



CAPTURING COMPLETE VALUE UNDERSTANDING WITH SOCIAL RETURN ON INVESTMENT (SROI)



As organizations further develop their understandings of sustainability and sustainable outcomes in decision making and strategic direction, it has become increasingly important to understand, monitor, and consider social and environmental value in organizational activities.

These social and environmental aspects can be difficult to integrate into organizational considerations as they are built on extra-financial value which cannot be easily measured against traditional financial accounts. The ability, however, to correlate social and environmental impacts or returns, relative to resources invested, in a consistent and qualitative manner is critical to evaluating such aspects in organizational capacity.

This challenge has been largely overcome through the development of the social return on investment (SROI) method. SROI allows an organization to approach social and environmental aspects with a method which, when properly utilized, allows for understanding and managing value and impacts through the assignment of equivalent financial values. By relying on a common standard of principles, the feedback and impact of stakeholders, and the impartial application of SROI, organizations can directly measure social and environmental benefits and costs. The ability to compare these aspects in the same market terms as financial data improves the organization's ability to perform and make smart long-term decisions and investments.

SROI accomplishes the goal of valuing stakeholder experience, either environmental or social, in market terms through a set of principles built on a multidisciplinary approach. The principles come from the disciplines of social accounting, sustainability reporting, economic principles and financial accounting, audit, and cost-benefit analysis¹. When components from each of these fields are put to work in unison with stakeholder feedback and experience there is sufficient data to reliably bring social or environmental considerations in line with financial ones¹.

PRINCIPLES

Social Value UK, formerly The SROI Network, is an organization with a highly developed approach to accounting for social value. They have developed the seven principles for SROI (right).

1. Involve stakeholders
2. Understand what changes
3. Value the things that matter
4. Only include what is material
5. Do not over-claim
6. Be transparent
7. Verify the result

Principles from Social Value UK

Together, these principles are the foundation and the framework to successfully implementing SROI activities in any organization. Each individual principle plays an important role in the validity of the result, and cannot be treated in isolation or neglected. As a sustainability centered activity, it is easy to realize the relationship to other sustainability functions, such as "only including what is material," which is a key tenant in meaningful sustainability reporting and stakeholder involvement, which is key to developing an unbiased understanding of the scope of impacts for any activity.

KEY SROI POINTS TO CONSIDER:

- SROI analysis results in outcomes-based ratios in the same way that financial ROIs do. So inputting \$10 of investment for \$50 of social outcome has a 5:1 SROI ratio².
- SROI outcomes need not be measured in monetary terms, rather in a common unit. However, monetary units are most frequently used due to the inherent association with value².
- SROI activities treat each stakeholder in a given situation independently, allowing for individual outcomes in terms of benefits and costs to be summed rather than relying on a potentially inaccurate or misleading average³.



- SROI outcomes are only as good as the data involved. The better the quality of data going into SROI actions, the more accurate and actionable the resulting SROI outcomes will be³.
- SROI can be used for both past and future events. In the case of future events SROI has the advantage of being able to measure outcomes in both "before" and "after" implantation states for better accuracy and potentially greater success in both decision making and further implementations².

SROI SUCCESSES

As social and sustainable business practices increasingly become a central consideration in all sectors and across governmental, for profit, and nonprofit organizations, SROI proven its value. This method moves social actions and outcomes from a narrative to concrete auditable data.

Loch Fyne Oysters, a Scotland based fishery, restaurant, and oyster bar, implemented a social accounting initiative in 2008 with great success. As outcomes, they were able to share data illustrating a commitment to sustainable species aquaculture, the value of long-term stakeholder relationships and environmental sustainability, their "no compromise" approach to sustainable sourcing. Loch Fyne Oysters further found that these SROI data outcomes were valuable to the customer in understanding the value of Loch Fyne's practices and building their loyalty as well as to the employees in developing a more complete outlook on the roles and functions of Loch Fyne Oysters⁴.

BT, a UK based telecommunications leader, has become involved in SROI measurement practices as they are "very pragmatic about measurement – as the old adage [goes], 'you can't manage what you don't measure,'" according to John Perkins, BT's Purposeful Business Program Manager. According to Perkins, SROI has proven its value to BT in terms of better information on the product development cycle, enhancing conversations with stakeholders, and the quality of internal conversations and how they look at things. One of the key takeaways in SROI at BT is that it has inspired the company to be bold in carrying a message on the importance of social impact⁵.

Life Works, a North Carolina based community action agency is actively involved in a variety of community supporting activities including areas such as housing, health, employment, and income management for community members. To evaluate the outcomes of their efforts, Life Works employs a results-oriented management and accountability framework to establish the success of outcomes for their program graduates. Given the nature of these outcomes and their frequently extra-financial nature, Life Works has turned to SROI to achieve reliable and "defendable" results. These results have been used to validate the importance of Life Works activities in times of limited budget availability from the state, and also to help inform program improvements⁶.

Resources

- 1 *What are the social value principles?* (2016). Social Value UK. Retrieved from <http://socialvalueuk.org/what-is-sroi/principles>
- 2 *Chroman, A. (2010). Social return on investment: Everything you wanted to know in 30 seconds. Ashoka Innovators for the Public (Blog).* Retrieved from <https://www.ashoka.org/story/social-return-investment-everything-you-wanted-know-30-seconds>
- 3 *Salverda, M. (n.d.) Social Return on Investment. BetterEvaluation* Retrieved March, 2016 from <http://betterevaluation.org/approach/SROI>
- 4 *Loch Fyne Oysters – Social accounting method. (n.d.) Social Impact Scotland.* Retrieved on 3 March 10, 2016 from <http://1068899683.n263075.test.prositehosting.co.uk/case-studies/loch-fyne-oysters-social-accounting-method/>
- 5 *SROI case study: BT. (n.d.) Social Value UK.* Retrieved on 10 March 10, 2016 from <http://socialvalueuk.org/publications/case-studies>
- 6 *Social return on investment, An APHSA Innovation Center Issue Brief. (2013). American Public Human Services Association.* Retrieved from <http://www.aphsa.org/content/dam/aphsa/pdfs/Innovation%20Center/2013-05-Social-Return-on-Investment-Brief.pdf>

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