SROI (Social Return on Investment) – A Case Study about Social Profit

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***Abstract*—In annual accounts and management reports, financial figures are used predominantly both in commercial and nonprofit companies in order to give a true and fair view of a company's assets, profits and financial position. As a result, the financial success is a key performance indicator – a figure which, usually, is quite low in the case of nonprofit companies [1]. However, such companies strive to reach content-oriented goals primarily, for instance performance quality, training success and employee satisfaction. As content-oriented goals are their basis of legitimacy, there should be possibilities to calculate whether they are met [2].**

Basic prerequisite for such a calculation are specified details about the company's mission statement, its content-oriented goals (from an economic, business, social or environmental point of view), its commercial goals (concerning profitability, liquidity and financial security) and its standards to measure objectives [3]. On this basis, it becomes possible to set targets and to incorporate the defined goals into a monitoring and reporting system [4].

Beyond achieving a profit, a social kind of success becomes interesting in such cases, which can be expressed as the so-called Social Profit. For example, this key figure can be measured by comparing costs and benefits attributed to the support of people in need. Benefits calculations takes avoided social spending into account, for example due to the prevention of homelessness, imprisonment or psychiatric clinic stays. The calculation also takes account of the effects of an individual's rehabilitation and restored working abilities on the partaking in working and social life – which in the long run benefit society as a whole as well as tax payers [5].

Company goals, target groups, possible activities and their effects are of interest to calculate the Social Profit. However, several assumptions must be made about future political and economic developments. The following case study approaches to define and apply the concept "Social Profit".

***Index Terms*: Content-oriented objectives, Impact, Legitimation, Private and public investments, Social economy enterprises, Social Profit, Social Return on Investment**

I. INTRODUCTION

Currently, there is a general agreement that basic conditions of German society are in a state of flux. Consensus also exists, that the welfare state has to react to these changes by assessing and maybe redesigning its control mechanisms for the social economy: More competition, the empowerment of clients and new modes of reimbursing service providers have recently been developed in order to provide for a more flexible and differentiated structure of services [6].

This 'market-oriented roadmap' however does not necessarily imply that public interest in social services has decreased. On the contrary, several developments in the past few years have shown that the financiers of social services are not satisfied with the 'appropriate deployment' of resources any longer, but that they now require detailed information about the results of their investments – and the welfare they have produced [7].

At the beginnings of these developments the debate focused on the 'physical output', which was measured by the numbers of clients, surgeries or counselling processes. Current (international) considerations however are concerned with the logical extrapolation of this idea discuss the measurement (and reimbursement) of the intended 'outcomes' and 'impacts' of social interventions [8] [9].

As a result of these considerations, service providers will soon have to convince their public and private financiers of the effect they have in terms of public or individual welfare. Consequently, they must enhance their understanding as well as their controlling with view to the results of their work and content-oriented objectives (instead of mainly financial objectives) [10] [11]. The reason behind this is, of course, the fact that any organization has to make sure to meet its stakeholders' expectations in order to survive [12].

Although – theoretically speaking – the achievement of content-oriented objectives is the prime cause for legitimation [13], most annual reports of social economy enterprises (SEE) in Germany provide basic financial data only. Qualitative indicators and outcome-oriented data that portray the

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consequences of their services however are rarely found. Several classical and new techniques and methods promise a solution to this problem, e. g. cost-benefit analyses, the 'Balanced Scorecard', the 'Poverty and Social Impact Analysis' and the 'Social Return on Investment' [14] [15] [16].

This paper highlights the 'Social Return on Investment' (SROI, Social Profit) as an approach to express 'impact' in monetary terms by interpreting the consequences of social services as performance figures [17]. It provides an example of how to measure the financial and social value added by SEEs and, as a result, to verify both the public and individual benefit of their services [18]. After an outline of the basic idea, the concept will be showcased by applying it to a SEE which provides homeless care. Finally, both the concept and its application will be evaluated.

II. SOCIAL PROFIT AS A CONCEPT

Near the end of the 1990s, the Roberts Enterprise Development Fund (REDF) developed the SROI concept by introducing a consequence-oriented investment calculation: "Concepts of social return on investment, like their business predecessors, compare some measure of the resources invested in an activity to some measure of the benefits generated by it. In SROI, the 'S' denotes some sort of social mission activity; the 'ROI' denotes the use of a business investment analysis." [19]. In other words: Public investments (e. g. government grants, subsidies, performance oriented reimbursements, service compensation etc.) and private investments (e. g. membership fees, donations etc.) are related to the benefits interpreted holistically as 'financial and social consequences'. As a result, an investment's value can be estimated and verified; comparisons between different possible investments are also feasible.

Extending the classic purely monetary-based investment idea, this approach features two basic conceptual advancements: Firstly, it points out that public and private investors are not the only beneficiaries; the effects on clients and communities as well as the society as a whole need to be taken into account. Secondly, the 'revenues' include more than just economic values, some of which can still be measured in monetary terms. Others however are hard or even impossible to measure in such a way [17] [19] [20].

When, for example, young unemployed people make use of a SEE's services (e. g. counselling and/or qualification) for a business start-up and go into business successfully, they not only improve their individual income (as well as their living situation), but they also pay taxes, receive no more unemployment benefits, and might even employ others, which, in turn, leads to additional taxes and social insurance contributions [21]. Thus the consequences of the original intervention can comprise both individual and collective effects. Likewise, at least in theory, monetary as well as non-monetary components should be considered. The following illustration gives an overview [22]:

Table I. Analysis of Transfers and Consequences.

Analysis of Transfers	**Institutional transfers**: Payments between public institutions and SEEs are included to assess the balance between social investments and a receiving company's back-payments in terms of taxes and social security.
	Individual transfers: Payments between the public sector and clients are included. Every individual payment as well as any provided good or service is taken into account and balanced against all tax payments, social security contributions, future pensions etc. by these individuals.
Analysis of Consequences	**Savings on social benefit payments**: Included should be any potential social benefit which can be avoided due to the investment. Additionally, any alternative revenues which result from the investment, e.g. for the social insurance system, the taxation system, communal or regional social agencies, can be included.
	Regional economic multiplier effects: Any multiplier effects, e.g. public safety or environmental protection, which are triggered by a SEE should also be included. Moreover, there is an additional indirect benefit of SEEs to the regional economy, e.g. in the form of jobs created or improvement of the infrastructure.
	Effects on the quality of life: Any improvements of the clients' quality of life that can be attributed to a SEE's activities should also be included.

Source: Authors' compilation

In practice, most SROI calculations do not meet these comprehensive requirements. Even if there are detailed verbal descriptions of an investment's possible consequences on many levels, most calculations are limited to a few selected effects which can easily be expressed in monetary terms – mainly to avoid high complexity [23] [24]. By the same token, authors seem to accept that not every outcome or impact is quantifiable [10] [21] [25]. According to them, social consequences which cannot be expressed in terms of financial figures are to be communicated as an addendum, e. g. in SROI-Reports, which list a spectrum of qualitative indicators and highlight certain aspects by narration [19]. Thus, the SROI concept has developed into an integrated method moving beyond the calculation of a single key indicator [26].

The calculation of the SROI in a narrow sense restricts itself to effects that can be expressed in monetary terms without intricate additional considerations. It regards the investment calculation purely from a public sector point of view. Besides determining the level of public expenditure, it considers two further aspects [27]:

- Revenues of public institutions as a consequence of financing social services: Among them are revenues derived from the SEE's entrepreneurial activities (e. g. income taxes, social security contributions, real estate transfer taxes) as well as revenues due to a SEE's services provided (e. g. social security contributions and taxes from those clients who are placed in jobs),
- Public budget savings as a consequence of financing social services: they include reduced social transfers or savings, which result from other social problems (e. g. detention, accommodation of homeless people).

The Social Profit is then defined as the difference between the value of social benefits provided in Euro and the total amount of budgetary funds invested in Euro. The ratio between these two values constitutes the relative Social Profit.

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III. THE SOCIAL PROFIT – AN EXAMPLE

The sample case for the calculation of the Social Profit is a non-profit SEE supporting people in physical, psychological, spiritual or social distress. Including institutional and individual transfers as well as savings on social benefit payments (without opportunity revenues) the following kinds of social benefits of the organization's services were taken into account [10]:

- savings in unemployment benefits
- revenues due to job placements
- savings in housing benefits
- savings in expenditure for accommodation in psychiatric institutions
- savings in expenditures for imprisonment
- the company's own contributions to refinance social services

Thus the Social Profit calculated here can be seen as an indicator that includes the costs and benefits of all the local social services agencies involved. A second step could then be to calculate further effects on a state or federal level.

The basic external data (e. g. the average income of clients who were integrated into the employment market, costs of accommodation in shelters, psychiatric institutions or prisons) was taken from official statistics. To ensure as much accuracy as possible, the social benefits of the SEE's services were then calculated by dividing their clients in the year of 2008 into different case groups. The numbers of cases and success rates were provided by the SEE itself. As a detailed documentation and controlling of specific cases at that point of time was yet to be established, some of the information was provided by – conservative – estimates and the experience of the SEE's employees.

After the individual case documentation for 2008 had been verified by an independent accounting firm, the data was analyzed, looking at the costs the SEE's service had helped to avoid – unemployment benefits, housing benefits and cost of accommodation in psychiatric institutions or prisons. It was found, that the quality of the clients' individual benefits differs from case to case, especially depending on whether a client continues to receive benefits at the end of the intervention or not. Moreover, recurrence rates of clients were taken into account. As a result, the following case groups were differentiated [10]:

- clients who continued life without receiving benefits or find work immediately after the intervention (number of cases: 477) – impact quality 1
- clients who continued life without receiving benefits or find work within one year after the intervention (number of cases: 255) – impact quality 2
- clients who continued life without receiving benefits or find work within three years after the intervention (number of cases: 492) – impact quality 3
- clients who were dependent on benefits for more than three years or permanently (number of cases: 2.416), among them 77 clients whose accommodation in a prison was prevented (impact quality 4a), 49 clients who were kept from accommodation in psychiatric institutions (impact quality 4b), 1.478 clients who did not have to use shelters (impact quality 4c) and 812 clients without a successful intervention (impact quality 4d)

The case numbers in the group of impact quality 1 were actual figures from the year 2008. The other case numbers were forecast figures for the following years, which are tested and verified in regular intervals.

The Social Profit for the year 2008 was then calculated as follows [10]:

Table II. Exemplary Social Profit calculation

	Valuation (Euro)	Basis of Calculation
Resource input	12.237.130,40	Audited annual financial statement 2008
Returns from the company into the public budget	3.404.310,89	Returns from the SEE to the public budget as well as social agencies (data base: number of the company's employees, taxes (e. g. purchase taxes on investments, motor vehicle taxes and real estate taxes) and financial contributions
Returns from clients without benefits *impact quality 1*	7.696.490,40	Savings due to the prevention of unemployment plus revenues due to the establishment of permanent work (data base: standard rate of benefits, rent subsidies, average gross income of 7.50 Euro per hour, taxes and social security taxes)
Returns due to prevented prison accommodation *impact quality 4a*	1.335.180,00	Savings due to prevented prison accommodation minus unemployment benefits (data base: prison costs per day, average time in prison, benefit rates)
Returns from clients due to prevented accommodation in psychiatric institutions *impact quality 4b*	361.965,45	Savings due to prevented accommodation in psychiatric institutions (data base: day rates of psychiatric institutions, average length of stay)
Returns from clients due to prevented accommodations in shelters *impact quality 4c*	1.250.388,00	Savings due to prevented accommodation in shelters (data base: day rates of shelters, regular rent subsidies)
Sum of returns	**14.048.334,74**	
Social Profit (absolute)	1.811.204,34	Social benefit provided in Euro minus Σ public financial investment in Euro
Social Profit (relative)	15 %	Social benefit provided in Euro / Σ public financial investment in Euro * 100

Source: Authors' Compilation

As a result of the case numbers and their attributed benefit qualities, which were provided by the SEE and verified in random samples by an accounting firm, the company's social profit for the year 2008 amounted to 1.81 million Euro. This equalled a return of 15 per cent, showing that for every public Euro invested, there was a public return of 1.15 Euro.

Additionally, it should be mentioned that in many cases, social benefits will not emerge until later (after-effects), a fact that is particular relevant for cases with impact qualities 2 and 3, which were not specified in the calculation above. This includes clients who will learn to manage without benefits within a year (impact quality 2) or within three years (impact quality 3) after the end of the intervention. Additionally, former clients who find jobs immediately (impact quality 1) continue to create benefits in the following years, since they pay social security contributions and income taxes instead of relying on benefits. Thus, since 2009, former clients, up until three years after the end of the intervention, are asked to take part in periodical telephone interviews for a more accurate data base and a better data base for social profit calculations.

IV. DISCUSSION

The case study briefly presented here illustrates the potentials of the SROI concept just as much as its open questions – all of which have been theoretically discussed in the scientific community [15] [19] [21] [28]. For example, the amount of time and effort behind this analysis of costs and consequences is tremendous. One could, of course, reduce the complexity of calculations by disregarding effects that are difficult to quantify, but naturally this would have to happen at the expense of the validity of results. Narrative addendums could help to enhance the picture, but in the very end, one would never arrive at a 'perfect shot' – the effects of social interventions cannot be represented in their entirety. On a similar note, it cannot be concluded that the resulting effects can really be attributed to one intervention or organization alone, for individual change – and even more so collective transformation – cannot be reduced to simple causalities. Rather, they are based on multiple interventions and independent developments, which (if at all) can only be disentangled with the support of sociological and psychological evaluations and effect models [21].

Both constraints involve the risk of taking SROI data at face value. Precisely because they seem to be clear and unambiguous, such figures encourage one-dimensional thinking and behaviour. Quite possibly, if the SROI concept were introduced, social service providers would tend to concentrate efforts on exactly those areas of operation with a high SROI in order to improve their standing. Likewise, investors might focus on short term returns only in order to gain public legitimacy.

All that being said the SROI offers a theoretical approach as well as a specific method, which goes beyond the purely verbal description of positive effects we have seen in the past. Such considerations produce more clarity about the effects of social work and at the same time underline the significance of content-oriented objectives. Furthermore, at least a fraction of the spectrum of consequences can be included. In that sense public investors can use the SROI concept as a supporting instrument to control their investments; service provider can develop an instrument to communicate the positive effects of their interventions.

However, the idea has not fully developed yet. Case studies like the one above (more can be found at www.sroi-europe.org) are contributing to its advancement and create a pool of data and experiences that can help to establish a theoretically sound and consistent system of effects, to further develop the range of instruments.

Even at the very end of this development though, a complete (monetary) reproduction of every single effect will be highly unlikely if not impossible. The SROI can provide a range of essential and valuable arguments, but negotiations about the proper use of resources and the evaluation of resulting consequences will always remain a political process. Or, to quote Albert Einstein: Not everything that can be counted counts, and not everything that counts can be counted.

V. OUTLOOK

Social challenges facing society will increase in the near future. For that reason, the future will rely on competent and efficient social service companies. In order to cope with increasingly complex social tasks, however, nonprofit companies will be dependent on external support from the government (among others). This might be a difficult situation due to strained public budgets and an increasing pressure on budgetary consolidation [29] [30].

Decision-makers need transparent key figures with dependent information on the sustainability of social service companies' actions [21]. However, there is a lack of reliable and established methods to assign state resources. Scientific approaches concentrate on the SROI concept since the 1990s – they observe impacts and outcomes connected to economic, business, social or environmental goals of SEEs to evaluate the sustainability and profitability for investments [31] [32] [33].

However, as an instrument of fiscal policy, the SROI is only capable to a limited extent to achieve valid results [34]. The "Social Profit" as a key figure proves to be more informative as the difference between direct economic benefit in € (= monetary value of integration success and social responsibility) and financial contributions from the budget. A company's Social Profit is a transparent and conclusive decision-making tool for public financial flows.

The SEE described above was the first company in Germany to calculate its Social Profit in an attempt to establish the concept for future evaluations.

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