



Social Return on Investment

All types of organisations – commercial as well as social enterprises – create value along a continuum ranging from economic to socio-economic to social. It is of increasing importance for social enterprises to be able to document the social value created.

Today it is extremely crucial that any organisation, be it a for-profit, or a not-for-profit organisation, is able to demonstrate the value it is creating by its very existence. Shareholders demand it in the case of for-profit organisations, while in the case of not-for-profit agencies, donors want to see the impact of their funding. For a business organisation whose purpose is to create economic value, there is no argument on what the bottom line should be – it is clearly profits. Over the last half a century econometrics has come up with various tools including return on investment, debt/equity ratios, price/earnings and numerous others to measure the financial health of an organisation. These measures form the basis for analysing most economic activity in the world. But in the case of not-for-profits, not only is the bottom line not very clear, but it is even more difficult to measure it.

Organisations exist to create value. The traditional thinking goes that business organisations create economic value while voluntary organisations, charitable

organisations, etc. create social value or environmental value. But this fractured thinking ignores the fact that any type of organisation is embedded in society and the physical environment in which it is situated. Hence in addition to economic value, social and environmental values are also created during the operations of the enterprise. This applies to all organisations be it a commercial enterprise or a social venture.

Blended value

Since all organisations during the course of their work create value that is a mix of economic, social and environmental value, this in effect means that they create 'blended value'. Only it is not recognised so. Value created by an organisation is itself indivisible and therefore a blend of the three values. The difference is the amount of emphasis given to each of the three aspects.

Traditionally business organisations have sought to maximise the economic value while charitable organisations have sought to maximise social and/or environ-

mental value. Value creation occurs along a continuum that extends from purely economic to socio-economic to social. Economic value is created by a set of processes that increases the value of inputs and thereby generates a product or service that has greater value at the next higher level of the value chain. Social value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. It is here that most not-for-profits justify their existence, and unfortunately it is at this level that one has the greatest difficulty measuring the true value created.

Social Return on Investment (SROI)

There is increasing pressure on not-for-profits to justify and document the effectiveness of their work. The 'feel-good' charity factor is no longer enough to justify funding the work of a not-for-profit entity. Donors are demanding not only greater operational accountability but also the ability on the part of the implementing agency to document the impact

of their funds. Donors are moving beyond outcome measurement to measuring 'social returns' and are looking for the ability to document the added social value of their funding. Due to the absence of appropriate metrics to measure social value creation, the work done by the non-profit sector is grossly undervalued and thus the (social) value created by the investment is not known. As the social sector competes for diminishing funds it is increasingly important to document the social returns on investment. Among other reasons, it is important to calculate social returns for the following two reasons:

- One rupee invested in social value creation generates future economic and social returns much in excess of the initial rupee.
- Social enterprises are creating significant value for society which goes largely undocumented and is vastly under appreciated.

Measuring social value

The framework for measuring social value was pioneered by Roberts Enterprise Development Fund (REDF), a San Francisco-based philanthropic fund that invests in organisations working for social benefit. REDF started off on the SROI quest because they wanted to know whether their work was improving the lives of the people. It seemed to be having good effects but there was no way of assessing the impact of resources. Essentially REDF wanted to answer a series of questions:

- How can we measure the success of our efforts?

- How do we know whether we are accomplishing what we set out to do?
- How can we make informed decisions about the ongoing use of our resources?
- How can we test and convince others of what we believe to be true: that for each dollar invested in our portfolio agencies' efforts, there are impressive, quantifiable resulting benefits to individuals and to society?

The essential steps in calculating SROI are as follows:

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- Examine the social activity over a given time frame (usually 10-15 years)
- Calculate the amount of funds required to support the activity
- Identify the various cost savings, reduction in spending and related benefits that accrue as a result of that activity.
- Monetise the cost-savings and related benefits i.e. calculate the economic value of those costs in real rupee terms.
- Discount those savings back to the beginning of the investment timeframe using a net present value or discounted cash flow.
- Present the socio-economic value by expressing the

value in terms of net present value.

Much more than a single number, SROI Analysis is a way of reporting on value creation. Therefore, there is a distinction between 'SROI the number' and 'SROI Analysis.' The latter encompasses: a) information about the process by which the number was calculated, b) context information to enable accurate interpretation of the number itself, and c) additional non-monetised social value and information about its substance and context.

The following section (adapted from the draft framework for Haas Social Metrics Conference Reviewers) details the ten activities involved in calculating SROI. Four main stages in the process of conducting an SROI analysis categorise the ten activities. Within these activities there are a number of options. Each activity and the relevant options are

charted on the pages that follow.

Stage 1 - Construction

Activities at this stage define the scope of the analysis.

Activity 1 - Understand your goals for the analysis

- Define your own organisation's values, vision, mission, objectives and activities.
- Determine your internal objectives for doing the SROI analysis.
- Determine whether the SROI analysis is to be used for forward-looking analysis (projections of activity) or backward-looking analysis

(assessment of activity completed).

- If they are available, review business and strategic plans of the organisation that is the subject of the analysis.

Activity 2 – Identify the subject organisation’s stakeholders

- Identify the stakeholders affected by the organisation, enterprise or program that is the subject of the analysis.
- Define organisational objectives for the subject organisation in relation to the activities being analysed for the selected stakeholders.
- Review how the SROI Analysis will contribute to achieving these objectives.

Activity 3 - Determine the scope of the analysis

- Determine what part (s) of the subject organisation will be included in the analysis.
- Determine which stakeholder issues will be included in the analysis.

The SROI number can be calculated for a whole organisation, but often it is necessary to limit the scope to a part of the organisation because of time, capacity, data availability, relative importance of stakeholders, or because it is useful to analyse the impacts of just one area of activity. Where only part of an organisation’s activities is included, it is important to allocate an appropriate share of overhead costs.

Activity 4 – Analyse income and cost

- Develop statements of the income and costs associated with the activities being analysed.

In general, most businesses will not differentiate between investments, income or expenditures that contribute to the creation of non-financial (social or environmental) value, and those that contribute to the creation of financial value.

However, in the case of social businesses or enterprises that receive grants or make expenditures they would not have if not for their social mission related activities, profit and loss accounts (income statements) may distinguish between ‘social (and economic and

Social enterprises should distinguish between social, economic and environmental income and expenditure and financial income and expenditure.

environmental)’ income and expenditure and financial income and expenditure.

Activity 5 – Map the impact value chain

- Identify inputs, activities, outputs and outcomes of the unit being analysed.
- Consider impacts on each stakeholder.

There is a risk that impacts that are not attributable, or only partially attributable, to the organisation will be included in the analysis. Where the organisation has restricted its scope to just part of its activities, this step must include an assessment of

interdependencies between other parts of the organisation.

Stage 2 Content

Activities at this stage provide the actual content to be analysed.

Activity 6 – Set indicators and collect data

- Map the benefits and, for each, choose indicators that are to be used to account for outcomes.
- Collect data.
- For each outcome, consider and deduct an estimate of what would have happened without the organisation’s activities to account for impact. Discuss the basis for and certainty of this estimate. Currently there is no single, generally accepted process for assigning monetary values to social impacts. For some indicators there will be obvious monetary values, for others proxies will be required that may not be widely accepted. It may not be possible to monetise all indicators, or to do so in a credible way.

Activity – 7 Create projections

- Determine a time horizon over which to project future impact.
- Create projections of the future outputs, outcomes and impacts, and their monetised value.
- Also project social income, expenditure and investment costs over the period.

Note: If SROI is a projection, Activity 6 is the same as Activity 7.

Stage 3 Credibility

Activities at this stage determine and communicate the credibility of the analysis.

Activity 8 – Calculate social return

- Perform the actual calculation of social return relative to investment.

Once the income and expenditure have been estimated for future years, it is possible to calculate SROI. There are other ways of measuring value that do not take into account the time value of money (meaning that do not require consideration of a discount rate) but that could be used by organisations starting to explore social value, for example, annual social value added per beneficiary.

NPV can and should be complemented with other informative metrics. For example, total returns divided by total costs give an impact value per unit cost (a 'unit cost') metric. Another measure might be the number of years necessary for the benefits to accrue to support the costs (the 'payback' period).

Since the results are dependent upon assumptions, sensitivity analysis is used to present a range of SROIs as a set of scenarios. For example, if impact is very sensitive to the number of people benefiting, the assumption about the number of people projected to be involved can be varied to show how the projected impact changes. In this case, a valuable metric for the enterprise to watch going forward (in Activities 9 and 10) will be the actual recorded benefit per person.

Activity 9 - Reporting

- Develop a report summarising the social return on investment analysis.
- Have results verified or audited by a third party if feasible and desired.

It is important to set the calculations of an SROI in context. Ideally a report should include:

- Information relating to the organisation, its mission and goals and discussion of its work and activities
- A financial analysis of the organisation
- A stakeholder map and analysis
- Description of the SROI Analysis process followed above, in particular discussing the scope and restrictions, including a description of the impact value chain, the indicators selected, and related issues
- Descriptions of tracking systems used to collect output data
- Clarification of assumptions
- Description of areas which have not been measured or monetised
- Calculations of SROI and sensitivity
- Statement that can be used to inform others seeking to use results for comparative purposes
- An analysis of the results

Stage 4 Continuity

This stage integrates the SROI analysis into business operations.

Activity 10 - Monitoring

- Continually track data to inform management whether progress is being made toward desired outcomes, and whether unintended consequences are happening.

Proposals for ongoing monitoring and evaluation should be drawn up and staff identified who will be responsible for ongoing data tracking and evaluation. The results should feed back to internal decision makers to help

them improve operations and measurement

Opportunities and challenges of SROI

It cannot be emphasised enough that SROI cannot and should not be used as a sole measure of social performance. Having additional indicators and standard narrative descriptions is the only way to have a more complete understanding of the true social impact. Like in a conventional financial analysis, the data generated through SROI is more meaningful when compared with comparative data of other organisations. Since the whole concept of SROI is in its infancy, there are not many organisations who would have comparable figures. Hence as mentioned above other indicators and descriptions should be taken into account to get a complete picture.

Additional resources

Roberts Enterprise Development Fund (www.redf.org)

Global Social Venture Competition (www.socialvc.net)

New Economics Foundation (NEF) (www.neweconomics.org/)

The SROI Primer–London School of Business (<http://sroi.london.edu/>)

World Bank's Economic Rate of Return (www.ifc.org)

Blended Value Executive Summary (www.blendedvalue.org)

Interview with Jed Emerson (www.sustainability.com/network/global-influencer.asp?id=200)

See Wikipedia stub (http://en.wikipedia.org/wiki/Social_Return_on_Investment)

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