Measurement Philosophy

Our belief is that if appropriate paid employment and work environments are provided for disadvantaged groups, we can help these individuals lead more self-sufficient, productive, and fulfilling lives. Our goal is to ensure that the businesses that provide these work environments reach break-even or better so that we can accomplish these social goals at a lower societal cost. In order to measure the success of our mission, we factor our target employee’s progress toward a sustainable livelihood plus the profitability of our social enterprise. We consider success to have been reached when both the target employee and the social enterprise become self-sufficient.

We view success through both a qualitative and quantitative lens. From a qualitative standpoint, we utilize the Sustainable Livelihoods Framework to determine whether the target employees are developing the personal assets necessary to become self-sufficient. Increasingly, poverty studies both domestically and internationally point to the lack of assets – financial, social, physical, and natural – as a key indicator for why certain groups slip into and/or cannot move out of poverty. The Sustainable Livelihoods Framework is an asset based approach that provides a useful context from which to understand where individuals are now, where they want to go, and how they want to get there. To learn more about this framework please go to www.livelihoods.org

We see our SROI report cards as a litmus test for our investments – how well are we achieving our mission? - and a tool for strategic management of social enterprises. Since our particular brand of social enterprise encompasses a social mission delivered through a business, we believe that the Social Return on Investment framework makes sense as it takes into consideration both the financial and social mission outcomes of the enterprise. In other words, we recognize that our ‘blended value’ business model requires a blended value evaluation tool to measure success.

In finding the balance between the two missions, we believe that a SROI framework and reporting system generates a composite number for both bottom lines in an appropriate way to judge performance.

We are still in an early stage in this process and our methodology and constructs are evolving but with the understanding and experience we have now gained, we recognize the need for a contextual background to better understand and interpret SCP SROI Report Cards.
Summary of SROI methodology

Many different types of employment barriers inhibit or stall people from breaking into the labour market, establishing an employment record and ultimately a career path. One way to think about employment barriers is to try and understand the ‘carrying’ cost to society attributed to various barriers. Being low income, without access to regular personal financial resources often means that people turn to government financial assistance programs to survive. Based on their household make up, people are entitled to provincial and/or federal set rates of monthly financial assistance. These rates are public and therefore accessible to use in quantitative analysis. In our SROI reporting we access these rates and use them as key inputs for our ‘net cost to society before employment’ part of our calculation (see below).

Other types of social costs that we represent in our calculation are shelter costs and use of (government funded) employment and training services. Additional social costs that need to be captured and are not in our analysis are health and incarceration/recidivism costs. Data on these costs are more difficult to access and, due to time and resource issues, SCP has not yet attempted to input these costs – or proxies for these costs - in our calculation. What we do use, however, is the Sustainable Livelihoods framework. The SL framework provides a better understanding of any changes to social costs and other livelihood areas such as the access to social support, community networks and skills development that target employee groups may have.

Our belief – or theory of change – is that once people are taken from a (sole) reliance on government funding and are employed in a social enterprise, they become contributors to society through their income taxes. This factor forms the basis for our ‘net benefit to society after employment’ part of our calculation.

What SROI analysis attempts to do, is to measure the monetary value associated with providing a job to someone who is receiving government assistance. This is defined by the equation below. The numerator represents this societal change and the denominator is the cost to make that change:

\[
\frac{\text{Net Cost to Society Before Employment} + \text{Net Benefit to Society After Employment}}{\text{Total Investment}}
\]

Where:

*Net Cost to Society Before Employment* = The monetary value of government assistance associated with target employees prior to employment in the social enterprise (net of any taxes being paid)

*Net Benefit to Society After Employment* = The monetary value of the taxes paid by the target employee after being employed by the social enterprise (net of any ongoing government assistance)
**Total Investment** = The total amount of money invested in the business in order to create the benefits to society. This includes any grants and additional social support infrastructure costs. It also accounts for any operating losses incurred by the business.

**What about attribution?**

What and how much is appropriate to attribute to employment in a social enterprise over the long term? Can we claim that people with employment barriers will have longer and/or better quality jobs throughout their lifetime because of their employment in a social enterprise? How much does length of employment in a social enterprise influence things? These are among the questions we debate internally regarding whether or not to include a long term multiplier in our calculation.

\[
\text{Net Benefit to Society After Employment} + \frac{\text{Net Cost to Society Before Employment}}{\text{Total Investment}} \times \text{Long Term Multiplier}
\]

Where:

**Long Term Multiplier** = A multiplying factor that attempts to estimate the value that can be attributed to the social enterprise because its employees are more likely to maintain employment over the long term than would otherwise have been the case. In other words, this annuity rate accounts for the fact that the net benefit to society associated with a particular social enterprise employee will continue to accrue throughout the working life of that employee.

With or without the long term multiplier, the result is a ratio that compares the monetary benefits created by the social enterprise against the investment made over a given period of time. This ratio demonstrates whether the investment lost, maintained, or created value. For example, if the numerator in the equation is less than the denominator (i.e. the ratio is less than one to one) value is being lost whereas if the numerator is greater than the denominator (i.e. the ratio is greater than one to one) value is being created.

Depending on the requirements of the audience this equation could be presented in various different forms. For example, one could consider the net cost savings or net benefit to society on a standalone basis from the overall SROI calculation. Moreover, the analysis of this equation could be cast in several different ways. For example, the overall result could be presented as a payback period (i.e. the amount of time it will take for the societal benefits to “pay back” the net investment) or as a return on investment to be compared with other potential projects.

Thus, our essential belief is that, although our calculations and data gathering techniques still need refinement, this methodology offers a flexible and powerful tool for analyzing the performance of social enterprises and other social initiatives.
Calculating cost and benefit to society

To understand this picture we, and/or the management team at the social enterprises we fund, implement surveys at particular points in time with individual target employees. The collected data is then situated in a cost-benefit framework that accounts for societal “costs” attributed to an employee before hire into the social enterprise versus the societal “benefits” that can be attributed after hire.

In the case examples below, detail is provided on the kind of quantifiable data collected in the baseline and follow up questionnaires/interviews that feed into the SROI calculations.

Case example one

Josh had lived most of his life in the inner city, had a high school education, a criminal record and minimal employment experience. Before he was hired at Inner City Renovation (ICR) he was part of a community-based carpentry skill development program that provided on the job training in housing renovation. While part of this program, he was able to collect government income assistance and family allowance benefits for himself, his wife and six children. Neither Josh nor his wife had any other employment related income. Based on his family make up, Josh and his family received approximately $2100 per month - $25,200 annually - of government income. This income was not taxable. After Josh was hired at ICR his annual employment income replaced the majority of the government income he and his family had been receiving but Josh was still eligible for family allowance of approximately $800 per month based on his family size and through declaring his paychecks. Josh’s gross annual employment income was $20,230 from which he paid income tax and contributions to Employment Insurance and Canada Pension Plan totaling $4,235.

Based on the information above, Josh’s individual ‘before and after’ or cost/benefit analysis looks like this:

\[
\begin{align*}
\text{Before Cost} & \quad = \quad 25,200 \\
\text{After Benefit} & \quad = \quad 4,235 + 9,600 \\
\text{Net Change} & \quad = \quad 19,835
\end{align*}
\]

$19,835 represents the (monetized) value – or Change in Societal Contribution - created by employing Josh, decreasing his need for government income assistance by $15,600 or 62% and generating new tax revenues of $4,235.

Case example two

Steven was twenty-one years old, unemployed, hadn’t finished high school and living in a youth shelter in Toronto. Before he was hired at Turn Around Couriers he had worked on and off at odd jobs but had no steady employment record. Steven was surviving on social assistance monthly payments of $520. The youth shelter receives a $53 per diem rate, per youth, from the city for operations. The average stay at a youth shelter over the course of a year is 4.5 months. Steven found out about the employment opportunity at the bike courier company through a youth

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1 Name has been changed to protect individual identity.
2 Name has been changed to protect individual identity.
employment agency and ended up working there for 3 months. An estimated annual average cost\(^3\) per youth who accesses employment and related services is $2,726. While employed at the bike courier company, Steven went back to school and got his GED\(^4\) (General Education Development). Over the course of 3 months Steven made $2,630 of employment income and got off social assistance. He was able to save enough money to get out of the shelter system and move in with some friends. After deciding that bike couriering was not for him, Steven secured a full time retail job paying minimum wage ($7.15\(^5\)) per hour to pay his bills while he explored opportunities for a career in the trades.

Based on the information above, Steven’s individual ‘before and after’ or cost/benefit analysis looks like this:

\[
\text{Before Cost} = 7,261 (\text{average annual shelter costs}) + $2,726 (\text{average cost per youth for employment and related services}) + $6,240 (\text{annual basic allowance - not including shelter allowance - through Ontario Works program for single male}) = $16,227
\]

\[
\text{After Benefit} = 16,227 (\text{annualized total of above societal costs}) - 0 (\text{annual income tax paid before hire}) + $1,287 (\text{income tax based after hire}) - 0 (\text{government income after hire}) = $17,514 (\text{Net Change})
\]

$17,514 represents the (monetized) value – or Change in Societal Contribution - created by employing Steven, helping him save enough money to leave the youth shelter system eliminating his need for government income assistance by $6,240 or 100%, eliminating his need for and use of youth employment service agencies and generating new tax revenues of $1,287.

The case examples above represent two individuals’ change or difference in need for government income and government funded services after being hired into a social enterprise. Of course, there is variance among individuals. For example in the sample of 10 former bike couriers employed at TurnAround Couriers in the first two years, the individual change in societal contribution ranged from 0 (at follow up, the youth was back in a youth shelter, using youth employment service agencies, unemployed but not collecting any government income) to $17,514. For explanatory purposes Steven’s case was highlighted to illustrate how we accounted for his use of shelter services, employment services and government income before and after he was hired at TurnAround Couriers.

**Calculating total investment**

So far, we have discussed how we come up with the ‘numerator’ in the SROI calculation. Now we will turn to discussing what makes up the ‘denominator’ or Total Investment required to generate that cost savings to society.

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\(^3\) Representatives from the different social agencies where TurnAround Couriers recruits from were asked to supply an average cost per youth for supplying these services on an annual basis. The numbers provided from 4 different agencies were averaged to come to a cost of $2,726 per youth served. This is a conservative estimate because it does not include weekly youth stipends that many agencies supply when youth are enrolled in an employment related training program.

\(^4\) The General Educational Development (GED) is an international high school equivalency testing program for adults.

\(^5\) $7.15 per hour as the general minimum wage rate in Ontario as of February 1, 2004.

\(^6\) 137 days (4.5 months) X $53.00 = $7,261

\(^7\) Annual income tax was accounted for from 3 months work at TurnAround Couriers ($2,630) and 9 months working full time at $7.15 per hour ($10,854)
There are three main components to the denominator:

1. Money secured through grant financing because of social mission (if applicable);
2. the operational loss (or minus operational profit) for same fiscal period; plus
3. any additional money secured and spent on social support infrastructure for the target employee base (e.g. social support worker, coaching, training, employee savings program)

The reason we use these 3 financial components to make up the ‘total investment’ is because we think that they suitably reflect the additional financing opportunity and social cost inherent in this model.

In order to fully understand the business viability of the social enterprise, it is particularly important to separate out a social enterprise’s sales revenue from grants, government contracts and/or subsidies to the social mission. That is why we account for these separately in our SROI Reports.

There are many ways to look at and debate the methodology to capture social costs. One of the biggest challenges with capturing these costs is being careful not to capture them twice or ‘double count’ which is particularly highlighted when trying to distinguish direct and indirect social costs of the business. For example, as in many businesses, social enterprise target employees often require training on the job or in a more formal, technical setting. When implementing training initiatives at social enterprises, this cost is often higher than a similar business (without the social mission) because of the extra time and/or extra supervision needed to roll out the training.

Another related and indirect social cost is then incurred as a result of the management’s additional time and/or supervision because of the nature and needs of the target employee group.

Our solution to the challenge outlined above is to use the operating loss/profit for the fiscal year as part of the total investment. This number captures those social costs that are difficult to extrapolate. These costs are most often captured in the social enterprise’s management and training expenses on the income statement.

The other important investment piece inherent in this model relates to the costs of Additional Social Support Infrastructure (SSI) provided for the target employee group. These costs will vary depending on a number of variables such as:

- target employee profile
- whether the social enterprise was launched independently or as a division of an existing social service agency;
- age and stage of the social enterprise;
- availability of resources; and
- stated social mission intentions (e.g. job quality, training provided, employee benefits)

To summarize, SCP has accounted for social support infrastructure costs in two ways. First, social support infrastructure costs that are harder to distinguish such as management or supervisory time spent with target employees are captured under payroll costs and ultimately in any operational losses. Second, where additional SSI needs are supplied by other sources, these costs are identified separately and also counted as part of the Total Investment.

For example, half way through Inner City Renovations’ (ICR) first year the need for responsive, social support for individual target employees was identified and $8000 was spent on ensuring access of all target employees to a trained social support worker. In year two this support was
maintained at a cost of $20,000. These costs are easily quantified and clearly attributable to the social mission and are therefore included in our investment calculations.

Likewise, ICR management has been working through how best to assist target employees with financial management and savings and in 2006 established a company-based savings program in partnership with a local community-based organization, SEED Winnipeg. The planning costs for this program are captured in management salaries. Any additional costs associated with this program and delivered by sources other than ICR management will be accounted for under Additional Social Support Infrastructure.

By way of contrast, TurnAround Courier’s first SROI report accounted for no additional SSI costs. This is not to say that the business incurred no such costs - the founding manager dedicates countless hours to providing support and mentorship to his employees. It is just that these costs are difficult to quantify and to attribute directly to a social mission. Thus, these implicit costs are captured in the Total Operating Profit (Loss) and ultimately reflected in the Total Investment Required.
Key challenges

As we have implemented SROI tracking and reporting in our various social enterprises we have uncovered several important implementation challenges. These challenges can be separated into two primary categories.

Methodological challenges

Capturing all elements of social cost: Although some elements of social cost associated with a target employee prior to employment are clear, others are more difficult to quantify. We are able to generate relatively accurate assessments of the hard costs associated with supporting individuals who are unemployed or underemployed. These costs result from items such as government income and housing support.

What remains more difficult to capture are other societal costs related to unemployment and low incomes. These may include increased law enforcement, healthcare and family social service costs. So far we have not attempted to include these less tangible costs in our SROI calculations.

Capturing all elements of social benefit: It is also challenging to determine all the benefits that are associated with providing jobs and improved incomes to marginalized individuals. These benefits include both the alleviation of some of the issues outlined above (law enforcement, health care, family services) but may also include other intangibles such as increased social/community connectedness, improved self esteem and an elevated sense of civic and/or personal responsibility.

In a nutshell, we only account for those social costs and benefits that are known and easy to quantify.

Attributing long term success: Crucial to our methodology is the assumption that employment in a social enterprise today will have a lasting, long term affect on the target employee which can be attributed in some way to the social enterprise. Although this seems intuitively correct, it is unclear what proportion of the long term affects can reasonably be attributed to employment in the social enterprise as opposed to other external factors. The fact that we started out in our first SROI report for Inner City Renovation using the long term multiplier as part of the calculation and after internal debate, chose to exclude it, reflects our own issues concerning the long term attribution of this model.

In absence of a method for attributing societal benefits to the enterprise we cannot be completely confident in our selection of a long term multiplier. Our goal is to continue to produce SROI reports with our portfolio of investments and through this process learn more about the traction of this model from an employment retention point of view. Ideally, this experience will guide us in determining how best to account for the long term benefits associated with employing different target employee groups in social enterprise and mainstream employment settings.

Practical challenges

Time Intensity: Our initial attempts at calculating SROI have required they surveying of employees in a given social enterprise. This process is very time consuming and costly, particularly in the social enterprises with more than fifteen target employees as considerable time, effort and resources are necessary in this kind of primary research.
A few years in, we started using a sample of the target employee group for SROI reporting. As we invested in larger, more established social enterprises this became necessary in order to lessen time and resource intensity. Wherever possible we have also piggybacked on current data collection systems already in place. For example, Renaissance, our investment in Montreal, has significant scale and defined operational systems in place for social tracking and reporting. We worked together to define a representative sample of the approximately 200 people annually who are (transitionally) employed through their network of ‘Fripe-Prix’ stores. The management team shares some of the data they are already collecting that is relevant to SROI reporting. The Renaissance staff do the data collection and then send it to Social Capital Partners for analysis. Both organizations review the final report before we put it up on our website.

The primary trade off in doing this kind of analysis is between how easy it can be done and the quality of data generated. Ultimately, our bias is to lean more towards ease of use because we know that in order for others to get engaged in this process it must not require a lot of time and resources.

Making it relevant to management: We have also found it challenging to make the SROI measurement process relevant to the day-to-day operations of the social enterprise management. A key reason for this is that business mission issues – both ongoing and situation specific – take priority and can be all encompassing. We also believe that the time and effort required to implement the surveys and the complexity of the overall methodology poses challenges from the management perspective. This is why, in future, we look for proxies wherever possible.

Finding appropriate comparables: An ROI calculation is only relevant when compared against a benchmark. In the private sector these benchmarks are generally other companies operating in a similar industry or with similar risk profiles. For example, when determining whether an expected ROI for a particular investment is good or bad a company or investor will compare it with the ROI that can be expected for another, similarly risky investment.

In the case of our SROI framework there are no other social enterprises in Canada using a similar methodology to measure returns. Nor are there appropriate metrics to determine the ROI for programs that are attempting to create similar outcomes to social enterprises (e.g. employment placement programs, sheltered workshops). As such, there are few comparables in the market and it is impossible for us to get a true sense of how “good” our returns are for these investments. As you will see below however, we can still use the SROI calculations as a tool to measure progress within our portfolio.
Performance levers

As we develop and apply our SROI methodology we are learning several important lessons with respect to what aspects of a social enterprise most affect the overall SROI performance. Not surprisingly, it has become obvious that SROI performance is affected by a complex set of interrelated factors however there are two overarching levers that appear to have the greatest impact on performance.

**Target employee skill set**

It has become apparent that the skills possessed by target employees at hire greatly affect the ability to generate social returns. At first glance, it might appear that a greater gap between the current skill-set and the necessary skill-set would provide more opportunity for skill development and therefore a better social return. In other words, target employee populations that enter into a social enterprise with significant societal costs (e.g. heavy reliance on government income and government services) will have a more significant change in cost savings to society than other target populations and will therefore generate a higher SROI. On the other hand, employing such a target group could also result in substantial operational losses due to the significant skills gap, lead to a greater total investment and ultimately decrease the SROI.

We have learned that when the gap between the skills possessed by the target population and what is required to do the job is very wide it reduces the probability of business success and increases the need for social support infrastructure. The net result is that the SROI may be lower than expected and the timeframe for a “payback” may be longer than expected.

We have yet to refine this thinking to the point where we can create a predictive model of which enterprises will work with which target populations but we have come to understand that this “skill gap” is an important factor when considering investments.

**Target employee forever?**

Thinking through the target employee skill set issue has also prompted us to question at which point do target employees become “non target?” This question is particularly relevant in social enterprises that take a career development approach in their employment model and maintain a core group of target employees over the long term. With this particular model, it is important to understand when employment barriers are overcome and how this may positively skew SROI results. At the same time, for some people, employment in a social enterprise over the long term makes the most sense. For a variety of reasons, some people may never be ready and/or want to transition into mainstream employment.

**Target employee ratio**

Another key influencer in this equation is the target/non target employee ratio in a particular social enterprise. In most cases, we have discovered that there is a clear trade-off between the performance of the business and the proportion of target employees hired. Thus it is important to understand that decisions about this ratio will affect outcomes for the enterprise. For example, if the target ratio swings too far toward non-target employees, the overall societal benefit will be reduced while the financial performance will improve (and by extension the investment required will decrease). Likewise, should the target employee ratio become too high, the ongoing investments required to subsidize the resulting poor financial performance may make a payback on that investment impossible.
Resulting from this issue, we have learned enough to be slightly more prescriptive – at least in the context of our own portfolio organizations. Specifically, we believe that it is best for our social enterprises to start with a relatively lower target employee ratio (but still greater than 50%) and then increase that ratio as the business gets on more stable footing rather than visa versa.

As we continue to work with our portfolio organizations and gain more experience with the SROI analysis of our portfolio, we are learning more about these underlying variables that influence SROI.
Next steps

*Improve our SROI analysis*

Although we have undertaken SROI reporting at five of our portfolio companies, we still have a great deal of learning to do around the interpretation of our results. Most importantly, we have yet to determine a hard and fast rule regarding what makes a good or bad SROI.

As we gain more experience with SROI we are developing some key beliefs about the relative socio-economic value being created. In a nutshell, these beliefs are:

- We cannot establish a ‘good’ SROI for social enterprise in isolation of other models with the same mandate using the same measurement methodology.
- We can establish a common SROI reporting template within our portfolio to assess what is working and what is not.
- We can determine if we are improving within specific investments based on the SROI index of return.
- We can develop an intuitive sense of what is ‘good’ by equating what we see as our successes with a particular SROI result.

Building on these key beliefs, our plan is to continue developing our own expertise in performing SROI analysis within our portfolio, while simultaneously looking for trends and comparisons that might provide further insight on performance benchmarks.

In the meantime, our hope is that others will engage in this process, creating benchmark data for comparative purposes and allowing for more rigorous discussion regarding what constitutes a ‘good’ SROI.

*Make SROI easier and more accurate*

At this point, our SROI methodology is time consuming and resource intensive. We believe that in order to ultimately make this an easier and less resource intensive process, we need to continue on this path for another two to five years to learn where we can use proxies versus where customization is required. For example, if we know that 70% of a particular target group will stay employed once they have been employed for a year, we can use this proxy in our calculation and avoid a costly, time consuming follow up process with past target employees.

Ultimately, we also want to extend this process beyond the SCP investment portfolio and to establish a SROI tool that other social enterprise operators and investors may find useful.

To help lay the groundwork for others to use a SROI template similar to what we have established, we have tasked ourselves with trying to improve the accuracy of the various projections made in this equation. Moreover, we hope to streamline and improve the methods by which we collect data in an effort to make SROI reporting more user-friendly.

In order to accomplish these goals and create an easy to use SROI tool we will do the following:
• Refine the variables in the equation - determine which variables are easy to account for and which ones are not.

• Continue to work with our portfolio of investments to create more streamlined and easy to implement methods of collecting data for the SROI calculations.

• Determine which elements lend themselves to universal proxies – or best estimates – and which ones require customization.

• Find and utilize these proxies in order to streamline the data gathering process and deal with externalities that are difficult to quantify through primary data collection. (e.g. incarceration costs, health care costs, rates of recidivism).

We hope that through these efforts we will not only create a tool useful in our own portfolio but one that is useful to other social enterprise managers and funding organizations.
Background material

*How do we define success?*

The two primary areas where SCP and our portfolio organizations are evaluating success relate to the setting and reaching of clear goals around enterprise profitability *and* to providing employment and skill development opportunities to disadvantaged populations. Our definition of success therefore also has a double bottom line; success is achieved if both the target employees of the social enterprise and the enterprise itself are able to develop paths towards self-sufficiency.

We analyze success on the individual (target employee) side through the Sustainable Livelihoods (SL) framework, an asset based approach that provides a useful context from which to specifically address where individuals are now, where they want to go and how they get there. Increasingly, poverty studies both domestically and internationally point to the lack of (access to) assets - financial, social, physical, and natural - as a key indicator for why certain groups slip into and/or cannot move out of poverty. This approach is a significant departure from traditional welfare economics whereby state administered, short-term income assistance was deemed sufficient to get people through periods of unemployment.

From a social outcome perspective, success is achieved if after employment in the social enterprise, target employees are able to secure that next job (and/or educational opportunity) and continue to develop a path for both financial self-sufficiency and personal growth. Transitioning into that next opportunity however could also occur within the social enterprise. Some social enterprises will develop more permanent employment positions, depending on the nature and needs of the target employee group. From a financial outcome perspective, success will be achieved if after the start up, stabilization and growth periods, cash flow from the business is able to cover all associated costs while continuing to generate employment opportunities for the target employee group. Not an easy task we know, but worth the effort we believe, to test the limits of the social enterprise model.

We are very aware of the importance of success definitions being driven by the social enterprise organizations themselves. A recipe for failure would include us trying to force particular definitions of success that do not make sense to the managers of the enterprise, the target employees or other stakeholder groups. A trusting, transparent working culture therefore needs to be fostered to give all individuals and stakeholder groups involved a sense of ownership of the venture and ultimately establish a learning culture whereby all parties see the value of setting up a success measurement framework.

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1. To learn more about this conceptual framework - developed by the Department of International Development (DFID), UK - please go to [www.dfid.gov.uk](http://www.dfid.gov.uk). This framework is being adopted to the Canadian context by groups such as Canadian Women's Foundation.
Need for measurement

One of our core beliefs is that we can't be sure we are succeeding at accomplishing our goals if we don't have a thoughtful measurement framework in place. The measurement framework should allow us not only to understand how we are doing in a relative sense vis-à-vis other models but also identify the area we need to concentrate on in order to improve.

We believe this to be true not only in the narrow context of social enterprise but also in the broader context of the nonprofit sector as a whole. Frankly, as we pointed out earlier, some kind of common measurement framework for the sector as a whole is critical in order to establish a link between performance and funding. This link is second nature in the private sector. Those companies that can consistently generate superior returns on investment for their investors will continue to attract more financing; those that generate inferior returns go bankrupt. The critical feature that permits this to happen is a common accounting measurement framework - however imperfect - that facilitates the comparison of companies. The result is that good companies thrive (generally speaking) and bad ones do not.

The link between performance and funding is not second nature in the nonprofit sector because a common measurement framework that allows easy comparison of the performance of one social service agency to another does not exist. As a result it is very difficult to determine who is most worthy of support and inevitably the sector is much less efficient then it could be because there is no invisible hand to ensure that those agencies doing the best work are the ones that are financially supported and thrive.

Establishing a common measurement framework is a more difficult task in the nonprofit sector than the private sector. Many would argue that any attempt to establish a methodology to quantify success in this sector - when so many aspects of the work can only be judged qualitatively - would actually be counter productive. Our belief is the opposite. While acknowledging that it is much more difficult and complex to do, we believe that the benefits of a common measurement framework - encompassing both quantitative and qualitative measures - ultimately leads to a more productive sector and outweigh the costs of figuring out how to do it. It's beyond our mandate (and capabilities) to develop such a framework, but we hope that we can at least be a catalyst to encourage more debate and hopefully, action around creating such a framework.

A very important part of our mandate is however, to measure the social returns of the social enterprises we help fund. We are investing in social enterprise because we believe that this model can achieve better social outcomes at less societal cost relative to other approaches. At the core of this belief are three hypotheses:

- **Hypothesis One**: Disadvantaged populations that are employed in social enterprises with (continued) access to relevant support services (i.e. training and counseling) will improve their quality of life (generate improved social outcomes for themselves) through increased financial self-sufficiency, creating access to other employment and/or educational opportunities and developing capacity for lifelong learning.

- **Hypothesis Two**: Social enterprises with feasible and scaleable business ideas (financial mission) that employ disadvantaged populations (social mission) have the ability to become self sufficient (exist without external grants) over a certain period of time.
Hypothesis Three: Access to employment and paid training will contribute to the decreased need of individual target employees to rely on specific social services over time (cost savings to society).

Obviously, the only way for us to determine whether the above hypotheses are accurate and that the social enterprise model does in fact generate superior social returns is to measure them. To accomplish this we deploy a Social Return on Investment (SROI) framework.

What is SROI?

In the broadest sense, Social Return on Investment (SROI) is an attempt to quantify the social value being generated by an organization as a result of an investment made in that organization. SROI is proposed as an evaluation strategy to determine what organizations and programs are delivering the "best" social returns. It is defined as a "return" because it is a result of resources (financial and human) invested. SROI's distinguishing feature compared to the more traditional "return on investment" (ROI) is that the units being measured encompass social and/or environmental impact. This evaluation approach is gaining popularity as competition for charitable dollars continues and organizations become more sophisticated around reporting on the social value of their activities and programming.

SCP is in the fortunate position of being able to draw from the significant work of The Robert's Enterprise Development Fund (REDF), operating out of San Francisco. REDF and their partners are leaders in developing a SROI framework and metrics that articulate the social, economic and socio-economic value of the social enterprise - or social purpose business - model.

As frequent visitors to the REDF site, we can say that it is one of the most thoughtful, content driven websites on SROI out there. REDF has invested significant time and resources in developing their SROI framework with each of their portfolio organizations. The underlying principle of REDF's work is that the value created from social purpose enterprises can be quantified to generate a social return and they do this through a six stage process, utilizing six SROI metrics. The framework uses standard investment analysis tools, adapted to encompass REDF's expanded concept of value. These six metrics are measuring the economic and socio-economic value generated from the social purpose enterprises REDF invests in.

Throughout the documentation of their experience with designing and implementing their SROI framework, they frequently admit the limitations of the model as well as its evolutionary status. It is up to others to use, modify, critique and extend their work to continue to develop standards and 'raise the bar of practice' in this arena.

In our minds, one of the key contributions of the REDF framework is the focus on distinguishing between the different costs in a social enterprise. Historically, cost accounting for social enterprises has lumped all costs together, business related or otherwise. The separation of 'social' and 'business' costs enables managers to have a better understanding of exactly where specific costs are coming from. We also believe separating out these costs is a necessary precursor to establishing when a social enterprise can reach financial self sufficiency through self generated revenues - how much should be spent on social support infrastructure now and in the future? If social costs can be projected over time to a reasonable degree, this can be a valuable planning tool for cash flow and other financial projections.

Below is a brief summary of REDF's methodological process for social cost accounting.
Methodological Steps Towards Social Cost Accounting (REDF)

- **Step 1**  
  Brainstorm the types of social costs that are significant for the social enterprise (depends on nature of disadvantaged population being employed and on type of business) and assess the likely magnitude of each (i.e. high, medium, low - in terms of importance and/or expressed as an estimate % of time or expense).

- **Step 2**  
  Outline the methodology that could be used to quantify each type of social cost and pinpoint methodological challenges. Need to consider what methodology will be most accurate and will most likely be completed on a monthly basis.

- **Step 3**  
  Decide which social costs to include in the analysis by weighing methodological challenges and the estimated magnitude of each social cost. This will most likely need to be done on a case by case basis. Remember: the decision to gather and track particular data makes sense when the costs being tracked are large in dollar impact and the methodological challenges are small.

- **Step 4**  
  Carry out planned methodology and represent social costs in income statement. Where time and capacity permit, it can also be useful to actually carry out 2 or 3 different methodologies for quantifying the same social cost, to see if/how methodological instrument significantly affects reporting.

**NOTE:** Remember that the effort to capture social costs is not to discover new costs but rather to clarify costs already accounted for in the income statement.

1. Enterprise Value, Social Purpose Value, Blended Value, Enterprise Index of Return, Social Purpose Index of Return and Blended Index of Return. Please see REDF’s publication “SROI Methodology” for a detailed discussion of how they define and calculate specific SROI metrics.

**Why are we betting on it?**

We think most people will agree that the total value generated from the work done in the social sector in Canada is largely unknown. We believe that a significant need exists to develop and utilize frameworks that attempt to define social value and measure the outcomes from programs and services delivered by the social sector. A SROI analysis is one such framework and because we are supporting the social enterprise model it is particularly applicable in that both social (target employee) and financial (social enterprise) outcomes are evaluated. Also, the pioneer in conceptualizing and implementing a SROI framework, is the Roberts Enterprise Development Fund (REDF) and they also specifically focus on investing in social (purpose) enterprises.

Below is more explanation around why we are betting on SROI:

- A SROI framework encompasses both enterprise and individual outcomes under a joint measurement framework, as opposed to looking at them separately. A common challenge for reporting outcomes from social enterprise operations to donors or funders is that ‘the full picture’ often goes unreported. Because funding often comes from varied sources and the funding objectives of different donors also vary, evaluations done often do not inform the management on the actual performance of the social enterprise.
Operating within a SROI framework allows for continual monitoring of the main intersects between the two missions. Ideally this will guide strategic development.

• A SROI Framework forces a company to distinguish between its social costs and business costs and thereby make better decisions on how and where to spend its "marginal" dollars. Social enterprises have to determine the appropriate amount to spend on social support services and infrastructure for their target employees without compromising the financial objectives of the enterprise. Too often however, when social enterprises are part of a large social service organization, the costs of the services provided to target employees are hidden or buried in the expenses of the overall organizational budget. A SROI framework forces an enterprise to make these costs explicit thereby providing critical information about the true financial position of the social enterprise and whether it is making the appropriate trade offs in balancing its financial and social missions.

• A SROI framework addresses how social costs change as the enterprise grows. Because we are interested in the scalability of this model, a thorough understanding of key business drivers and associated costs is needed for planning and budgeting for a social enterprise's growth strategy.

• A SROI framework addresses the concept of cost savings to society. In REDF's work, articulating socio-economic value and cost savings to society are accomplished through tracking target employees' use of publicly funded programs and services and tracking new tax revenues generated by target employees during and after employment in a social enterprise. By setting up a process that monitors target employee status and progress starting from pre-employment in the social enterprise through to where they are two years after leaving the social enterprise we are (theoretically) able to learn of changes in behaviour - i.e. lessening need and use of particular social services - and learn if former social enterprise employees continue to generate tax revenues.

What are the challenges?

Our overarching challenge in this whole process centers around developing a SROI framework and ultimately a system that will be an integral tool to guide strategic development of the social enterprises we invest in. The process in setting up a SROI framework, leading to the development of a SROI system needs to be valued by all key stakeholder groups in order to be useful. We want to avoid the pitfalls of setting up an evaluation framework that is seen exclusively as an accounting exercise with limited value for decision-making within the social enterprise.

A challenge around jointly setting up a SROI framework is to establish 'buy in' around the value and importance of this process. Our operating assumption is that the 'burden of measurement' is reduced by linking the SROI process directly to the mission and strategy of the social enterprise.

We are happy to report that to date, establishing 'buy in' regarding setting up a SROI framework has not been such a hard sell. Many social organizations have known of the need for such measurement frameworks and are keen to articulate in a more rigorous format the social value they create. They have just not had an outside funding agency approach them before in the manner that we have. Having joint buy in however, does not eliminate the many challenges that come with setting up and operationalizing a SROI framework. Below are some of the issues and challenges:
SROI frameworks are new and evolving and therefore need a lot more testing and refining before touting the success of the framework. We are the first to admit that we are learning as we go and are hoping that reporting our learnings through our website will help others in this arena interested in determining ways to articulate social value and measure success. We will continue reporting on our experience and detailing the issues and challenges we have had in the process and with using particular tools and methodologies.

Deciding on what social outcomes of target employees to track. In any social measurement framework there are numerous social outcomes that could be tracked relating to employment, education, wages, housing, use of public assistance, use of social services, as well as a whole host of additional outcomes that relate to changes in behaviour and attitudes. Important questions to guide the development of a social outcome tracking system include: What do we want to learn? How does what we are tracking relate to our definition of success? In our case, we are framing our work within an asset-based approach and are therefore interested in helping people develop assets - be they social, financial, physical or human - and want to learn if employment in a social enterprise has helped people with developing particular assets.

Deciding on what particular assessment and social tracking tools to use. We want to avoid tools that are too cumbersome and/or take too long to implement. We want the tools to be user friendly and have relevance for target employees - the most important stakeholder group in this whole process. It is the target employees who need to value this process the most and see how it can help them move forward. This is why in our initial 'toolbox' we are promoting the use of individual 'asset development plans' for target employees to map out current asset areas and what (area) deficits they want to build upon. The nature and needs of different target populations employed in different enterprises should shape tool development. Because this process is comprised largely of social data collection, some combination of surveys, focus groups and face-to-face assessment interviews will be needed. One key thing to remember here is that tools can always be modified based on experience. If tools initially developed are not deriving the information needed, adjust the tools and try again.

Deciding on what social costs to track. The important thing here is to first focus on what key direct social costs in the enterprise can be most easily accounted for. Things such as: wages/salary (or portion of) of management and supervisory personnel responsible for managing and executing on the social mission; key space in the enterprise being used for social mission purposes such as counseling and training - separate from any business-related training -; and any outside trainers, counselors or consultants that have been brought in to deliver specific services relating to the social mission. Once the primary direct costs have been accounted for, the next step is to determine what other more indirect social costs there may be such as; more time needed for making a product or delivering a service or the additional training and/or supervision needed for target employees. The important thing to keep in mind when developing a social cost structure is that it is an exercise in making better decisions when planning for future growth.

Using relevant, existing organizational management information systems that can be built upon in incremental stages. One of the key challenges for most social sector organizations is finding the time and resources (money and expertise) to spend on developing, utilizing and maintaining management information systems that can assist with evaluation reporting and performance management and measurement. Related to
this is the challenge around developing the internal organizational capacity to effectively utilize these systems. It is no wonder that without this capacity, the sector has difficulty in articulating the social value it creates. However, expensive and complicated MIS systems are not going to address this problem on their own. Our hope is that we can develop the base from which appropriate MIS systems can be built. Frankly, we first need to further develop our capacity on how to set up appropriate social support infrastructures with attached social cost accounting systems before setting up elaborate MIS systems to measure the value of these components. The important point to remember here is that paper-based tools can be automated down the road.

- **Avoiding pitfalls around who ‘owns’ the process and/or who ‘owns’ the tools developed for the SROI analysis.** Our orientation is to share as much as we can with the broader community about how to make this hybrid model work. We are operating under the theory of abundance and strongly believe that the more replication and refinement of tools we help to develop with our portfolio organizations, the stronger our case for betting on this model. We are not in this to develop proprietary tools to then resell to the sector. As with many other public domain resources - such as the Sustainable Livelihoods Guidance Sheets - we want to contribute to the growing body of knowledge concerning how to account for, articulate and measure social value creation.

- **Retaining common SROI principles across the different organizations we work with while enabling those organizations to have the flexibility to adapt the process to their specific context.** For any of our work to really ‘stick’ it needs to make sense to the people out there ‘doing’ social enterprise. Despite the common principles among the organizations we are working with, there are key differences regarding organizational ‘age and stage’ of development. For example we are working with groups who are relative newcomers to social enterprise and with others who have been involved in this type of work for several years. Other differences relate to size of organization, whether they provide other services and programs, or are a single purpose social enterprise. We want to have the ability to compare experiences while recognizing the diversity of our portfolio organizations and know that this will be a challenge.

- **Recognizing that all assumptions within a SROI framework and limitations of the model need to be clearly articulated.** Because many of the cost savings analysis in SROI frameworks are derived from using proxies - or best estimates - where these proxies come from and what assumptions they carry need to be clearly stated and explained. These proxies can be changed over time as new proxies become available and as we learn through experience.