Social Return on Investment Analysis in the Context of Corporate Social Responsibility

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Abstract: This paper is dedicated to the Social Return on Investment (SROI) Analysis as a possible tool for assessment of Corporate Social Responsibility (CSR). Firstly, the attention is focussed on CSR problems, the concept of CSR is defined, CSR areas in its alternative concepts are identified, and possible approaches to assessment of CSR are characterized, including the SROI Analysis. Secondly, the essence of the SROI Analysis is explained, the main approaches to the SROI Analysis are compared, and a general proposal for methodology to be used in the conditions of the Czech Republic is given. Subsequently, the current situation is evaluated, and the possible areas of application as well as the complicating factors of the SROI Analysis application in the conditions of the Czech Republic are characterized. In conclusion, there are recommendations for improvement of the current situation.

1 Introduction

Corporate social responsibility (CSR) represents a key topic both from the point of view of the society as a whole and from the point of view of individual corporations. 96% of managers believe that corporate responsibility offers value for money and 56% of them award CSR a high priority [2].

The fact whether and how an enterprise applies the CSR principles, affects its relations with the relevant environs substantially and thus also its success. A lot of customers give preference to products made by socially responsible enterprises. While choosing their investment strategy, a number of investors take account of social responsibility and refuse to invest their means into e.g. tobacco, arms, or gambling industries. Suppliers search for trustworthy partners (also with regard to the growing interest in outsourcing in recent years [37]). Employees want to be employed by reliable and responsible employers. The possibility of using CSR as a competitive advantage is being gradually transformed to the necessity of respecting the CSR principles both from microeconomic and macroeconomic points of view as CSR represents "an attempt to define the future of our society" [38].

The growing importance of CSR puts, among others, pressure on development of methods and techniques exploitable within the given concept.

They also include the Social Return on Investment (SROI) Analysis. The SROI Analysis represents a relatively new method, which has only been used to a limited extent in the USA and in the original EU member states. However, its broader application appears desirable both from the territorial and from the sectorial points of view. The paper aims to elaborate the theoretical basis of the SROI Analysis in the context of CSR, and create, on the basis of the foreign experience, a general proposal for the SROI Analysis methodology respecting the specific conditions of the Czech Republic.

The authors of the paper used the following research methods: interpretative-theoretical research, descriptive research, correlation research, and micro studies.

2 Corporate Social Responsibility
2.1 CSR Concept

The concept of corporate social responsibility was, within the modern era of CSR (whose commencement dates back to 1953, when H. R. Bowen argued that businessmen have the obligations "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" [4]), defined by a number of authors.

Their definitions match in the fact that corporations should, voluntarily and beyond the framework of legal norms and their economic interests, behave responsibly towards their relevant environs, i.e. so-called stakeholders (interest groups).

Stakeholders refer to any individual or group who can affect or is affected by the achievement of the organization's objectives [12], they are "an individual or group that has some kind of stake in what business does and may also affect the organization in some fashion" [6]. And the range of stakeholders is wide. Buchholtz & Carroll [5] mention the following groups and examples of stakeholders: primary social stakeholders (shareholders and investors, employees and managers, customers, local communities, suppliers and other business partners), secondary social stakeholders (governments and regulators, civic institutions, social pressure groups, media and academic commentators, trade bodies and competitors), primary non-social stakeholders (natural environment, future generations and nonhuman species), secondary non-social stakeholders (environmental interest groups or animal welfare organizations).

According to Jones [17], "Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society (i.e. stakeholders) other than stockholders and beyond that prescribed by law and union contract." "It is about what companies do to make a positive contribution to society above and beyond that which constitutes their legal obligations." [2] Davis & Blomstrom [8] state that corporate social responsibility is "the obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interests". Manne & Wallich [21] note that socially responsible corporate action must be purely voluntary.

2.2 Areas of CSR

Not only is there a wide range of CSR definitions, but there is also a variety of listings of CSR areas. The basic concept is patterned on so-called 3P, i.e. Profit, People, Planet, and so it contains economic, social and environmental areas; see more in e.g. [19, 35]. The above concept was the basis for the classification by Steinerova & Makovski [29], who distinguish the following four areas of CSR: the market, the working environment, the environment, and the local community.

However, the best-known concept of CSR areas is according to Carroll, who distinguished the following responsibilities: economic (responsibility to produce goods and/or services that society wants at a profit), legal (obligations to fulfil economic mission within the confines of the law), ethical (ethical expectations of a company), and discretionary (desirable but discretionary acts that contribute to societal good, e.g. philanthropy); see more in e.g. [2, 7].

If we proceed from the above CSR areas and also from the fact that CSR represents a voluntary activity beyond the legal obligations, we can then define the following areas of CSR [31, 33, 34]:

- economic area - provision of products and services that are useful for the society in the required quantity and quality and for reasonable price, together with generation of an adequate profit for the owners;
- social area - respecting a wide range of needs and interests of the human resources;
- environmental area - preventing occurrence of negative externalities and pro-active environmental measures;
- ethical area - creation, fulfilment and promotion of wide application of ethical standards;
- philanthropic area - support of volunteer activities of the employees and donor ship.

2.3 Assessment of CSR

Assessment of CSR is based on a number of measurement methods, it draws on various analyses, and it often has a form of institutionalized CSR indices.

The used CSR measurement methods differ, above all, in the way of collecting data, but also in their focus. Igalens & Gond [16] distinguish the following five categories of CSR measurements: measurements based on analysis of the contents of annual reports, pollution indices, perceptual measurements derived from questionnaire-based surveys, corporate reputation indicators and data produced by measurement organizations. Tetrevova & Svědík [34] supplement the above categories with another two: structured interviews and analyses of the contents of companies' websites.

An important role in assessment of CSR is played by analyses of investment effectiveness evaluation that include social effects. Not only do these analyses take account of the effects related to investment for the company, but they also include the consequences for the society. At the same time, they assess both financial and non-financial effects.

These methods may include the Cost-Minimize Analysis [32], the Cost-Effectiveness Analysis [10, 14], the Cost-Utility Analysis [15, 26], the Cost-Benefit Analysis [3, 11], the Social Impact Assessment [1, 36], or the Social Return on Investment Analysis [13, 20, 25].

As for the CSR indices, they are designed by different organizations and they assess CSR comprehensively on the basis of set indicators. The best-known CSR indices are Calvert Social Index, Corporate Sustainability Index, DAXglobal Sarasin Sustainability, Dow Jones Sustainability Indexes, FTSE4Good Index Series, Ethibel Sustainability Indexes, STOXX Europe Sustainability, see more e.g. [22, 30].

3 Social Return on Investment Analysis

The Social Return on Investment (SROI) is a framework for understanding the value a project or an organization creates. The SROI Analysis is an outcome-based tool for measuring and accounting social, environmental and economic costs and benefits. It is based on the principle of the Cost-Benefit Analysis (CBA) and uses money as a proxy of costs and benefits arising from investment. Differently from the CBA, the SROI Analysis is not focused on expressing benefits and costs arisen to the society as a whole (a macroeconomic approach), but it measures the value from bottom up, from the point of view of individual stakeholders [23].

The SROI Analysis was developed from 1996 by the Roberts Enterprise Development Fund (REDF) in the USA to evaluate investments in the areas of social enterprise and not-for-profit sector [13]. In 2001, the REDF published the first comprehensive methodology [25]. The REDF concept is based on a financial analysis of an organization, whose outcome is the Enterprise Index of Return, and this methodology also calculates the Social Index of Return and the Blended Index of Return.

In Europe, the SROI Analysis was first verified by the new economic foundation (nef) in 2003 [27]. In 2007 nef published the first European SROI Analysis methodology. The original REDF concept was extended in the way to be usable as a decision-making tool for all kinds of organizations that are interested in measuring the social value. Nef does not work out the Enterprise, Social and Blended Index of Return separately, but only one aggregate indicator - the Social Return on Investment Ratio, which expresses the relation between the net present value of benefits and the net present value of investment [20].

In 2005 Olsen & Nicholls [24] published the SROI Framework, where they aimed to create a generally accepted framework for making the SROI Analysis.

In 2008, within the Scottish government projects, the Social Economy Scotland Development Partnership methodology developed separately for a predictive analysis and for an evaluative analysis was published [9]. In the same year, the UK SROI Network was established, and in 2009 it published, with support of the Office of Third Sector in England, the first generally accepted methodology "A Guide to Social Return on Investment", which was based on the SROI Framework and the nef approach. Nowadays, the SROI Network is accepted as standard not only in Europe, but also in Australia and Canada [23].

Table 1 compares the above and the proposed approach for the Czech Republic to the SROI Analysis from the point of view of its phases.

4 SROI Analysis in the Czech Republic

Measuring non-financial impacts of projects became important in the Czech Republic in relation to implementation of the EU structural funds, and it is the Cost-Benefit Analysis what is almost solely used. As for the SROI Analysis, the possibility of applying it as a tool for evaluating social companies was first, in the Czech Republic, dealt with by Nová ekonomika between 2009 and 2011. On the basis of a pilot project, this organization reached a conclusion that at this time it is not possible to apply the SROI Analysis to a larger extent in the Czech Republic for the reason of missing standardized procedures, tools, trained experts, and the general demanding character of the analysis concerning time and sources [28].

It is just the absence of standardized procedures in the Czech Republic what is being solved by the authors of a paper within the project of Koalice nevládek Pardubicka (KONEP) titled "We also want to work…!", where a modified methodology for the conditions in the Czech Republic is developed on the basis of approaches applied in the world, particularly by the SROI Network, see Table 1. It will be published as the first SROI Analysis methodology and manual written in the Czech language in 2012. [18]

Table 1 - Comparison of approaches to the SROI Analysis

The SROI Network	nef approach to SROI	Social Economy Scotland (Evaluative SROI)	The SROI Framework	Roberts Enterprise Development Fund	KONEP
1 Establishing scope and identifying stakeholders	**1 Boundary setting and impact mapping**				**1 Scope of analysis**
1.1 Establishing scope	1.1 Establish the parameters for the SROI analysis	1 Understand and plan	1 Understanding organisation		1.1 Scope definition
1.2 Identifying stakeholders	1.2 Identify, prioritise and engage stakeholders	2 Stakeholder analysis	2 Stakeholder analysis		1.2 Identifying stakeholders
1.3 Deciding how to involve stakeholders			3 Scope of analysis		1.3 Stakeholders involvement
2 Mapping outcomes	1.3 Develop a theory of change				**2 Mapping outcomes**
2.1 Starting on the impact map					
2.2 Identifying inputs	*3.1 Analyse inputs*	3 Outcome map	4 Income and cost analysis		2.1 Identifying inputs
2.3 Valuing inputs		4 Key outcomes			2.2 Inputs analysis
2.4 Clarifying outputs	*3.2 Add up the benefits*	5 Collect initial data	5 Impact value chain		2.3 Outputs assessment
2.5 Describing outcomes		6 Impact map 7 SROI Plan			2.4 Describing outcomes
3 Evidencing outcomes and giving them a value	**2 Collecting data**				**3 Outcomes demonstration and valuation**
3.1 Developing outcome indicators	2.1 Select indicators				3.1 Developing outcome indicators
3.2 Collecting outcomes data	2.3 Data collection	8 Implement the plan and data collection	6 Identify and collect data		3.2 Data collection
3.3 Establishing how long outcomes last					3.3 Outcomes duration
3.4 Putting a value on the outcome	*2.2 Identify financial values and proxies*				3.4 Outcomes valuation
4 Establishing impact					**4 Impact**
4.1 Deadweight and displacement					
4.2 Attribution					4.1 Data adjusting
4.3 Drop-off					
4.4 Calculating your impact					4.2 Impact calculating
5 Calculating the SROI	**3 Modelling and calculating**				**5 Calculating and reporting**
5.1 Projecting into the future	3.3 Project value into the future	9 Projections	7 Projections		5.1 Future cash-flows projecting
5.2 Calculating the net present value		10 Analyse income and expenditure			5.2 Calculating the net present value
				1 Calculate Enterprise Value	
				2 Calculate Social Purpose Value	
				3 Calculate Blended Value	
5.3 Calculating the ratio	3.4 Calculate the SROI	11 Calculate SROI	8 SROI calculation	4 Calculate Enterprise Index of Return	5.3 Calculating the SROI ratio
				5 Calculate Social Purpose Index of Return	
				6 Calculate Blended Index of Return	
5.4 Sensitivity analysis	3.5 Conduct the sensitivity analysis	12 Sensitivity Analysis			5.4 Sensitivity analysis
5.5 Payback period	3.6 Value added and payback period				5.5 Payback period calculating
6 Reporting, using and embedding	**4 Reporting and embedding**		9 SROI reporting		5.6 Report completing
6.1 Reporting to stakeholders	4.1 Prepare the SROI report	13 Report		7 Generate SROI report	
6.2 Using the results					
6.3 Assurance	4.2 Communicate and embed	14 Verification	10 Evaluation and monitoring		**6 Evaluation**

Source: Modified according to [9, 18, 20, 23, 24, 25].

The SROI Analysis has a potential to find numerous applications in the Czech Republic within all the national economy sectors. It can be applied in non-state not-for-profit organizations, which will be, together with the expected decrease in the volume of means flowing from both public and private sources (as a result of the unfavourable economic development), more and more motivated prove beneficial effects of their activities and social return of the sources put into them. A larger area of the SROI Analysis application can also be expected in the public sector, where, together with the expected decrease in the volume of means flowing from the public sources (as a result of limiting the public expenditure) and in relation to the growing public interest in assessing influence of projects, the public sector entities will be searching for tools to compare and evaluate project impacts. And differently from the CBA, the SROI Analysis is suitable for judging both investment and non-investment projects. The reason for the growing interest in the SROI Analysis can also be found in the continuing growth of social inequality and escalation of social problems. And last but not least, the interest in methods enabling transparent and reliable proof of influence on the surroundings will be rising from the side of all organizations trying to apply social responsible behaviour.

The following factors can be, using the experience of Nová ekonomika organization [28], identified as the main obstacles preventing broader applications of the SROI Analysis in the Czech Republic:

- cultural effects - this characteristic covers a lot of indicators of the level of development of the society as a whole, where e.g. not-for-profit organizations are not perceived as value creators in the Czech Republic, non-financial values are not a current topic in the society, or there is distrust of the subjective assessment of the impacts on the involved parties, which is used by the SROI Analysis;
- political effects - in the Czech Republic, there is no political will to carry out reliable and open measurement of non-financial impacts of projects, which is connected with absence of social demand for this topic;
- economic effects - long-term stagnation or downturn in the economy performance can mean further weakening of the nationwide interest in assessment of non-financial impacts;
- infrastructural effects - in the Czech Republic, there is and in the near future there will still be a lack of experts familiar with the SROI Analysis, who would be able and motivated to carry it out.

Moreover, there is no generally accepted database of outcome indicators and ways of their monetization, or sample case studies.

5 Conclusion

On the basis of the identified possibilities and limits of the SROI Analysis application in the Czech Republic, it is possible to recommend implementation of a number of measures in several areas.

The first area to consider is the area of development of methodology itself – after drawing up the first manual in the Czech language, it is necessary to work further particularly on the database of outcome indicators and ways of their monetization, and create or take over from abroad a set of high-quality case studies.

Another area is capacity creation – the SROI Analysis should become familiar not only to the experts now using the CBA like methodical workers in the managing and mediating bodies of operational programs, but also to e.g. academic workers in the areas of public economy or management.

It is also necessary to focus attention on building a community of experts, as for further development of the SROI Analysis it is essential that the individuals familiar with the method in the Czech Republic interconnect and establish a Czech expert network connected to the international SROI Network.

And last but not least, it is necessary to pay attention to raising awareness - politicians, government officials on municipal, regional and national levels, workers in not-for-profit organizations, or experts on social responsibility problems should, through case studies, learn about the advantages and benefits related to the SROI Analysis application.

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