious about performance management, that we are committed to help solve the problems of data collection and integrity, and that we are serious about serving the poor as a significant portion of the company's business. Our term sheets include the metrics that we want reported quarterly (as mutually agreed on) and some minimum threshold of clients served from this target population. If an entrepreneur fails to report or fails to serve the poor, we have the right to walk away from the deal.

Post-Investment Performance Management

After an investment is disbursed, it's time to start collecting and analyzing the data with the primary purpose of supporting and scaling each enterprise. In our initial days, Acumen Fund collected monthly or quarterly data for different investments in various forms (spreadsheets, word documents, e-mail), making it hard to do time-series comparisons across our portfolio. We started to be more consistent by collecting data quarterly in clearly designed spreadsheets, but as our portfolio team grew from five people in our New York office to 15 people in four offices (including Hyderabad, India; Karachi, Pakistan; and Nairobi, Kenya), we looked for a soft-

ware solution that would allow us to track performance over time, performance against the initial projections, and performance across the portfolio. After an exhaustive search failed to find an off-the-shelf system that would allow us to track this blend of financial and social metrics, we decided to try to build it ourselves.

With *pro bono* engineering support from Google engineers in New York and Mountain View, California, and under the leadership of portfolio associate Marc Manara, we built a software tool that allows our portfolio team to track a range of measures at each investment. The resulting product, the Portfolio Data Management System (oPDMS), allows us to store quarterly data (financial, operating, social, environmental) for each investment, qualitative reports from the portfolio team on highlights (or key risks) of the company's performance, and an annual capabilities assessment that rates each company on a range of purely qualitative dimensions (quality of their governance, strength of management team).

The software tool, which we have been using since January 2007, has transformed how we think about investment performance. Every quarter, the portfolio team reaches out to each investment and receives the agreed-upon reports (some are more responsive than others). We also ask each portfolio manager to look at the data and think about whether the company is building the capability to grow—its customers, its team, its financial resources. We then use a simple diagnostic both to identify major weaknesses and to recommend how we provide our management assistance: our team's time, an Acumen Fund Fellow, or a *pro bono* partner. We enter the data, compare actual performance versus targets, and come back to the management team with any questions. For example, in fall 2007, in our India office, Vikram Raman—who is notorious for generating very thoughtful questions from these reports—noticed a significant rise in the operational expenditures over the prior quarter at VisionSpring (formerly known as Scojo). Working with the Acumen management team in India, VisionSpring explored potential causes and solutions. These kinds of questions have stimulated the very performance dialogues that we are hoping the system will facilitate.

Twice a year, in November and April, the entire portfolio team sits down to conduct a forced ranking across the portfolio. Against our investment criteria—financial sustainability, social impact at scale, breakthrough insights, and high-quality leadership—as well as both actual performance to date and the investment's potential for impact in the future, we ask the team to discuss each investment and rank them from first to last. No ties are allowed. The exercise, which we have been conducting since 2003, helps us take a step back to identify patterns across the portfolio, and forces us to admit where things are working and where they are not. The forced ranking helps us stay aware of which investments we would literally “drop everything for” and which ones might not get more of our limited time and energy. Unlike a traditional venture capital fund that might “drop the losers,” we support all of our investments until we exit, but we have to prioritize our scarce resources somehow.

Closed Investments

After we have completed the financial relationship with an enterprise, we take a final look backward at whether we think the investment succeeded or failed against our original expectations. Someone on the portfolio team (often not the person who managed the investment, and usually portfolio associate Katie Hill) will write a short “exit memo” that looks at the results generated, our financial return, and the lessons we have learned. The exit memos are instructive in forcing us to go back to the original plan, to look at what happened along the way, and to determine what we could have done differently. Exit memos play an important role in helping us adapt our investment process. Over the course of time, as we have evaluated our closed investments, we have decided not to do early-stage product development, to be wary of working with large development finance institutions as co-investors, to push very hard in the early days on the “ethical fiber” of the entrepreneurs and their teams, and to think more realistically about growth projections (read: it often takes a lot longer, sometimes more than a year, to get things moving).

FIVE OBSERVATIONS ABOUT PERFORMANCE MANAGEMENT

Seven years into building these intertwined social impact and performance management processes, we are proud of what we have done but daunted by the challenges ahead. The granular description of what we do should offer a sense of the very practical nature of the work. It is not particularly complex. Rather, it is a combination of simple exercises, repeated with discipline over time and in the context of a coherent framework that helps us make real decisions: what to support, how to adapt the investment model. Taking a step back from the minutiae of our process, let me offer some overarching observations for anyone interested in building metrics and performance management systems in the social sector. These are observations and assumptions, not conclusions or verities. They build on the work of many people whose work precedes ours, but has been reinforced through our own experience.

1. Culture matters far more than systems.

If your organization doesn't care about metrics, don't bother to start building systems to measure performance. This effort needs to start at the top with board and senior management leadership and extend throughout the staff and stakeholders of the organization, and into the organizations you fund. Acumen Fund was founded on the principles that accountability and transparency were fundamentally missing from traditional philanthropy, and that a new institution would do things differently. Jacqueline Novogratz, our founder and CEO, has consistently advocated for advances in our metrics work; so has our board of directors. At times, the expectations for what one can measure and what one can prove diverge from the reality of practice, but those conversations have helped the team imagine

what might be possible. This has given the portfolio team the flexibility to explore new metrics systems while being held accountable for annual results. Tolerance for failure within the organization is another essential cultural dimension to this kind of work. In the venture world, failure is a badge of honor; in the corporate world it is an unfortunate fact of life. In the social sector, it is usually not an option. At Acumen Fund, we know that we are taking some very big risks, but we often say that the only failure will be if something doesn't work and we didn't learn anything from it.

2. If you build systems, start with a pencil and paper.

Too often, we hear of people looking for a software solution to their performance management problem when a simpler solution would suffice. In the early days of Acumen Fund, with a portfolio of fewer than ten investments, all we needed to measure investment performance was a pencil and paper, consistently used. To avoid total chaos, you must be clear about both your objectives and the business process you will use to collect and interpret data before you begin with system development. For us, after we translated our investment criteria into specific performance metrics for each enterprise, we could then think about when we would collect metrics, who would type them and where, how often we would look at them, and what we would do with the information. Only after that is clear and has been practiced for a few iterations can you build or deploy a more sophisticated system. Some of our peers, namely E+Co and Robin Hood, were very generous with their time in our early days. They helped us move along the metrics learning curve by sharing their experience of what metrics matter, which methods work and which don't, what you can expect to collect from your entrepreneurs, and how to use the information to communicate impact.

3. Think on the margin.

The search for absolute impact or performance measures is elusive and in my mind irrelevant. Performance is always relative to what you had been doing before (past), to what your competition did over the same time period (peers), and to what you should have done (projections). We have built a system that allows us to look at two of these three P's: past and projections, but not peers. The next stage in developing the Portfolio Data Management System with Google and Salesforce.com is to aggregate the data of our peers in way that facilitates comparisons across portfolios and across relevant subsets of enterprises. Until that time, we will use (and continue to improve) BACO as an inadequate proxy for thinking about the marginal effectiveness of our investments. The social sector, however, could benefit from more consistent "marginal" analyses to frame how various interventions compare with other opportunities to contribute time and money.

4. Count outputs and then worry about outcomes.

The greatest inadequacy of our current system is that we still can't prove impact. We add up outputs and compare them with the inputs (costs). We think about what outcomes might be possible, given what we and the field know about these interventions. It is not very satisfying, but it is where we are. We have been following the work of the Center for Global Development and the Poverty Action Lab, and will continue to advocate for and participate in more rigorous impact assessments of our work, where appropriate. Until evidence-based policy becomes the norm and the cost of doing these assessments falls, we think it is our responsibility to count the outputs as consistently as possible. The conclusions you can draw from these outputs may not be made with scientific rigor, but they can inform businesslike decisions and raise important policy questions. Why, for example, does it cost \$5,000 to build a low-income home in Pakistan but twice as much in Central America? Or, how can we reduce the price of drip irrigation systems in Pakistan to the \$150 to \$200 per acre we see in India?

5. Don't confuse information with judgment.

Even with very robust systems, we will always have an incomplete picture of our portfolio's performance. While collecting lots of data, it is essential to balance the qualitative—observations and anecdotes—with the quantitative—facts, metrics and trends. There is no substitute for judgment, but judgment not informed by careful attention to patterns of facts can quickly slip into speculation and intuition. And it is important to hold oneself accountable to those judgments. One small step we take to this end was inspired by investment committee member Stuart Davidson: at the end of our investment committee calls, we often pull out a prediction book and ask members of the committee to predict the results of a specific investment metric in 18 to 24 months' time (e.g., number of houses built, number of patients treated, total revenues).

Not surprisingly, when we revisit the predictions, we are almost always wrong; in most cases, we were too optimistic, but in some cases, the investments have outperformed our estimates. What's important about the process is that it asks people to make an informed guess, and then we circle back at some point to see if they were right. There is nothing magic about this—in fact, this is how stock markets work. But instead of five investment committee members speculating on 35 privately held investments, the stock markets allow millions of investors to guess about the future of tens of thousands of companies. One aspiration for the sector is that we can achieve a level of information transparency and consistency of data definition so that a “social stock market” might emerge.⁹

THE KNOWING VS. DOING GAP IN MEASUREMENT¹⁰

As I was drafting the outline for this article, Peter Reiling of the Aspen Institute mentioned that I should review a chapter from *Cost Effectiveness in the Non-Profit Sector*, to which he had contributed.¹¹ In the chapter written by the team from

TechnoServe, I was stunned to see a detailed description of a comprehensive social impact and performance management system that was very similar to what I described above: a balance of qualitative and quantitative measures, using reasonable proxies to assess the poverty impact of business interventions, and clear spreadsheets for use by a distributed team. The whole works. And the chapter closes with some “lessons learned” that overlapped with some of mine above, including the first one: “Pursuing cost effectiveness requires strong commitment from management.”

Hang on, I thought. If we have known as a sector what needed to be done for more than a decade, why haven’t these practices become the norm? Why does each new organization in the social sector need to reinvent the measurement function, when we don’t reinvent our accounting or technology systems? This double-take on why we haven’t learned from Technoserve’s experience introduces a few observations about the challenges of building out these systems in the development sector and why I think we are at a particular inflection point where this could change.

The starting point is that no system has emerged that has really gotten it right. We still struggle with putting our investment performance into the right context, and we get feedback either that we tell great stories without sufficient data, or that we present too much data without putting it in context. With a few exceptions, no systems can capture and communicate performance metrics so clearly and compellingly that they have been able to not only satisfy existing donors, but also attract new ones.

So without a standard to aspire to and a system to replicate, each organization has been tasked with building its own system, and building it without spending too much “overhead.” So, in the typical pattern, an over-stretched staff member, likely someone who has no experience in evaluation but does have an MBA or experience working with Microsoft Excel, starts from scratch, and with no budget. Another pattern is for a really thoughtful consulting firm (in our case, McKinsey) to do a reduced-fee or pro bono study to map out the system, but then leave before it gets implemented. It probably takes 18 to 24 months to conceive of, test, design, build, and refine any good system, well beyond the typical four-month consulting engagement. Firms that want to take social impact seriously might think of a model where they can engage with clients over longer periods of time, less intensively, to help build and deploy measurement systems.

Complicating the system building, management teams and boards are often

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not patient enough to wait for the system to be developed before reporting on current program performance. Or, once a system is built, organizations skimp on new investments in adaptations or further development. Donors, in our experience, do care about metrics, but they want simple, clear, and meaningful metrics and at the end of the day still prefer stories about the impact of our work (preferably stories informed by data).

The final problem is one of collective action. There are now enough organizations across the social sector that have taken the time to build measurement systems, with staff committed to solving this problem, with patient boards and leadership supportive of the work, and with donors prepared to reward proof of impact. The challenge facing those leading organizations is how to take the first step towards transparency, and how to invest the time in solutions that might benefit the sector and not just our organization. Acumen Fund is pushing ahead to develop a Portfolio Data Management System in collaboration with Google, the Skoll Foundation, the Lodestar Foundation, and Salesforce.com, but we are wary of investing too much time without seeing reciprocal interest and commitment from our peers.

I remain hopeful, however, that enough practitioners have built partial systems that we can work together to build a sector-wide solution. By working collaboratively, sharing what works and what doesn't, and defining collective solutions to our common problems, we might just answer questions about social impact. Technology and communications innovations in the last decade, coupled with lessons learned from early experiments in this arena, can all contribute to the design of a new sector-wide system. The tricky part will be to build the institutional arrangements that encourage collaboration and transparency, maintain quality standards in a world filled with messy data, allow for continuous improvement and learning, and listen to the feedback of stakeholders, from donors to end users of the goods and services being provided.

If we can solve the problems of collaboration, I am confident that we can build tools that are easy to use, inform real decisions, provide meaningful performance information to donors, shape public policy, and make a real difference in the lives of the people we are trying to serve. And once we have such a simple system, we will have finally reached the other side of complexity.

APPENDIX:

PRECEDENTS IN MEASURING SOCIAL RETURNS ON INVESTMENT

As we set about tackling the metrics challenge at Acumen Fund, we had some very helpful historical precedents, a handful of admirable peers, and some insightful advisors who helped during our first couple of years of mucking around. The field of social measurement took a great leap forward in the late 1990's with the work of Jed Emerson and Melinda Tuan of the Roberts Enterprise Development Foundation and Fay Twersky, then at BTW Consulting (now at the Bill & Melinda Gates Foundation). Their pioneering "social return on investment" (SROI) frame-

work contributed a compelling metaphor for social investors. Much as one can calculate the financial return (ROI) of any investment, careful analysis of a few comparable programs might enable a social investor to calculate an SROI as well. As we tried to apply this thinking to our portfolio, we realized that SROI might be better as metaphor than as methodology. We had too many diverse investments (water projects in India, housing projects in Pakistan, health clinics in Kenya) to quantify in dollar terms the value of the social services being provided in a comparable way.

Another methodology that has gained currency in the social sector is balanced scorecards.¹² With the support of the W. K. Kellogg Foundation and the Cisco Foundation, we engaged McKinsey & Company to think about how to develop impact scorecards for our investments. Several of our peer social investors, namely, New Profit, used some form of balanced scorecards to drive performance management within their portfolio companies. The scorecards are helpful in clarifying the links between inputs and outputs, outputs and outcomes, and presumably the measures of impact.

Two peer social investors—Robin Hood and Venture Philanthropy Partners—shared with us how they looked at impact. The Robin Hood Foundation, with its focus on programs that seek to end poverty in New York City, shared its rigorous system with us, looking at changes in family income per unit cost of the various programs that it funds. Venture Philanthropy Partners shared its capacity assessment framework, which seeks to rank institutions on a range of organizational indicators from quality of governance to integrity of financial systems. These two examples offered practical reminders for blending quantitative and qualitative assessments to create a complete picture of enterprise performance. Mark Kramer's 2005 essay "Measuring Innovation: Evaluation in the Field of Social Entrepreneurship,"¹³ synthesized a range of ideas around ways to develop practical and balanced measures of impact, and the need to collect timely and relevant information, to use the data collected to inform real decisions, and to anticipate continuous improvement of the data structure and metrics.

Finally, some of Acumen Fund's partners from the private equity and technology worlds offered sage advice to keep things simple and focused on the decisions we were making. Hunter Boll, the chair of our investment committee, encouraged us not to get too carried away: to think about a handful of metrics that really drive company performance, and to look at them quarterly. David Keller, formerly at Cisco Systems, stressed that any data we collect needed to inform a decision. If we were not using the information to make a decision—to exit an investment, to make a new investment in the same type of business—then we should rethink the value of collecting the data.

1. For more on Acumen Fund, see "Meeting Urgent Needs with Patient Capital," by our founder Jacqueline Novogratz, in the Winter/Spring 2007 issue of *Innovations*.

2. Ted London, *The Base of the Pyramid Impact Assessment Framework: Enhancing Mutual Value Creation*. Working Paper, the William Davidson Institute, University of Michigan, January 2008.

3. We are aware of the trap that we may only manage what we measure, so we are constantly pressure-testing our system.
4. We define the poor as part of the base of the pyramid, or those who live on less than \$4 per day.
5. This debate was largely resolved by an August 2007 communication from the World Health Organization insisting that, for maximum public health benefit, long-lasting anti-malarial bed-nets should be distributed free, rather than sold.
6. J. E. Gimnig et al., Effect of Permethrin-Treated Bed Nets on the Spatial Distribution of Malaria Vectors in Western Kenya. *American Journal of Tropical Medicine and Hygiene* 68 (2003), (suppl 4): 115-120.
7. Again, like all aspects of measuring social change, this point also generates considerable debate. We were greatly influenced by the May 2006 report from the Center for Global Development, "When Will We Ever Learn: Improving Lives through Impact Evaluation" (<http://www.cgdev.org/content/publications/detail/7973>). It pointed out quite bluntly that the quality of impact assessments in the development field has been historically poor, and calls for more rigorous evaluations to inform development assistance programs or policy initiatives.
8. See <http://blog.acumenfund.org/2007/01/26/the-method-behind-our-metrics/>.
9. Many people have been thinking about the creation of a social stock market, but as yet no standard or platform exists as a marketplace or clearinghouse.
10. In *The Knowing Doing Gap: How Smart Companies Turn Knowledge into Action* (Harvard Business School Press, 1999), Jeffrey Pfeffer and Robert Sutton, both at Stanford's Graduate School of Business, explore why the prevailing wisdom in management practice is so often ignored during implementation.
11. Gerald L. Schmaedick (ed.), *Cost-Effectiveness in the Nonprofit Sector*, Quorum Books, Westport, CT, 1993. The other lessons are also worth reading.
12. Robert Kaplan and David Norton, *The Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, 1996.
13. Prepared for the Skoll Foundation, by the Foundation Strategy Group. Available at <http://www.fsg-impact.org/app/content/ideas/item/353>.