

social return on investment

○ | **Social Return on Investment**

○ | **Social Impact Assessment**

○ | **Corporate Social Responsibility**

¹ www.blendedvalue.org

² Jed Emerson and Sheila Bonini (2004) "The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation", <http://www.blendedvalue.org/media/pdf-bvm-executive-summary.pdf>, p.1

³ Ushnish Sengupta, Ann Armstrong, and Liz McBeth (n.d.) "Social Return On Investment as a method for measuring the impact of Corporate Social Responsibility efforts", Rotman School of Management, University of Toronto, p. 1

⁴ Mark Kramer and Sarah Cooch (2006) "Investing For Impact: Managing and Measuring Proactive Social Investments", Foundation Strategy Group, <http://www.fsg-impact.org/app/content/ideas/item/287>, p.11

Social Return on Investment (SROI) attempts to capture the "blended value" generated by investments into social or community ventures. The approach uses the tools of cost-benefit analysis to assess the return of these investments. Applied to corporate social responsibility (CSR) efforts, SROI can be an important tool to demonstrate the social impact of corporate investments into communities.

Blended Value

Blended Value is the notion that all organizations create value that consists of economic, social and environmental value.¹ Increasingly, corporations are increasingly concerned with how they can maximize their economic value as well as their social and environmental value. Largely through corporate social responsibility (CSR) strategies, business practices and operations seek to integrate social and environmental considerations. Corporations are realizing that increasing the positive social impacts of their activities can raise (or at least not compromise) shareholder value while simultaneously addressing the concerns of wider stakeholder groups.²

While corporations face increasing pressure to invest in CSR, there also a push to measure and report on the impact that CSR is having.³ For corporations themselves, CSR strategies – much like other business decisions – require an analysis of whether the returns of such investments outweigh the costs. For investments in social ventures, the aim is not simply to maximize the financial return, but to generate a broader set of "blended returns" – economic, social, and environmental. Economic value creation can be captured through existing well-developed metrics

to track financial performance, such as return on investment (ROI), but there are no comparable generally accepted metrics for measuring social or environmental value creation.⁴

As such, there is a strong desire to find ways to measure the blended return of social investments. It is often said that "what get's measured, get's managed." Without measuring the blended return created by CSR initiatives, important (social) considerations and impacts on the corporation, employees, external stakeholders, and society at large, would tend to be under-valued in the operational decision to invest in CSR. Social Return on Investment (SROI) represents an emerging approach that seeks to address some of these issues.

Social Return On Investment

SROI analysis is a method for understanding the environmental and social value being created by organizations in addition to the financial value generated.⁵ The SROI approach, like traditional ROI analysis, utilizes cost-benefit analysis techniques. It compares resources invested to benefits generated, to articulate whether, on balance, the benefits outweigh the costs. SROI monetizes the social benefits and costs relative

“SROI compares resources invested to benefits generated, to articulate whether, on balance, the benefits outweigh the costs.”

⁵ Sara Olsen and Jeremy Nicholls (2004) “A Framework for Approaches to SROI Analysis”, http://www.svtgroup.net/pdfs/SROI_Analysis_1%5B1%5D.0.pdf, p.4

⁶ Social value here indicates both social and environmental benefits; Coro Stranberg and Brenda Plant (2004) “Scan of the Community Investment Sector in Canada.”, www.corostranberg.com/pdfs/nationalRoundtable_sept2004.pdf

⁷ Jeremy Nicholls (2007) “Social impact and social returns”, <http://www.philanthropyuk.org/AGuidetoGiving/InformationSheets/SocialImpactandSocialReturns>

⁸ *Ibid.*

⁹ The REDF portfolio is the most prominent example

¹⁰ Sengupta et al. (n.d.)

¹¹ Olsen and Nicholls (2004), p.4

¹² New Economics Foundation (2004) “Social Return on Investment: Valuing what matters”, http://www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=180, p.2

to the financial costs, based on the net present value of the non-market outputs in dollar terms.⁶ The SROI ratio is the discounted, monetized value of the social value that has been created by an organization, relative to the value of the investment required to achieve that impact.⁷

At a general level, SROI can be used to understand how an organization meets stakeholders’ objectives and creates change, by identifying indicators of those changes and assigning them financial values.⁸ Compared to traditional ROI analysis, the integration of the “social component” has differing implications for what returns are considered in the analysis, and to whom these returns accrue to. Stakeholders – those that can affect or who are affected by the organization’s work – are included rather than only shareholders.

The Value of SROI

As a method of social accounting, SROI has mostly been used to date to assess the performance of social enterprises.⁹ However, various trends have encouraged broader applications of SROI related to CSR. These include an increased demand for proving and communicating the business benefits of CSR efforts, and standardization trends in CSR reporting.¹⁰ SROI can be used as a tool to address some of these issues, and applied to a broader range of initiatives related to CSR:

Assessing social impact: SROI can be used as a tool to evaluate social impact after investments have been made in social ventures. Corporations that invest in social issues through their own programs, or through non-profits, can assess the difference that corporate contributions have made – not only of financial resources, but also of human and in-kind resources. The availability of such data can illustrate gaps and opportunities for social investment that can catalyze social change, and benchmark data can be useful in assessing the “biggest social bang for the buck.”

Informing investment decisions: SROI can be used by corporations to inform their community investment decisions. SROI can be used to identify and assess, among a range of potential social investment opportunities, which candidates hold potential to generate the greatest social impact relative to financial investments. For CSR investments, the inclusion of social variables provides a more accurate assessment of risk and return, and can facilitate improved due diligence. Capturing metrics before investments have been made can also provide a useful baseline to compare to when assessing social impact.

Tracking performance: SROI has been used by managers of non-profits or social enterprises to inform their projections, strategic planning and performance assessment.¹¹ As a management tool analyzing social value creation, SROI can track social performance against the social objectives, to inform decision making processes, and to recognize the social value created for targeted groups. There are applications to other groups: for example, some Socially Responsible Investment (SRI) funds refer to the SROI for their social investments and express it in terms of outputs – such as the number of units of social housing built per dollar invested.¹²

Making the case for social investments: In demonstrating the positive impact of social investments, a set of well-defined metrics supplemented with contextual and qualitative information can provide powerful evidence. Where SROI has been applied to social enterprises, there is compelling evidence to suggest that the blended returns on such investments are significant.¹³ SROI is a tool that can make the case to invest in social ventures by capturing the social value that is generated, and to justify further investments for scaling up and replication.

SROI Models

There is no single way to conduct SROI, but many methods share common principles. Methods differ in complexity and focus, and in the way they have been applied to specific social ventures (in particular, for social enterprises).¹⁴ We briefly highlight three prominent initiatives:

The Roberts Enterprise Development Fund (REDF): REDF is considered to be the pioneer in articulating SROI. REDF has created an SROI Framework that identifies direct, demonstrable cost savings and revenue contributions associated with an individual's employment in a social purpose enterprise.¹⁵ Resources include: an SROI Methodology Paper, SROI Reports from individual social enterprises, and an Excel model to calculate SROI metrics.

The New Economics Foundation (NEF): NEF has built on the work of REDF, and refined the SROI model to make it applicable to a wider range of organizations.¹⁶ The NEF approach is more holistic, incorporating a broader range of stakeholder interests, as well as strategies to align corporate and non-profit interests.¹⁷ Resources include guidelines on implementing SROI, case studies, and supplementary resources on social impact assessment.¹⁸

Social Capital Partners (SCP): SCP, a Toronto-based social venture capital organization, is a pioneer in incubating social enterprises in Canada. SCP's SROI model is a simplification of the REDF SROI Model, and employs a Sustainable Livelihoods Framework to assess the role of social enterprise in employment creation. Online resources include resources on SROI methodology, and SROI Report Cards on SCP's social enterprise investments.¹⁹

A Reality Check

SROI analysis has recently attracted much attention as a method to capture social impact. The concept "speaks the language of finance", and as such, appeals to corporate philanthropists

and social investors seeking the "highest social bang for the buck". Like traditional cost-benefit analysis, SROI promotes a scientific and objective approach to measurement. Metrics can be presented creatively to illustrate the impact of social investments, and indicate whether there has been positive social change or not.²⁰

However, there are significant hurdles that limit the applicability and use of SROI to all social ventures. In particular, SROI models derived from experience with social enterprise may not be applicable to all CSR investments. SROI analysis is time and resource-intensive, requiring significant financial and human capital investments. Appropriate data and research may be difficult to obtain especially if it is not already being regularly collected. There are constraints on what social impacts can be captured and quantified – such as placing a dollar value on intangible social benefits like increases in employee morale from volunteering.

Part of the problem is that assessing social value requires an element of subjectivity – what social impacts are important, and for which groups – within a method that strives to be scientific and objective. In addition, causality and correlation between activities and socio-economic returns can be challenging to attribute. To deal with these issues, it is important to clearly articulate the assumptions and context behind the numbers. These qualitative elements are important to contextualize progress and performance against social objectives.

Evaluating for Impact

CSR strategies have demonstrated that the private sector has a role to play in addressing important social issues. CSR strategies have various drivers – reputational benefits, improved employee performance, customer loyalty, to name a few. SROI cannot capture all these dimensions, nor can it replace the intangible benefits that can contribute to the bottom line. But SROI illustrates that there is

“SROI illustrates that there is a place for innovative mechanisms and value propositions for social investments.”

¹³ Refer to REDF and SCP

¹⁴ A good comparison is provided in Sengupta et al (n..d)

¹⁵ REDF (2000) "Social Return on Investment Collection (2000)", <http://www.redf.org/publications-sroi.htm>

¹⁶ NEF (2004) "New tool in UK pilot shows full return on investment", http://www.neweconomics.org/gen/news_SROI.aspx

¹⁷ Sengupta et al. (n.d.), p.15

¹⁸ NEF (n.d.) "New ways of measuring", http://www.neweconomics.org/gen/new_ways_top.aspx?page=845&folder=137&

¹⁹ SCP (n.d.) "Measurement and SROI", http://www.socialcapitalpartners.ca/measurement_background.asp

²⁰ See the REDF and SCP social enterprise reports

This case study was written by Karim Harji, Social Finance Program Officer at the Carleton Centre for Community Innovation, in January 2008.

a place for innovative mechanisms and value propositions for social investments. Social and environmental outcomes can be translated into tangible monetary value, and SROI can help organizations and investors of all kinds to see a fuller picture of the benefits that flow from their investments.

As more funders (corporations, foundations, and others) view grants as forms of investment in communities to create and catalyze positive social change, there will be an increased focus on maximizing the benefits from strategic investments. There is a demand for more sophisticated tools that can evaluate how funds have (or can) been used to achieve positive social impact – both ex-ante (in selecting which investments could be most promising) and ex-post (in evaluating social return). SROI thus provides funders a means of not only of measuring their grant-making but also of making the case inside their own organizations for why and how they should invest.

Albert Einstein is credited as saying “everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.” As the field of social impact evaluation evolves, SROI should be seen as only one tool amongst many to assess social impact.

Metrics must be supplemented with qualitative information to clarify assumptions and provide context. SROI can be difficult and expensive to implement for many small organizations, and there are also methodological issues that need to be addressed. But it can be an important tool to understand what resources have gone into an enterprise, and how effectively those resources have manifested in social costs savings and societal improvements.

Selected Resources

BlendedValue.org: www.blendedvalue.org

SROI Primer: <http://sroi.london.edu>

Roberts Enterprise Development Fund: www.redf.org

Social Capital Partners: www.socialcapitalpartners.ca

Catherine Clark et al. (2004) “Double Bottom Line Project Report: Methods Catalog”, www.riseproject.org/DBL_Methods_Catalog.pdf

New Economics Foundation (2004) “Social Return on Investment: Valuing what matters”, http://www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=180

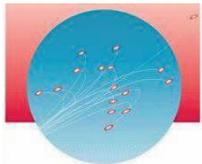
Ushnish Sengupta, Ann Armstrong, and Liz McBeth (n.d.) “Social Return On Investment as a method for measuring the impact of Corporate Social Responsibility efforts”, Rotman School of

Funding generously provided by The Ontario Trillium Foundation

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Carleton Centre for Community Innovation
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Carleton Centre for Community Innovation

The Carleton Centre for Community Innovation (3CI) brings together superior academic research and knowledge dissemination to Canadian communities in ways that promote long-term growth and sustainable development. One of Canada's leading sources of expertise in social finance, 3CI has also played a leadership role in grant-making, evaluation and policy analysis in the fields of community economic development and social enterprise. From 1997 to 2008, the Centre managed the Community Economic Development Technical Assistance Program (CEDTAP), with the support of The J.W. McConnell Family Foundation, The Ontario Trillium Foundation, Bell Canada and other partners. Other action-research priorities for 3CI include local governance, community learning and community-university partnerships.

www.carleton.ca/3ci
ccci@carleton.ca

tel: (613) 520-5792
fax: (613) 520-3561