

## **Open Symposium III: Tools for Measuring Social Enterprise Outcomes**

*As wealth creating initiatives pursuing multiple bottom-lines, one of the challenges faced by social enterprises is how to measure non-financial outcomes. This session was dedicated to studying tools and practices that measure social, environmental and other impacts beyond financial returns. Two resource persons – one from Europe and another from Asia – who have dedicated substantive amount of helping social enterprises develop such tools were guests in this session. Prof. Ronald Chua of the Asian Institute of Management (AIM) chaired the symposium.*

### **SROI: Performance Measurement for Social Entrepreneurs by Mr. Peter Scholten<sup>1</sup>**

*Alice asked: “Cheshire cat...would you tell me, please, which way I ought to go from here?”*

*“That depends a good deal in where you want to get to. If you don’t know where you are going, then any road will take you there”, said the cat.*

*- Alice in Wonderland*

Based on the theory of change, it is critical that you know what you want to change or influence, what results you want to realize, what resources you need to make this change happen, what assumptions you need to establish, and what added value you want to create. Every enterprise – profit and non profit alike – creates value whether financial, social, or ecological. These values may be positive or negative, depending on how the mix of social and financial profits is optimized.

Every investment requires a profit. A social return on investment (SROI) is a quantitative measure of social impact from capital investments (e.g. subsidies and grants). SROI functions as a management tool that enables social entrepreneurs to track the financial and social performance of a social enterprise, attract new investors, and do marketing and reporting. It also enables social investors to estimate the future value of their investment.

SROI operates within a number of interrelated methodologies. These methodologies range from stakeholder analysis to sensitivity analysis.

Stakeholder analysis is done to align stakeholder goals with business strategies. The interests of the investors are reconciled with that of the beneficiaries. Other interest groups and sectors are considered as well.

Social impact indicators are logically established and analyzed at the outset. For example – Input: number of unemployed people (100) plus money, Activity: employment finding by job center, Output: number of employed people that got a sustainable job (25), and Impact: Number of people that would have found a sustainable job anyway, without the support of the job center (10) i.e. outcome minus what would

have happened anyway. Impact can be measured in various broad areas such as environment, health, education, economic development, human rights, and governance.

Impact indicators need to be specific, measurable, acceptable, realistic and time bound. They should also be able to articulate the mission of the social enterprise e.g. Nature Conservancy, Surinam Books. It is also valuable to translate impact indicators in terms of financial costs and benefits, to make multi-year projection of costs and benefits, and to apply investment selection methods such as payback period, internal rate of return, and net present value.

Impact indicators can also be viewed in terms of discount ratios and risks, or the percentage with which future cash flows are discounted to calculate present value. State bonds for example have 4-5% discounted values and high risk investments have discount rates at 20%. On the same vein, one can distinguish shareholder price (what you pay), and future shareholder value (what you get).

Indicators can also measure social cost-savings and benefits. Social costs can be measured in terms of social allowances, lower crime-rates, increased social participation, less hospital days, and lower pollution. Benefits can be measured in terms of increased tax-income and increased wages.

Monetization puts a money value on the product or service for the purpose of bench marking, visibility of social activity, facilitating debates on social value creation, and estimating investments or shareholder price. Monetization can be approached through prevention costs, traveling costs, or repair cost methods. Other approaches are the contingent valuation method, attribution, and deadweight.

The contingent valuation method establishes a virtual market i.e. value of social change is set by asking people for it. There are two possibilities considered in this method - willingness to accept and willingness to pay. In attribution, there are more players in the creation of the social change and there is a key issue of what share of the social change is the result of a corresponding investment. The "deadweight" method measures impact minus what would have happened anyway.

All told, SROI can be calculated through the following steps:

1. Quantify non-financial impact of operations per unit e.g. 10% reduction in emergency room visits equals 150 fewer visits per year; 6% reduction in CO<sub>2</sub> emissions per year equals reduction of 12,000 tons of CO<sub>2</sub>;

2. Translate into dollar terms per unit to achieve "social cash flows" (SCF) e.g. Cost per ER visit at \$250 at 150 ER visits no longer happening per year equals \$37,500 per year; Cost per ton CO<sub>2</sub> at \$1.25 based on regional emissions trading markets at 12,000 tones reduction per year equals \$15,000;

3. Sum all SCFs for the horizon in question e.g. Annual social cash flow is \$37,500 plus \$15,000 equals \$52,500;

4. Discount SCFs to present value i.e. Discount each year's summed social cash flows by an appropriate discount rate. Document all assumptions.

In measuring the key variables that may affect the SROI, it is also important to do sensitivity analyses. The following are some standard guidelines for SROI analysis:

1. Include both positive and negative effects in the assessment;
2. In any quantification, include only impacts that are clearly and credibly attributable to the venture;
3. Quantify or monetize impacts if it makes sense given the context of the business;
4. Put metrics into context to give meaning to the value of the numbers;
5. Address the risk factors, carefully consider and document the choice of discount rate and time horizon; and
6. Include a plan for ongoing social impact tracking.

### **Development Indexing in Social Entrepreneurship** by Prof. Marie Lisa M. Dacanay<sup>2</sup>

Development indexing is a tool for quantifying qualitative outcomes of development interventions. The evolution of development indexing was driven by the search for appropriate indicators for measuring development outcomes. The critique of the GNP as a measure of development at the country level also resulted to the Human Development Index, a composite indicator using health, education, and GDP per capita.

There are various cases of development indexing practices and initiatives among Philippine social entrepreneurs. The Philippine Rural Reconstruction Movement (PRRM), a non-government organization engaged in sustainable area development and empowerment of rural poor to own and manage social enterprises, uses a development indexing tool called the Organizational Capability Index or OCI. Community Crafts Association of the Philippines (CCAP), a fair trade organization providing marginalized handicraft-producers access to export markets, applies its Organizational Performance Instrument for Social Production Units.

The Foundation for a Sustainable Society Incorporated (FSSI) provides financial services to enterprise committed to a triple bottom-line (financial, social, environmental). It has its Eco-Enterprise Index as a means to measure the three bottom-lines it seeks to achieve with its partners social enterprises. Center for Community Transformation (CCT), a faith-based organizing providing micro-finance and other services to the entrepreneurial poor, uses its MF Partners Level of Development Index. Cancer

Warriors Foundation Incorporated (CWFI), an NGO dedicated to improving the quality of life of indigent children with cancer, applies its Quality of Life Index of Kids with Cancer as its development indexing tool.

There are important initial findings and insights regarding development indexing among social entrepreneurs. There is an initial assessment that there are few users of development indexing among social enterprises and social entrepreneurs. The few users appreciate the clarity of development outcomes captured by development indexing and consider their respective tools as user-friendly. Though few, these development index users are employing or promoting various strategies of social enterprise development e.g. empowerment for PRRM, intermediation for CCAP and FSSI, and social inclusion for CWFI.

Initial findings also indicated that development indexing has a range of usage or application. It can be utilized for monitoring and evaluation i.e. qualitative impact measurement, determining capacity building requirements of partners, and financial product planning. It can also be applied for project appraisal, policy and decision making i.e. various criteria for membership or partner selection, and performance management as it relates to monitoring and incentives.

Development indexing is usually introduced to social entrepreneurs and enterprises with the assistance of a consultant or education institution in the context of evaluation or strategic planning. The introduction of development indexing has triggered the evolution of various guidelines and rating instruments, and institutions utilizing development indices have integrated such changes to their management systems.

Development indexing tools also go through a process of evolution. Its first cut is usually found inadequate and is consequently subjected to continuous improvement. These continuing refinements come from actual applications and nuances, in various applications, over time. The enhancement of the different development indexing tools entailed assessment sessions and conferential bodies involving the users at various levels of the organization.

It has also been realized that the full power of development indexing can be attained if it is integrated into management systems. This would apply to planning, monitoring, and evaluation systems (PMES), project evaluation and appraisal system (PEAS), and Management Information System (MIS).

The full integration and use of development indexing tools would depend on organizational retooling and culture change. It would be critical to invest in orienting and training technical staff and frontline operations staff. Institutional social entrepreneurs employing intermediation strategies would need to consciously build partner's capacity to sustain effective use of index as a evaluation and planning tool.

Development indexing shows a promise as a user-friendly tool for social entrepreneurs. Action research on development indexing highlights the importance of

meaningful collaboration between education and research institutions with practitioners towards evolving user-friendly tools to improve the practice of social entrepreneurship in Asia.

### **Open Forum**

***On measuring the amount of social change brought about by the investment activities initiated through the social enterprise*** – (Ms. Tan explained that she is currently faced with showing the impact of their projects in China especially because they are working with another local organization in doing development projects.)

According to Mr. Scholten, sometimes it is not really necessary to know which investment is directly linked to the resulting development. All investments are compounded at the start, so results are also integrated in the end; hence, all the benefits can be added up and compared to all the investments. Also, assumptions on the share of the SE in the resulting development can be made.

He remarked that people should not be worried about calculating too much, unless there's good reason.

***On choosing the appropriate discount rates when using the NPV or IRR models in measuring the SROI*** – (Sometimes the SE would choose to lower the discount rate so that the venture would appear profitable, but the funders would use a higher rate to show that the NPV will be negative.)

Mr. Scholten said that financial investors in a certain area know the discount rates. He cited information technology (discount rate at 20-30%) as an example, and explained how to go about with the calculations. Dr. Hockerts asked if there is a computer software that does these calculations, and Mr. Scholten described the easy-to-use Excel spread sheet (currently in German, French, and Dutch). He said he was not sure if it is in his website, but he would like to share it with everybody.

***On exclusion as a potential result of SROI*** – Dr. Hockerts raised concern on the SROI as a measuring tool that could result to exclusion, e.g. when investors decide to drill water holes in the valleys than in the mountains because it is much easier and less costly, thereby excluding a certain fraction of the beneficiaries.

***On SROI as a tool that rationalizes too much*** – Dr. Hockerts expressed discomfort over the SROI as a very rational tool vis-à-vis Dr. Hartigan's earlier presentation describing SEs as cognitive misers. He is reluctant over the possibility of losing spontaneity. Mr. Scholten disagreed with Dr. Hartigan's opinion about SEs. He noted that SEs are just as crazy as most people.

Further, Mr. Scholten explained that using SROI for SEs does not mean rationalizing too much. It is expected that SEs will come up with social results,

but expressing these results in more quantifiable terms facilitate understanding of what their projects have achieved.

Dr. Hockerts mentioned a similar tool he called "The Copenhagen Consensus" which also projects SROI, e.g. climate change which results to environmental problems way into the future. Mr. Scholten pointed out that the real value of SROI is its utility for concrete, small-scale projects.

***On coming up with standard indicators and measurement tools appropriate to the social enterprise*** - (It is a common case that SEs have demonstrable results but lack the standardized pool of indicators to articulate its impact because the social sector is so varied and there are so many different standards of performance.)

Dr. Hartigan commended that despite the complexity of SROI, it is at least a uniform methodology- you can compare apples and oranges, or human rights SE with the SROI you are getting with another type of enterprise. The challenge, in the whole development and social sector, however, is actually coming up with a way to compare these things and with a way of showing where different organizations at the same level are. Dr. Hartigan referred to the case of Ms. Tan in China, where two organizations are proving to each other that one is better than the other.

Mr. Scholten remarked network conferences like this enable them to go through a process of moving forward and refining the objective and social measurement tools.

***On comparable uses of SROI and Development Indexing*** - Prof. Dacanay explained that a number of development workers are queasy about monetizing everything because development impact of SEs cannot be monetized. Hence, several SEs support Development Indexing.

Development Indexing is a very young methodology, needing at least three years of serious research to finalize instruments that would respond to the needs of different types of SEs employing different strategies.

Development investors need to be social investors, because SEs cannot attract financial investors who do not have social objectives. The audiences for Development Indexing are investors who are willing to invest in development. They may be different from the audience of the SROI.

On the other hand, Prof. Dacanay pointed out that SROI can be useful as a communication tool to investors to understand better the financial bottom-lines of development. She said that SROI can be used as a tool for advocating that financial investors support SEs. However, SROI may not be a tool for planning, monitoring, evaluation, project appraisal, decision making, and other management processes needed to improve and professionalize SE. Prof. Dacanay added that her research is very preliminary, such that it doesn't have a paper yet.

She noted that even the President of the Center for Community Transformation (CCT) is excited about translating this as a tool.

Prof. Dacanay added that Development Indexing can serve as a framework that is helpful in the paradigm shift at the first instance. For it to be really useful, however, the guidelines and tools need to be done.

Mr. Scholten noted that when using SROI, the researcher will have to be clear about for whom the research is being done- whether it is for an investor, for the target group, or for the social enterprise. Further, he disagreed that the monetizing part is not necessary. The good thing about monetization is that it forces you to make impact visible instead of dwelling on fear that it's like putting a price on someone's head.

Prof. Chua concluded the open forum by explaining that the two presentations explicated the saying that "You cannot manage what you cannot measure". Two different approaches in measuring social results and social outcomes were presented and posed the challenge of formulating a guide for making social and financial investment decisions, monitoring performances, and using the results of these performances to influence future interventions.

In addition, the issues arise because there are two general categories of results or impact: 1) social impact which cannot be easily measured in financial terms as of now, and 2) financial results which becomes a challenge particularly when financial returns seem to be less or negative than the perceived social returns. These issues increase the challenge and the need to come up with means of measurements. Since the field is young, more applications will contribute to refining the concepts.

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<sup>1</sup> **Mr. Peter Scholten** is the Co-founder and General Manager of Scholten & Franssen Consultancy and is an expert in business planning and performance measurement systems. He has 20 years of experience as Manager in several social enterprises in Amsterdam. He is the initiator of the Social Return on Investment (SROI) methodology and Social Venture Competitions in the Netherlands as well. He had written a book on SROI and had several published papers and articles on Social Entrepreneurship. He earned his MBA from Rotterdam School of Management in 1999. Mr. Peter Scholten, is likewise the founder of the European Network on Social Return on Investment (SROI).

<sup>2</sup> **Prof. Marie Lisa Dacanay** is the Director and Guru of the Master in Entrepreneurship for Social and Development Entrepreneurs (MESODEV) Program of the Asian Institute of Management. She holds a Master in Development Management (with Distinction) from the Asian Institute of Management. Prior to becoming a faculty at AIM, Prof. Dacanay lead more than 20 years of experience in development management and is a provider of consulting services to a wide range of government agencies, civil society organizations and social enterprises in strategic planning and management, environmental assessment, subsector research, program planning, organizational diagnosis and development, and social entrepreneurship and enterprise

development. She was Project Director and principal author of the book, "Creating a Space in the Market: Social Enterprise Stories in Asia", containing insights from 13 areas of significant practices on social entrepreneurship in India, Indonesia, Thailand and the Philippines.