

# MEASURING SOCIAL RETURN ON BUSINESS SUPPORT FOR PEOPLE AT RISK OF SOCIAL EXCLUSION BY SROI ANALYSIS

**Jiří Krátký**

Koalice nevládek Pardubicka, o. s.

***Abstract:** The paper contains introduction into the problems of the social return on investment analysis measured by the SROI method and the basic resources of, in the Czech Republic brand new, problems of measuring benefits of business support provided to people at risk of social exclusion. Use of the SROI analysis for measuring social benefits of business support is exemplified in the German project of “enterability”.*

***Keywords:** Socially Responsible Investment, Social Return on Investment, SROI, Business Guidance*

## **1. Introduction**

The paper aims to show the social benefits of business support for the people at risk of social exclusion. The issue of business support for the people at risk of social exclusion (e.g. immigrants, long-term unemployed, handicapped people and other groups) is a new topic in the Czech Republic, unlike the older EU member states. So is the SROI analysis, which has not been explored in the Czech Republic as a tool for measuring the social impacts of the projects, programmes and actions. The paper is one of the outcomes of the project of “Up-Skilling Business Advisors from Communities at Risk of Exclusion in the Labour Market” supported from the programme of Leonardo da Vinci, Transfer of Innovations, which is being implemented by the British Association of Community Based Business Advice (ACBBA) together with the partners from the Czech Republic, Germany, Spain and Portugal. The objective of the project is exchange of experience and transfer of know-how among business advisers working with people at risk of social exclusion.

## **2. Formulation of the problems**

### **2.1 Business support for people at risk of social exclusion**

Business support can be characterized as a set of services that are provided by a business adviser to achieve changes in the processes of a certain entrepreneurial entity. Services provided by a business adviser are mostly in the form of personal consultations, where the methods like coaching or mentoring or training activities are applied. Business advice is usually carried out as a process consisting of the following phases:

1. analysis – definition of the problems;
2. drawing up a plan of changes;

3. implementation of changes;
4. evaluation of changes.

Advice for people at risk of social exclusion is a specific type of business support. Business advice for this target group is an effective tool of prevention of social exclusion – establishment of a functional business stabilizes the person from the point of view of finances, which also enables them to stabilize their position in the society.

Great Britain, with their so-called “community based business support (CBBS) model” [PARDO, 2008], is the most developed European country in this area. This tool was developed primarily as a tool of solving social problems in the relatively closed communities of immigrants in big cities within the project of REFLEX, funded from the EU programme of EQUAL.

CBBS model brings innovative practices in provision of business support and guidance for communities at risk of social exclusion, who are, for example, members of ethnic groups, women, disabled people, or people living in excluded communities.

The model takes into account the share of non-governmental non-profit organizations (NGO) in the activities aiming to satisfy the needs of excluded communities. The community NGO's dispose of high expertise of the cultural and language specifics, and they enjoy significant confidence, which enables them to provide the services in the way corresponding with the clients' needs to a far greater extent than in the case of the providers focussed on the general public. CBBS draws on the experience of the NGO's and applies it in the areas of business guidance and business support.

CBBS model objectives are as follows:

- provide quality advisory services taking into account the needs of the clients, who are people running their own businesses, intending to establish one, or planning to become self-employed;
- stimulate growth and efforts of the enterprises with low efficiency;
- provide the people at risk of social exclusion with new job opportunities, arrange for them business advice and assistance services in the area of getting common forms of support (e.g. grants, donations, advantageous loans for development of their business, etc.);
- build up the business support infrastructure directly in the specific communities (networks of community based business advisers, their training, etc.).

A community based business adviser (CBBA) is the core of the model. CBBA's are usually members of the given communities, and they represent the link between the community at risk of social exclusion and the professional services provided by professional business advisers. It is the knowledge of the community, their language, their culture and the way of thinking that enables the community based business advisers to provide services effectively.

Business advice in Great Britain is financially supported from the public sources, and that is why there are national standards for these services in place. These standards define knowledge areas and competences of a business adviser.

## 2.2 SROI Analysis

The Social Return on Investment Analysis (SROI) is a method developed by the charitable fund focussing on investments into the social economy of Roberts Enterprise Development Fund (REDF) in San Francisco, USA, to measure all-society impacts of investments. The development of the method started in 1996 [GAIR 2002], the first coherent articles on the applied method were published in 2000, the first SROI procedure was published by the fund in 2001 [REDF 2001]. In Europe, SROI analysis was first piloted by the New Economic Foundation on the example of four social enterprises in London in 2004, in 2005 the foundation publishes the first European methodology called “The SROI Guide”. The study of the Berlin consultancy firm of “iq consult”, further described in chapter 2, belongs to the first applications of the SROI analysis out of Great Britain.

The Social Return on Investment Analysis (SROI) is a method how to understand the social, social economic and environmental value the organization creates by its activity beyond the scope of the financial value (profit). It means that it is usable both in the public and in the private sectors. The SROI analysis serves as a project or organization financial analysis supplement. The analysis outcomes provide the managers with important information for strategic planning, planning of projects, programmes and activities, as well as for evaluation of the organization’s performance.

The SROI analysis stems from various approaches to understanding a non-financial value. It tries to quantify the non-financial value and, where it is possible, also express it in the form of cash flows. These flows are subsequently discounted to the present value and compared with the volume of the invested financial means. This procedure identifies the “social return on investments” – a SROI indicator.

The SROI analysis stems from the Cost-Benefit Analysis (CBA). It differs in the fact that it is intended for practical decision-making of the organizations’ managers and investors. They also differ in the fact that the CBA is mostly carried out for investors outside organizations (e.g. for evaluation of the project funded from the EU Structural Funds).

The methodology has been mainly applied in the old EU member states – e.g. Great Britain<sup>1</sup>, the Netherlands<sup>2</sup> and Germany [REICHELDT 2007]. Nowadays, there are several approaches to the SROI analysis. They have been gradually developed during application of the procedure in various countries and environments, e.g.:

- REDF approach (continuously innovated the Roberts Foundation);
- NEF approach – the New Economic Foundation – British NGO’s [LAWLOR 2008];
- GSVCS approach – the Global Social Venture Competition – an international MBA programme of the University of California<sup>3</sup>;

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<sup>1</sup> The first European network of organizations applying the SROI analysis - the SROI UK Network, see [www.thesroinetwork.org](http://www.thesroinetwork.org), was created in Great Britain.

<sup>2</sup> See [www.sroi.nl](http://www.sroi.nl) for more details.

<sup>3</sup> See [www.gsvc.org](http://www.gsvc.org) for more details.

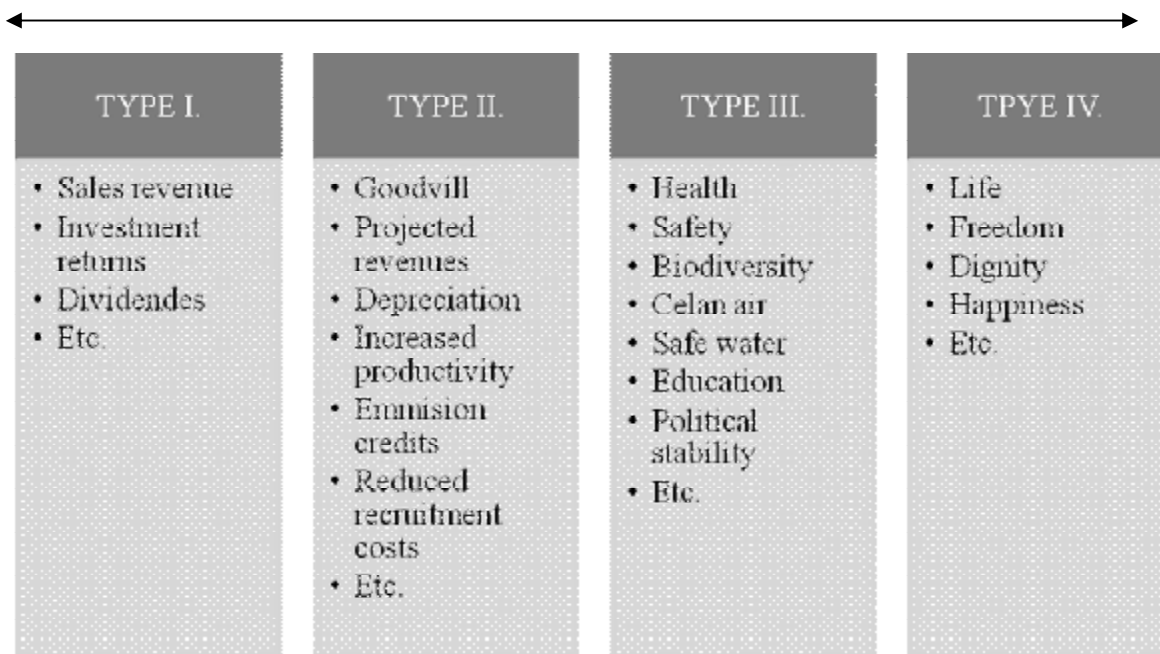
- SROI framework – developed by the British “SROI UK Network” as the recommended unifying approach to processing the SROI analysis in Britain.

The procedure of carrying out the SROI analysis in accordance with the SROI framework can be simply divided into the following phases [LAWLOR 2008]:

1. **defining the analysis objective** (definition of objectives, the type of analysis, summarizing the strategic targets of the organization, the research context);
2. **identifying the analysis parties concerned and the target groups** (e.g. the employees, customers, suppliers, neighbours, public budgets, communities);
3. **determining the scope of analysis** (determination of the fact whether it is the whole organization, its part, a project or a specific activity that is going to be analysed);
4. **analysing income and expenditure** (the income and expenditure leading to creation of the non-financial – social, environmental or economic value and expenditure leading to creation of the financial value are calculated on the basis of the zero option definition);
5. **mapping the value string of influences** (identification of inputs, activities, outputs and outcomes of the analyzed activities affecting the target group);
6. **setting indicators and collecting data** (mapping the benefits and drawbacks, choosing descriptive, quantifiable, monetizable indicators);
7. **predicting the future development** (only for the predictive analysis);
8. **calculating the value of indicators** (NPV calculation, SROI indicator calculation and carrying out a sensitivity analysis);
9. **drawing up a summary report;**
10. **monitoring** (only for the predictive analysis).

Phase 6 – setting indicators and collection of data is the key phase for credibility of the SROI analysis. Some benefits cannot be quantified or monetised in a credible way. Nowadays, there is not one single, generally accepted process for assigning a monetary value to social impacts. For some indicators, expressing their monetary value is obvious, for some others, it is necessary to use, for example, the shadow prices, which do not have to be generally accepted. Division of indicators by monetizability as described by [OLSEN 2008] – see Fig. 1.

## QUANTIFIABILITY



*Fig. 5: Typology of quantifiability of indicators within the SROI analysis*

*Source: Olsen, 2008*

The outcome of the SROI analysis – the SROI indicator, cannot be interpreted separately from the entire process of analyzing. For interpretation of the analysis, the outcome is as important as the method of calculation, which provides information on creation of the non-financial value.

At the same time, the SROI analysis provides:

- information on the approach used for calculation of the SROI indicator value;
- related information making it possible to interpret the indicator accurately;
- specification of other, unquantified and unmonetized social values;
- information describing the analyzed activity or project and its context.

### **3. Problem solving**

#### **3.1 Measurement of the benefits of business guidance provided to people at risk of social exclusion by SROI analysis**

The SROI analysis has been applied in the area of business support in Great Britain and Germany. The SROI analysis application aimed to reckon the benefits of business guidance, especially the benefits flowing into the public budgets, i.e. proving the return on investment of the public funds into business advice for people at risk of social exclusion.

Such return can be illustrated on the example of the project of “enterability” implemented by the consultancy organization “iq consult” [JANKE 2008] from Berlin. The project was focussed on helping physically handicapped individuals establish their trades and businesses. During the period of 4 years of the project (2004 – 2008), the offered guidance support was used by 340 individuals, of which 121 handicapped persons became self-employed, 61% of the beginning entrepreneurs operated successfully for a period of at least 2 let, 35% for more than 3 years.

The project SROI analysis [JANKE 2008] implies that the cost of the project was EUR985,000. The outcomes of the project include 95 supported and operating businesses, 16 newly created jobs in the newly established businesses, a 50% decrease in drawing welfare benefits.

The project benefits for the public budgets include:

- savings in monetary social support for handicapped people;
- a decrease in unemployment costs due to creation of new jobs;
- an increase in the tax yield from both direct and indirect taxes (the analysis dealt with direct taxes only).

The SROI indicator was calculated by comparing the costs and benefits discounted by the rate of 3.5 % p.a. The discounted project benefits amounted to EUR3,382,384, the discounted project costs EUR874,540, which makes the SROI indicator of 3.9. It means that each one euro invested into business guidance brought an all-society benefit of EUR3.9.

#### **4. Conclusion**

The case study conclusions imply that business support for people at risk of social exclusion is a service that is for the society, or the public budgets, unambiguously returnable. The scope of the paper does not allow a detailed description of the procedure of the SROI analysis, which enables transparent quantification of the social benefits of, not only, business advice. Application of the SROI analysis to the case studies in the Czech Republic would enable reckoning the benefits of business support in the conditions of the Czech tax system and thus it would support the efforts to enforce funding of these services from the public budgets. To date, business advice for people at risk of social exclusion is provided in the Czech Republic only sporadically within the projects funded from the EU Structural Funds<sup>1</sup>.

The paper has been drawn up within the project of UK/08/LLP-LdV/TOI/163-108 – “Up-Skilling Business Advisors from Communities at Risk of Exclusion in the Labour Market (UBA)”, the programme: TRANSFER OF INNOVATION, MULTILATERAL PROJECTS, LEONARDO DA VINCI, LIFELONG LEARNING PROGRAMME, the leading partner: Small Firms and Enterprises Development Initiative (SFEDI), UK.

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<sup>1</sup> E.g. “Business as a Way out of Social Exclusion” project implemented by GLE, o.p.s. in Prague for immigrants, parents with children and people out of work for a long time, for more details, see <http://www.gle.cz/projects/march09-project1.php>.

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## Contact address:

Ing. Jiří Krátký  
Koalice nevládek Pardubicka, o. s.  
Komenského 432  
530 03 Pardubice  
Email: [kratky@konep.cz](mailto:kratky@konep.cz)  
Phone.: +420 777 140 513