

The investment philanthropy approach

This example shows the results of an extensive effort to measure a wide range of social and economic outcomes of different investments in social programs, in this case by a private foundation, The Roberts Enterprise Development Fund. The analysis of returns on the Fund's investment is based on impact-type questions. The Fund invests by making grants to nonprofit, community-based organizations in the San Francisco area for the purpose of "creating social value." The Fund refers to this approach as investment philanthropy:

"Investment Philanthropy ... is concerned with the value accrued as the result of charitable investments. Within this perspective, social returns (that is, benefits to society) generated by philanthropic investments are the measure of an investment's success. The critical challenge in Investment Philanthropy is to compare the money invested with the value it creates.(18) "

The Fund decided to evaluate the grants to nonprofit organizations on the basis of the social value created rather than on the goals of the grantee or the apparent merits of the organization's efforts. To do so required the development of methods to define and measure that social value. Since many government programs provide funds for nonprofit organizations and the creation of similar concepts of social value is the goal of most government programs, the methods in this case can be instructive.

The social return on investment method

To implement the investment philanthropy approach, the Fund developed methods for measuring the social return on its investments and created an administrative mechanism to ensure that the analysis and reporting information to assess SROI would be available. The method defines social value in a way that can be measured and provides measurement procedures and analysis techniques. The Fund requires its grantee organizations to prepare and submit SROI reports that provide the results of these analyses to the Fund so that it can evaluate the overall value of its investments.

The SROI method uses a definition of value that covers a continuum from purely economic to purely social, with socioeconomic value in an intermediate position:

Economic -> Socioeconomic -> Social

Economic value is represented by a financial return on the Fund's investment, reported as increased revenue, asset value, etc., from the grantee's accounting report. This financial return is defined and measured according to the techniques for accounting and demonstrating profit creation that apply in the regular capital markets—i.e., the stock markets and private sector accounting methods. The SROI reports prepared by grantees include detailed financial statements equivalent to those produced by publicly traded companies in the for-profit sector.

Socioeconomic value is defined by creating methods to assign money values to social outcomes wherever possible. For example, increased employment opportunity for those who work in grantee organizations is a social value. Socioeconomic value is expressed in part by the increased taxes paid by those employed, as well as by reductions in welfare costs. Another social outcome of employment in grantee organizations, reduced criminal activity, is estimated by comparing arrest and conviction rates for employees with similar segments of the population. Reductions in arrests and convictions are monetized by counting the savings to the society of fewer convictions and incarcerations. An example of the calculations for social cost savings is shown in Table 5.

Table 5. Calculation of Average Social Cost Savings Per (19)

Appendix C. Case 3: Social ROI

X	Total Decrease (Increase) in Annual Visits	X	Cost Per Visit/Use	=	Total Decrease (Increase) in Annual Cost	/	# of Target Employees Responding to Question	=	Average Cost Savings Per Target Employee
Public Assistance Programs*									
TANF	NA		NA	=	\$ -	/	20	=	\$ 0.00
General Assistance	NA		NA	=	\$300	/	20	=	\$15.00
Food Stamps	NA		NA	=	\$3,362	/	20	=	\$168.10
SSI	NA		NA	=	\$5,004	/	20	=	\$250.20
Social Service Programs									
Food Banks	1,050		\$26	=	\$27,300	/	20	=	\$1,365.00
Case Management	980		\$41	=	\$40,180	/	20	=	\$2,363.53
Community Clinics	34		\$86	=	\$2,924	/	20	=	\$146.20
Mental Health Treatment	222		\$176	=	\$39,372	/	20	=	\$1,953.60
Housing Services (shelter, trans, housing, grp home)	1,650		\$62	=	\$102,300	/	20	=	\$5,115.00
Emergency Room	2		\$211	=	\$422	/	20	=	\$23.44
Legal Services	4		\$1,029	=	\$4,116	/	20	=	\$228.67
Sustance Abuse Treatment	2		\$8,060	=	\$16,120	/	20	=	\$806.00
MediCal (includes	10		\$3,761	=	\$37,620	/	20	=	\$1,881.00

employee and dependents)									
Criminal Conviction Savings									\$1,327.43
Average Social Cost Savings Per Employee									\$15,643.67

Social value is defined as the outcomes for society as a whole that are positive, but cannot legitimately be given monetary value. For these measures, alternative methods are used to generate some useful measure of return in nonmonetary terms. For example, a quality of life survey is part of the data collection method for employees and clients of the grantee organizations (see Figure 6 below).

While such a survey does not yield monetized values for an investment return, it does provide meaningful evidence of some social benefit. It has all the usual limitations of survey research data, but can supply evidence of social value creation that would not be available by other means.

Figure 6 - Survey Sample for Social Return Measurement(20)

Measuring value and returns

The SROI methodology employs six stages. The first three deal with measuring value and the last three deal with the index of return.

- Stage 1: Calculate enterprise value (uses standard accounting value measures).
- Stage 2: Calculate social purpose value (assigns monetary values to social outcomes).
- Stage 3: Calculate blended value
- Stage 4: Calculate enterprise index of return.
- Stage 5: Calculate social purpose index of return.
- Stage 6: Calculate blended index of return.

An example of the overall results of these calculations is shown in Table 6 on page 44.

These return calculations and the supporting material are key components of the SROI reports produced by the grantee organizations on an annual basis. The reports include SROI metrics, business data, social impact data, and provide analysis in these areas. Report contents include:

- descriptions of the social purpose enterprise,
- financial analysis of the social purpose enterprise,
- profiles of the enterprise's target employee population,
- SROI metrics and analysis,
- description of the nonprofit agency and its mission, and
- key social impact findings and analysis.

Overall, the SROI Report can be viewed as a nonprofit organization stock report. It provides a standardized way of estimating value and presenting return calculations in a clear and accessible manner.

Limitations in the SROI approach

Some of the comparative indicators available for evaluating for-profit organizations are not available for this SROI

approach. There are no comparable industry ratios and analyses for the nonprofit sector, although research in this sector is growing. In addition, the logic of management in for-profit organizations is different in crucial ways. Profit-maximization strategies are not necessarily useful or productive in the nonprofit sector. Consequently, careful attention should be given to assessing the appropriateness of the standard financial measures to this alternative use.

It is useful to consider the Fund's description of lessons learned over the course of applying the SROI methods.(21)

The SROI analysis process is resource intensive. The average practitioner must be aware of the financial and human resources necessary when conducting an SROI analysis of their social purpose enterprise. Considerable resources were provided to support the work in the grantee organizations.

Engaging the practitioner is essential. This is not a "top down" process. It is imperative that practitioners themselves drive the process of identifying and setting the social indices by which they will assess the value of their life's work and the returns generated by the investments they receive.

Table 6. Social Return on Investment Results(22)

(18) *Roberts Enterprise Development Fund. SROI Methodology: Analyzing the Value of Social Purpose Enterprise Within a Social Return on Investment Framework. San Francisco: The Fund, 2001, p. 10.*

(19) *Roberts Enterprise Development Fund. SROI Methodology: Analyzing the Value of Social Purpose Enterprise Within a Social Return on Investment Framework. San Francisco: The Fund, 2001, p. 32.*

(20) *Roberts Enterprise Development Fund. SROI Methodology: Analyzing the Value of Social Purpose Enterprise Within a Social Return on Investment Framework. San Francisco: The Fund, 2001, p. 72.*

(21) *Roberts Enterprise Development Fund. SROI Methodology: Analyzing the Value of Social Purpose Enterprise Within a Social Return on Investment Framework. San Francisco: The Fund, 2001, p. 62.*

(22) *Sample SROI results accessed from Roberts Enterprise Development Fund's Website at www.redf.org/pub_sroi.htm#methodology*