

PRINCIPLES AND CONSTRAINTS OF SROI. LESSONS LEARNED FROM A REAL-LIFE EXPERIENCE¹

Principy a omezení metody SROI. Zkušenosti z praxe

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Introduction

In 2009 the TESSEA network – the Czech national network focusing on social enterprise development – launched several research projects relevant for the development of social entrepreneurship. This paper presents one of such projects – an exploratory research for suitable methods of impact measurement with one of the methods to be applied on a pilot case to test its qualities.

A multidisciplinary team with 7 members worked during more than 18 months (from 2010 on) to make a case study. Modrý domeček is a spin-off project (sort of a business unit) of a civic association Náruč that aims to help mentally disabled people and their families to better integrate into society through employment. Modrý domeček itself is a community centre including a café, a gallery and some coupled services that is partly self sustainable but relies partly on contributions from local government allocated for the social and assistance services provided. The aim was to test-run the method of social return on investment for Modrý domeček to provide both parties with relevant experience. TESSEA would closely observe the issues that arise with application of the SROI method and Modrý domeček would learn (and be fully assisted) how to apply SROI and more broadly how to report on impacts of their activities to their stakeholders.

Social return on investment – methodology, issues and reasons for pilot application

The method of Social return on investment arose as the promising one from a previous exploratory research undertaken by the project team members. The methodology was adapted from British sources where SROI has been mainstreamed for several years already.

The SROI method makes reality what used to be a dream before. The idea behind SROI is not a new one and helps to illustrate the following principle: “How do the impacts of activities carried out by an organisation relate to the consumed inputs?” The answer could not be found unless economists did not come with the concept of monetisation. The impact cannot be compared to the input unless both of them are measured with the same means – the simple answer is money. The SROI replicates what has been an efficient tool for businesses around the world over decades – the Return on investment (ROI) metric – into the social service sector.

The SROI simply relates valued impacts with the value of inputs.

$$\text{SROI} = \text{Impact (CZK)} / \text{Input (CZK)}$$

The above formula builds on the assumption that an organisation can be described as an agent of change. The agent of change is accountable to a set of stakeholders who anticipate the agent's activities which must result in controllable results delivering tangible social impact. The process can be modelled as the following set of elements that can be formulated and some of them are quantifiable:

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STAKEHOLDER → CHANGE → ACTIVITY → OUTPUT → IMPACT

which reads as follows:

STAKEHOLDERS want the social business to CHANGE the society by carrying out defined ACTIVITY/IES generating a given OUTPUT/S hoping to have a certain IMPACT/S on the society.

Activities can be directly influenced and managed by the operating entity (social enterprise) and thus should be controllable. Activities result in controllable and quantifiable outputs. While activities and outputs are under control of the operating entity the impact of such activities cannot be guaranteed and the social enterprise must believe that impact is reached through solid performance on activities and outputs.

For the need of the fully mathematical SROI formula some elements of the above described map of change have to be monetised, namely the impact. The monetisation of impact is realised through financial proxies – the impact is compared on the basis of subjective value perception with items that are traded on the market or can be expressed financially quite easily. This comparison is crucial not only for the formula but also for the SROI method credibility towards target stakeholders. A set of subsequent steps is then applied on each estimated item in order to keep the figures credible by offsetting possible overlaps of impact caused by factors other than activities of the social enterprise. The three adjustments made to the perceived value of the impact (expressed by the financial proxy) are:

- deadweight – part of the impact that would appear anyway (to be subtracted);
- attribution – ratio of the impact that can be attributed to the measured activities (to be counted); and
- drop off – degradation of the impact over time (as a per cent value to be subtracted).

After having described all necessary elements for each of the activity taken into account – i. e. activity leading to a sizeable output that is in line with the perceived social change – the expressed values can be summed up and put into the formula. The inputs are more likely to be easily summarized and expressed in monetary values as they are mainly real money donations, contributions or investments however there are still volunteer workhours or similar investments to be expressed.

Constraints of the SROI

SROI builds on the relevance of such a metric. The Social return on investment metric may appeal mainly to economists and investors who are familiar with the ROI metric (Return on investment). It is a sound and comprehensive measure showing an organisation does not waste money. What looks as a gem from one's perspective may however yield serious troubles relevant to the others. While praising SROI for its practicality one should never overlook the method's limits and drawbacks. The issues to be discussed are as follow:

1. the very idea of expressing value with financial proxies,
2. weak justification of the chosen proxy;
3. too many factors taken into consideration for the calculation of SROI;
4. heavy workload of the implementation team.

The key concept of SROI – the idea of financial proxies – is both an advantage and a major weakness. Financial proxies are very flexible (they allow quantification of any activity and

results) but weakly justified (anything relevant and reasonable may be chosen as proxy and its consideration depends solely on the reporting unit). The value expressed as compared to the perceived value of a social service will certainly be different for different people and there is no such a mechanism of bringing the value to any equilibrium that would make itself sort of objectively set. This approach is vulnerable to overvaluing.

For each of the studied activities one can find as many suitable proxies as many times he/she chooses to search. This might dishonour the organization's good will to report about its value-added. Typically it is more difficult to choose between a number of proxies rather than to find them.

The SROI takes into consideration some factors that influences the results. Be it drop-off, deadweight and attribution – their rates are difficult to be set and their impact on the results of SROI is big.

A whole expert multidisciplinary team was needed to conduct the pilot implementation of the analysed project in Řevnice. It can be only hardly imagined if an NGO would have free money to invest them in to hire good facilitators to guide the mentioned NGO through the implementation process.

Conclusions

The social return on investment ratio of Modrý domeček made 1,4 in year 2009. This means the organisation is not destroying value of the money invested in it.

The implications of the pilot implementation of SROI for Modrý domeček (and other social enterprises) are the following ones. SROI is:

- a viable method of impact measurement for social enterprises,
- very sophisticated a method and needs expert involvement both in the organisation and in consultancy,
- time demanding and thus quite expensive,
- potentially very beneficial tool for stakeholder accountability management and strategic management of the organisation in general,
- heavily dependent on user's capacity to involve stakeholders in the analysis, describe social changes and find suitable financial proxies for activities' outputs.

The SROI is being evaluated by the Czech government for potential use within the process of contribution (subsidy) allocation among NGOs. In order to require a SROI report to be filed from all NGOs the Czech government should:

- setting a clear roadmap of installing SROI as standard tool in a not very close time horizon to let organisations adapt and learn before SROI is imposed by force on them,
- help build reporting capacities of social enterprises by triggering consultants and pilot projects,
- create tools for SROI reporting, such as official guide and a database of indicators and proxies.

Abstrakt

Sociální podniky se objevují po celé České republice a nabízí se otázka, zda můžeme převzít pokročilé západoevropské techniky měření, hodnocení a vykazování dopadů těchto podniků či zda by bylo vhodné využít jednodušší metody, které nevyžadují tak velké zkušenosti s měřením dopadů, a mohou tak lépe přispět k rozvoji měření výkonnosti. Případová studie Modrého domečku v Řevnicích bylo pilotním projektem ověřující možnosti metody SROI

v českém prostředí. Řešitelský tým byl složen z ekonomů, sociologů a účetních a jeho úkolem bylo ověřit využitelnost metody SROI v konkrétním sociálním podniku.

Klíčová slova: SROI, měření dopadů, sociální podnik

Summary

Social enterprises are popping up all around the Czech Republic and raise the question whether we should simply adopt West-European approaches to measure, evaluate and report impact of such enterprises, or rather develop simpler methods requiring lower level of acquaintance in impact measurement, and may thus better contribute towards performance measurement. The “Modrý domeček” case was a pilot implementation of SROI in the Czech Republic aiming to test and evaluate the method locally. Experts from different faculties, sociology, economics, and accounting have teamed to verify potential use of the SROI method in a specific social enterprise.

Key words: SROI, impact measurement, social enterprise

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