Social Enterprises and their Social Rate of Return on Investment within a developing Economy: The Case of Jamaica

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Non-normative approaches to wider performance management employ established accounting principles which address any criticism of reliance on anecdotal evidence and the production of non-quantified bottom lines. One such approach is the social return on investment (SROI) analysis. Developed by the Roberts Enterprise Development Fund (REDF) and tested by the New Economics Foundation (NEF 2004), the technique is based upon traditional cost-benefit analysis. Assigning monetary values to social and environmental returns provides an opportunity to demonstrate wider value creation. Initially developed as an investment tool, it uses a familiar, conventional managerial approach, which has obvious advantages for social enterprises, as they are inherently predisposed to deliver wider social benefits (Rotheroe and Richards 2007)

Contents

- Main Claim
- Research Imperative
- Research Problem
- Review of Literature
- Purpose of Research
- Methodology
- Some Findings
- Concluding Thoughts

Study context – Jamaica

- No meaningful growth in 5 decades – uncertainty surrounding stability of local currency
- High rates of distrust and perception of crime
- Gini Coefficient Increasing above 4
- Asset Gini Coefficient 7.26 – high levels of inequity
- High happiness index ranking
- **High social index ranking 43/142**
- **Series of Research being done on Social Economy by OSE – SEBI Report 2016, JN Foundation, USAID**

Main Claim

Social Enterprises through their triple bottom and, generate significant, economic, social and environmental value. It is through this that the social economy and the social index outperforms the traditional economic-driven indices

Research Problem

While stakeholders in the Social Economy argue that their organisations contribute to the economy, there has been no meaningful empirical research that evidence this before SEBI Report 2016

Increasing concerns among funders as to ascertain what is the outcomes and impact from these programmes, what is the rate of return on the investments being made.

Research Imperative

- Need to evidence that SEs have positive SROI amd contribute to GDP,

- Present a tool that can be used to assess and monetise the contribution of SEs within the tripple bottom line framework.

- Justify why SEs should be supported and policy expanded to incentivise their operations

Review of literature – Social entrepreneurship

- Alternative business philosophy and process (Zhang and Swanson 2015)
- innovative ways of obtaining economic growth, social development and environmental sustainability for all people on the planet (Castestrana 2013)
- Process of addressing market and government failures (Lumpkin 2009)

Review of literature – Social enterprises

- As Teasdale (2011) the social enterprise label names a varied group of organizational forms; The label does not have the same meaning in all countries or geographical fields;
- Ventures with passion for social impact (wolk 2004)
- Agents of innovation and development
- focus on the efficient use of economic resources with an emphasis on social value creation (Austin et al. 2006b).
- difference is dedication to mission and creating social value (Peredo and McLean 2006).

Review of literature – Social Economy

Social and Solidarity Economy (SSE) “ have explicit economic and social and environmental objectives (e.g. cooperatives, mutual associations, NGOs social enterprise (Utting 2013)

Caribbean community development movements and cooperatives of the 1930s-1950s were based essentially on these principles (Girvan 1993).

Economic development alone is not sufficient to explain social progress outcomes. GDP per capita is an incomplete measure of a country’s overall performance. Each dimension of social economy progress has a distinct relationship with economic development

Social Progress Index Porter et al 2014

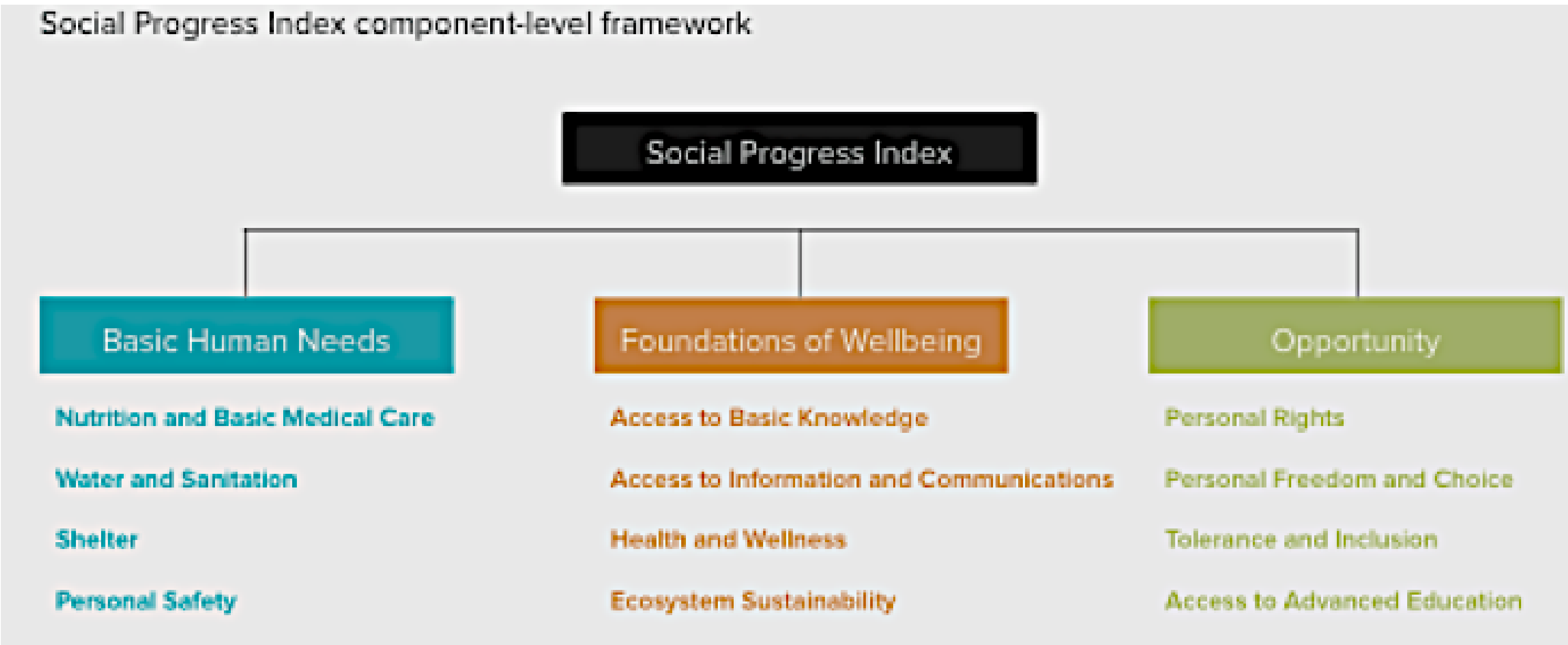
The Social Progress Index - creates a holistic and robust measurement framework for national social and environmental performance that can be used by leaders in government, business and civil society at the country level as a tool to benchmark success, improve policy, and catalyze action

Three dimensions of the Social Progress Index Framework:

1. Basic Human Needs,
2. Foundations of Wellbeing, and
3. Opportunity.

Jamaica is ranked 43 out of a 132 although Per Capita is not amongst the highest.

Social Progress Framework (Porter et al 2014)



Review of literature – Social Rate of Return on Investment

- Several methods applied to Qualitative social metrics include the triple bottom line (Elkington 2004), the balanced scorecard for not-for-profits (Kaplan 2002), CBA (Pathak and Datani 2014)
- measuring social benefits of nonprofit activity is not easy – benefits are difficult to define, no common understanding of what those benefits are or ought to be exists (Sokolowski 2015).
- SROI is a process – that feeds into an assessment map – it places a monetary value on the outcomes/benefits, so that they can be added up and compared with the costs/investment (Wilson and Bull)

Methodology – SROI – benefits

- Assesses the efficiency of an intervention Polonsky & Grau, 2011; Yates, 2009).
- Offers insights into an intervention's internal processes and drivers of social value (Weber 2014);
- Lifelong performance indicator of social enterprises and social ventures more generally (Pathak 2014)
- to monitor performance; to attract external funding; and to reinforce the missions of social ventures(Pathak 204)
- Use to leverage for funding support to decision-making processes while also serving as a tool for organisational self-legitimation (New Philanthropy Capital, 2010)
- SROI analysis can provide legitimacy to NPOs or their funders, and it can assist in allocating resources efficiently and effectively (Maier et al 2014)

Methodology - SROI

- Comparing interventions using SROI is difficult as institutional contexts of the target groups whose social needs are served varies (Lingane & Ol- sen, 2004; Scholten, 2005).

Three technical issues:

- the use of discount values - inflationary rates
- the incorporation of overhead costs - underestimating or omitting some operations cost
- determinations of the counterfactual - dead weight and attribution concerns

SROI is an economic analysis derived from the cost-benefit analysis which attempts to take various types of impact into account in the evaluation of an organisation's activities (Nicholls *et al.*, 2009; New Philanthropy Capital, 2010).

SROI comprises six stages:identifying key stakeholders, mapping outcomes, evidencing outcomes, establishing impact, calculating the SROI and reporting, using and embedding the report.

The SROI measures the value of social benefits created by an organisation, in relation to the relative cost of achieving those benefits.

Methodology – SROI – Social Evaluator Matrix – 9 Steps

- Project/Business Description – The introduction of community/organization idea, project, business
- Describing a Theory of Change –
- **Recognizing and ranking Stakeholders –**
- **Determining Input – Calculation of the SROI ratio require input and impact.**
- Determining Activities – Input turns into output through activities
- **Determining Output – results of the activities**
- Determining Outcome, Impact & Attribution
- **Determining Indicators –**
- Using Monetization

Methodology – Using monetization – Indicators

Cost Price -based methods	Value-based methods
Incurred Losses Method	Price Sensitivity Meter
Cost Reduction Method	
Averting Behaviour Method	
Hedonic Price Method	
Cost Prevention Method	
Travelling Costs Method	
Restoration Cost Method	
Production Factor Method	
Added Value Method	

Methodology – SROI – Strengths

The formula used to calculate Social Return on Investment is:

Social Return on Investment ratio (SROI) =

$$\frac{\text{Social benefits}}{\text{Social + Financial Cost}}$$

OR

SROI ratio =

$$\frac{\text{Total social benefits x deadweight x attribution x displacement x drop off}}{\text{Total value of inputs}}$$

Methodology – Three Case

Two Forms of Social Enterprises –

1. Enterprise's operations linked into its mission
2. SEs operation provides employment

Examine the ROI of SEs from both classifications.

1. Superior Craft & More – provides training as well as employment for the visually impaired while
2. The New Horizon Christian Ministries – provide training and certification, enabling its participants to earn an income, reduces crime as well as protects the environment.
3. Multi-Care foundation – personal development through the provision of engaging activities for the youth of inner city communities.

Results/Findings – Superior Craft

Grant funding of J$600,000 invested yielded a return of 473% after discounting.

Total Social and Economic benefit = J$3,275,954.00.
Discounted by 13.3% for deadweight = J$2,839,154.00.

SROI = 2839154.00/600000.00 = 4.73:1.
This amounts to a return of 473%.

For every dollar of the J$600,000 invested a return of J$4.73 on every dollar invested can be expected.

Results/Findings – Multi Care Fdn

Grant funding of 8300000.00 invested yielded a return of 106% after discounting.

Total Social and Economic benefit = J$9735995.78
Discounted by 10% for deadweight = J$8762396.20

SROI = 8762396.20/8300000.00
1.06:1. This amounts to a return of 106%.

For every dollar of the J$8.3 mill invested a return of J$1.06 on every dollar invested can be expected.

Results/Findings – New Horizon Christian Ministry

Grant funding of J$22413510.00 invested yielded a return of 1045% after discounting.

Total Social and Economic benefit = J$20172759.00
Discounted by 10% for deadweight = J$1929880.00

SROI = 20172759.00/1929880.00
10.45 This amounts to a return of 1045%.

For every dollar of the J$1929880.00 invested a return of J$10.45 on every dollar invested can be expected.

Overall Relevance

The findings are positive in all three cases revealing that SEs generate positive SROI and hence a viable investment

- will be used to strengthen the literature within this emerging field,
- guide policy relevant to social enterprises,
- present a methodology of calculating the value creation of SEs, and
- justify why SEs should be given as much support as any other sector within an economy.

Research relevance – Stakeholders

- These results provide stakeholders with empirical evidence to support argument of generating value
  - SROI can be adopted to assess social sector actors effective in creating social value.
  - Baseline data for funder and beneficiaries
  - Guide capacity building for social sector actors
  - Platform to leverage/justify further funding support

Research Implications – Stakeholders

- National level:

  Inform policy surrounding developing incentive schemes to support Social Sector Actors – Current MSME and Entrepreneurship Policy

  - Supports M&E of sector and provides a more transparent and objective approach for incentive/funding decisions.

Concluding thoughts

The current focus for policy support is justified and timely; with relevant incentive systems, SEs will be able to generate greater SROI.

SEs and MSMEs contribute significantly to the GDP of the country and should be reflected in the various stakeholders accounts.

Other social sector actors should adopt the SE model – implement intervention strategies that are self-sustaining; supported by enterprise, directly, indirectly or not related to the intervention strategy itself.

Concluding thoughts

- The Social Economy and SEs are keys in the transformation process as they generate significant SROI – evidence by Social Index Ranking

- Imperative not to over-estimate or underestimate value creation – use of proxies and monetization are crucial to evidence efficacy of social investments

Questions & Comments