

SROI – The blended value proposition

Henk Kievit
Nijenrode University

SROI is a term and methodology developed by REDF / Jed Emerson

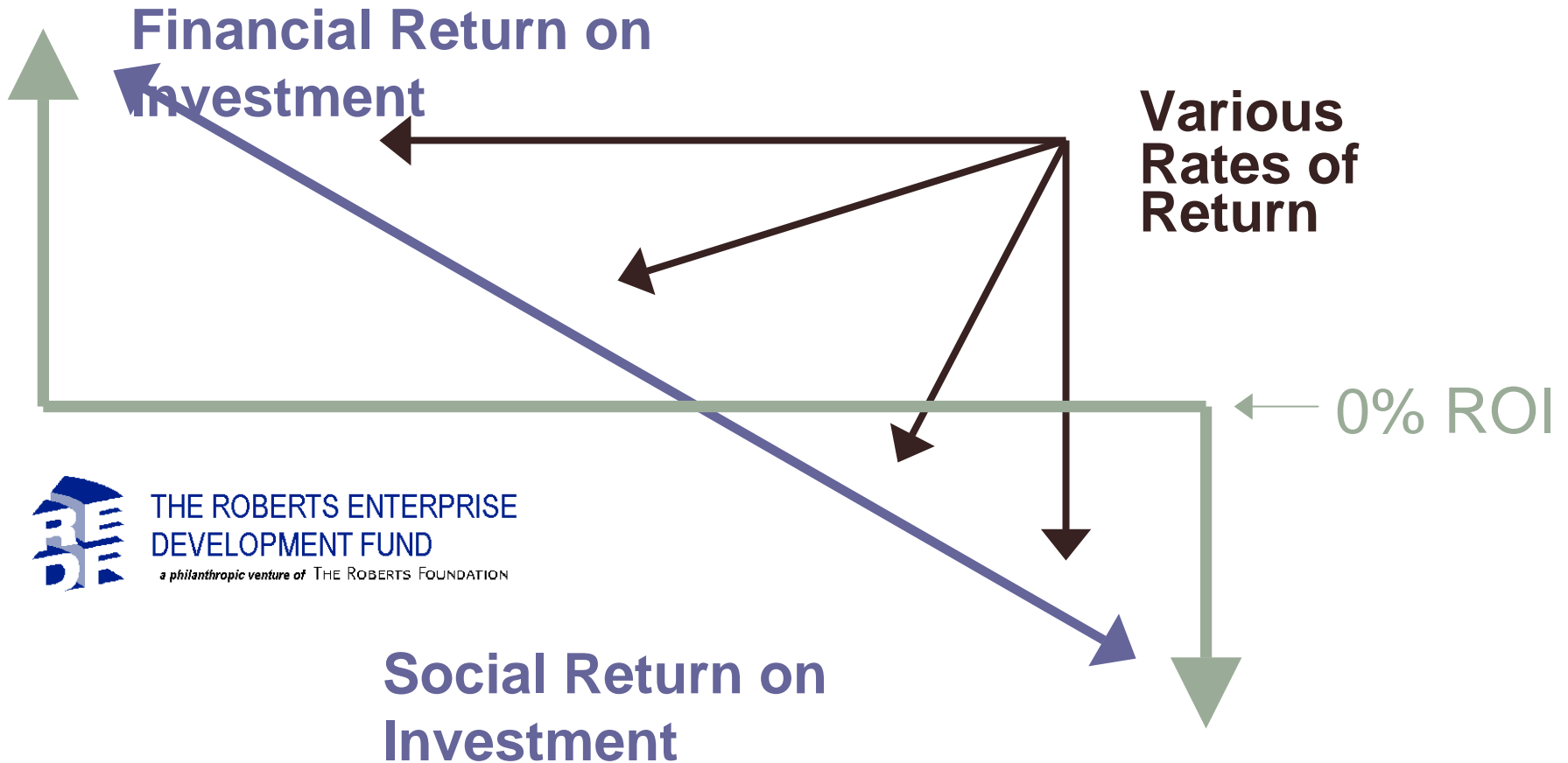


THE ROBERTS ENTERPRISE
DEVELOPMENT FUND

a philanthropic venture of THE ROBERTS FOUNDATION

The Investment Position

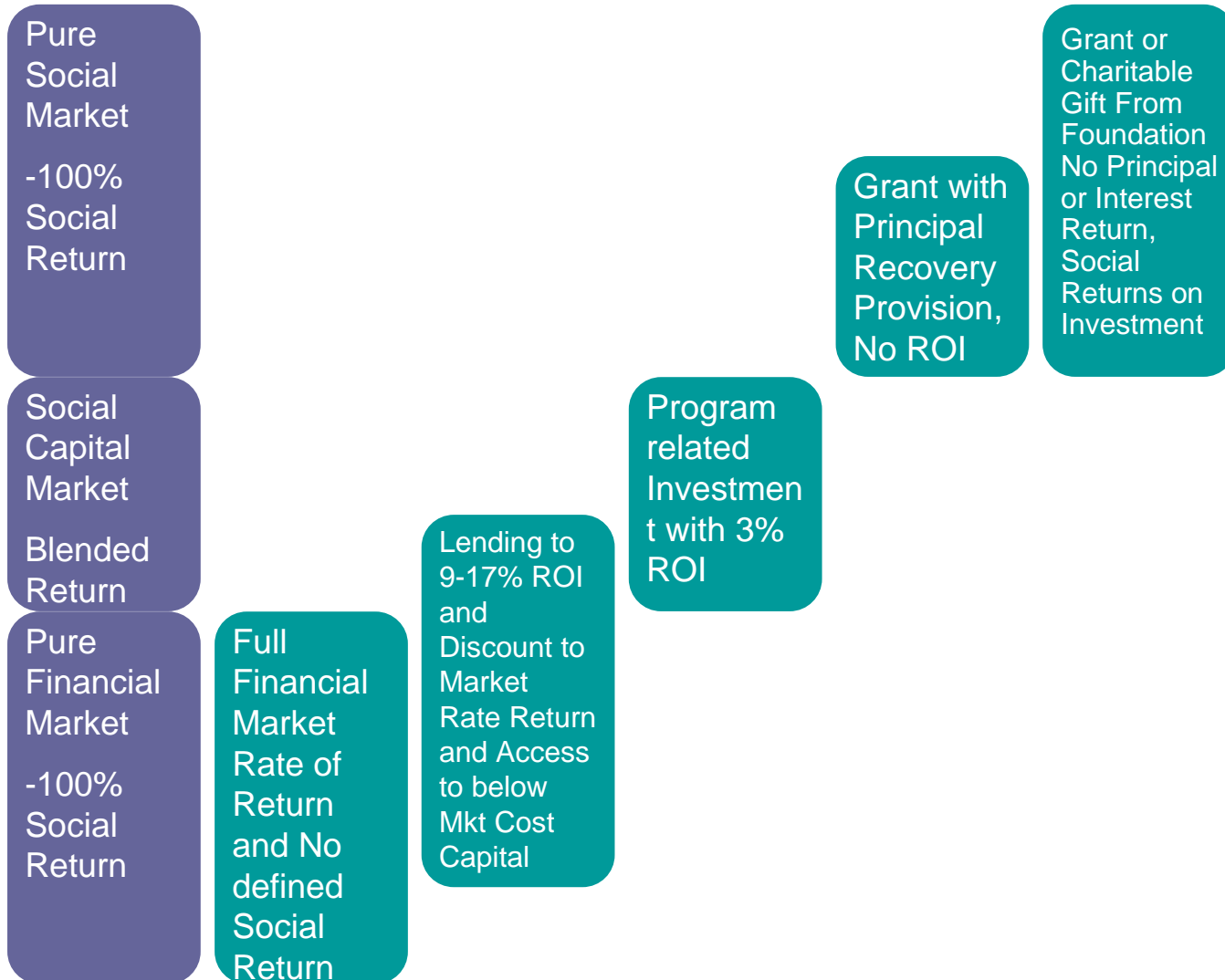
A Traditional Perception of FROI Versus SROI



THE ROBERTS ENTERPRISE
DEVELOPMENT FUND
a philanthropic venture of THE ROBERTS FOUNDATION

**Social Return on
Investment**

The rise of Social Return



An Enterprise Development Framework

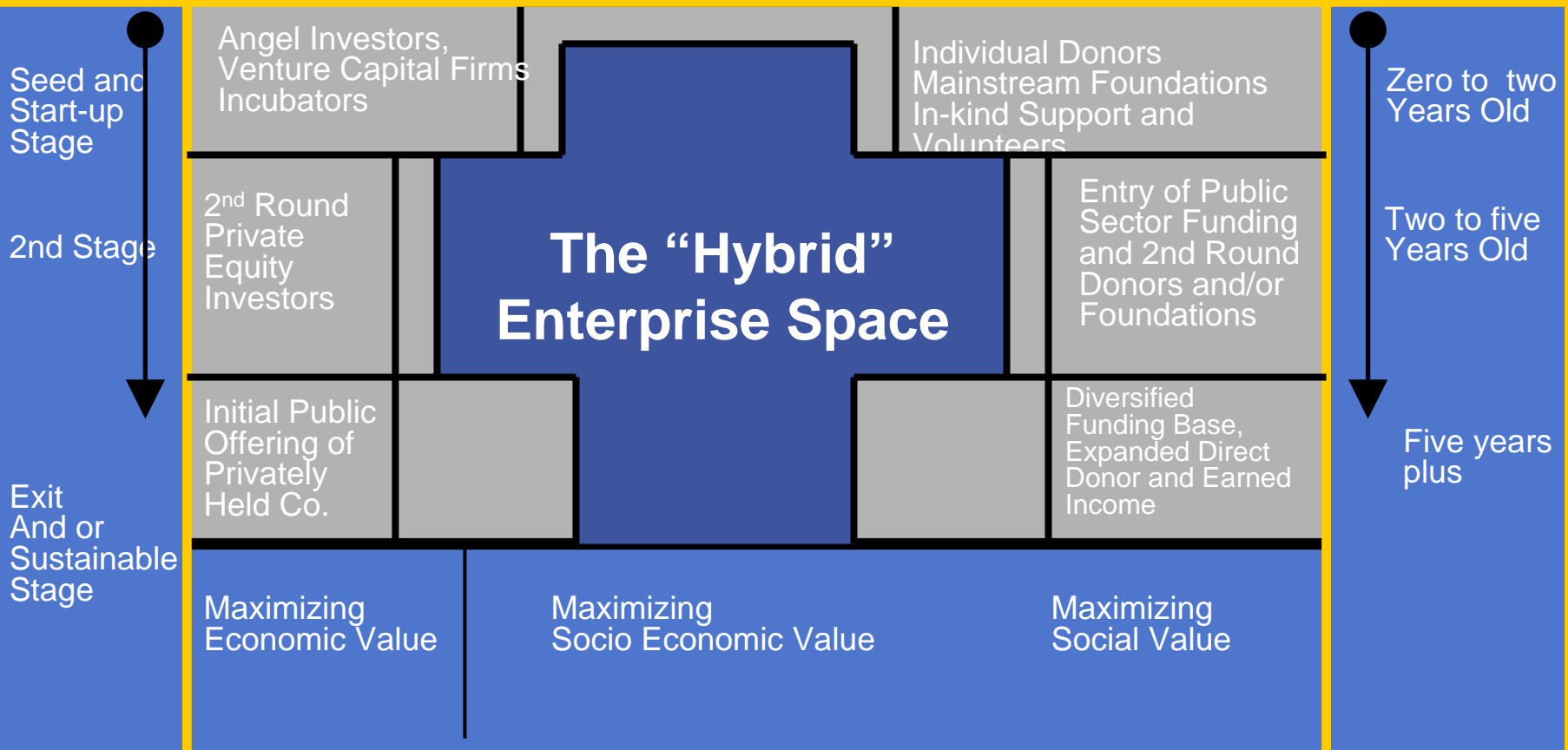
Commercial Enterprise

Social Enterprise

Developmental Stage of Corp

For-Profit BV versus Nonprofit (stichting)

Developmental Time Frame



This diagram builds upon the work of j. Gregory Dees (John Gardner Professor, Graduate School of Business, Stanford University) presented in *"The Social Enterprise System: Philanthropy to Commerce,"* 1996, Harvard University. This particular Enterprise Development Continuum was created by the author of the present paper so assist iStart Ventures in Seattle in creation of their philanthropic strategy.

A Spectrum of Investor Institutions And Factors Related to their Activities



Traditional Philanthropy

- Seeks to Maximize Social Return
- Majority of applied funds not viewed as type of investment
- May engage in Program Related Investments
- "Evaluation" used to assess relative social impact
- Often invests endowment in Traditional Capital Institutions

Social Equity Investors ← → Private Equity Investors

A Spectrum of Investor Institutions And Factors Related to their Activities



Socially Responsible Investment Funds

- Seeks Market rate financial returns
- Seeks to minimize negative social, environmental or other impacts
- Pro-active social, environmental or other screen for investing
- May Engage in Social Audits and “follow-along” monitoring
- Shareholder Activism
- No calculation of SROI

Social Equity Investors ←————→ Private Equity Investors

A Spectrum of Investor Institutions And Factors Related to their Activities



Traditional Capital Institutions

- Seeks to Maximize Financial Return
- Analysts “observe” performance and make no direct effort to influence the operation of the investee corporation
- May engage in traditional philanthropy by making grants to nonprofit organizations
- No thought of SROI

Social Equity Investors



Private Equity Investors

Social Capital Performance

Tracking the Returns of a Blended Value Proposition

+1

Economic
Value

Transactive Social Capital

Sources of Monetary Exchange

- A. For-Profit Capital
- B. Non-Profit Capital
- C. Ecological Context

Blended
SROI/ROI

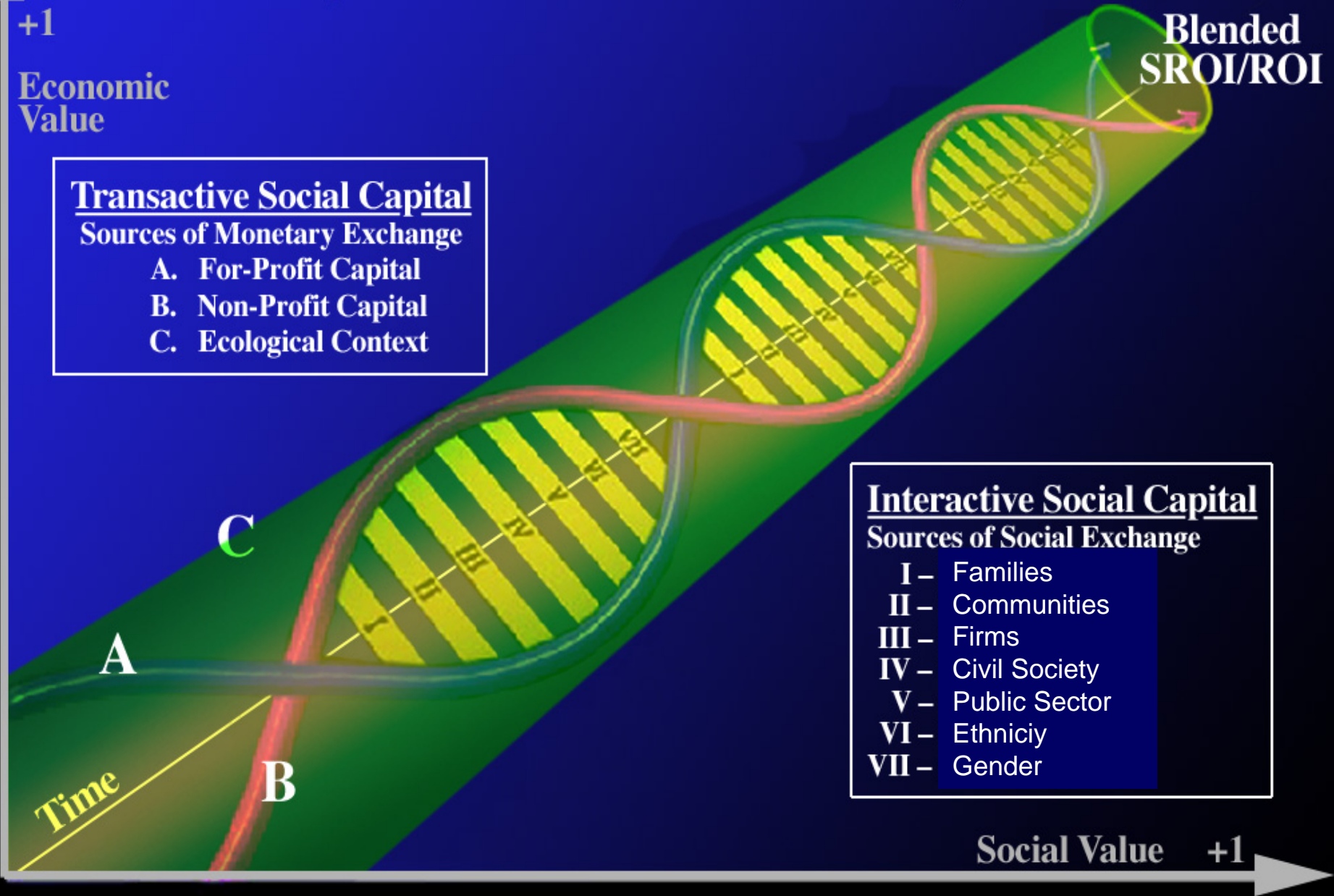
Interactive Social Capital

Sources of Social Exchange

- I – Families
- II – Communities
- III – Firms
- IV – Civil Society
- V – Public Sector
- VI – Ethnicity
- VII – Gender

Time

Social Value +1



REDF Approaches to Measuring Impact

INDIVIDUAL
(enterprise employees)

ENTERPRISE
(program)

ORGANIZATION

**SOCIETY/
COMMUNITY**

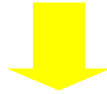
Assessment Methods

- Demographics
- Social outcomes
- Stories

- Demographics
- Social outcomes
- Financial results

OASIS

- SROI
- Cost/Benefit analysis



Desired Outcomes

Individual improved lives

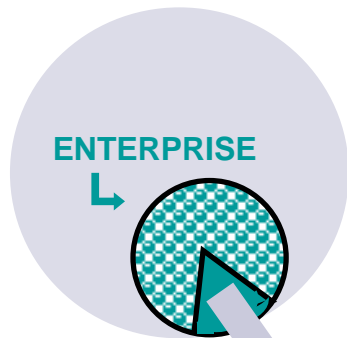
- Group of improved lives
- Healthy, growing/profitable businesses

Healthier, more effective organizations

- Improved society
- Dollar impact on community
- Cost effective strategies

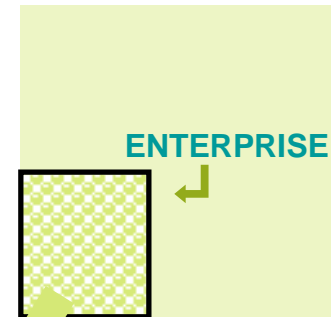
Measuring Impact on SOCIETY (SROI in 2004)

AGENCY Activities and Outcomes



- usage of social services data
- new taxes generated

AGENCY Financial Systems and Reports



- business valuation
- business profitability

SROI FRAMEWORK/ANALYSIS

Total impact of enterprise on society/community
in monetary terms

Rubicon Landscape Services SROI Report

SROI Report - Winter 2008



Rubicon Landscape Services

PARENT AGENCY: RUBICON PROGRAMS

Business Summary: Rubicon Landscape Services provides landscaping services to large-scale residential and commercial properties and is based in Richmond, California.

2007	2008 (BY TARGET)
Enterprise Sales	\$12,973,000
Social Purpose Sales	\$16,862,771
Divided Sales	\$28,835,771
Investment in Date	\$1,500,000
Number of Target Employees	32
Percentage of Target Employees	84%
Hourly Wage Range	\$8.00 - \$14.50

Employment Risk Assessment (SRA)	
RETURN ON INVESTMENT (ROIC)	30%
CONTRIBUTION TO NET WORTH	36%
MARKET VALUE	29%
PUBLIC PERCEPTION	24%
NET WORTH TO THE COMMUNITY	27%
NET BENEFITS TO TARGET	20%

OVERVIEW

- 1999-2008 gross sales of over \$7.9 million with sales expected to increase to \$7.8 million by 2009.
- Receives no outside funding or subsidies, and has been generating net income since 1995.
- Hires over 50 disabled or economically challenged employees from San Francisco Bay Area.
- Stable workforce that receives relatively high wages for the industry.

TARGET EMPLOYEE STATISTICS

AVERAGE TIME WITH RUBICON LANDSCAPE SERVICES
All positions are permanent

AGE

- 7% 19-24 years old
- 20% 25-29 years old
- 31% 30-39 years old
- 42% 40-49 years old

RACE/ETHNICITY

- 59% African-American
- 21% White
- 13% Latin/a
- 8% Other

GENDER

- 80% male
- 14% female



EMPLOYEE HIGHLIGHT

Greg was raised in San Francisco in a family that had trouble with drug and alcohol abuse. After he turned 18, he moved to living on the streets. Between the ages of 13 and 35, he was incarcerated several times and was recently released from San Quentin Prison in December 1999.

After his release, he entered a residential drug rehabilitation and employment training program and was eventually referred to Rubicon and was hired by Rubicon Landscape Services. Greg works on one of Rubicon's new landscape installation crews and is learning many new skills. A decent paying job and the extra support he gets from Rubicon have provided the structure he needs to focus his life. Greg wants to maintain a positive outlook, which is good for crew morale. During his interview at Rubicon, Greg said that if given a chance to prove himself, he would not let us down and he has been good to his word.

SROI Analysis — Rubicon Landscape Services

SOCIAL PURPOSE RESULTS

Rubicon Landscape Services employs disabled and economically challenged individuals from the San Francisco Bay Area. On average, Rubicon uses the public \$10,777 in public assistance and social service costs and generates \$1,880 in revenues per target employee. This translates to a social purpose value worth almost \$11 million and a social purpose index of returns of 8.83. In 1999, on average Rubicon was able to increase a target employee's wage by over \$16,000 per year. The net financial improvement to the target employees, after considering the new taxes they must pay and their reduced public assistance, was approximately \$9,850 per year.

ENTERPRISE FINANCIALS

Since 1995, Rubicon Landscape Services has been self-sufficient, not relying on outside funding for any reason, and has provided the parent agency with additional income. Sales in 2008 increased only slightly as a result of modest inflationary base changes. 2000-2008 will again feature double-digit sales increases. Because of its social mission, Rubicon chooses to retain existing target employees even when this may negatively impact margins. Overall, Rubicon Landscape Services has an enterprise value of about \$11 million. This value is often three times the initial investment in the enterprise.

SOCIAL PURPOSE ENTERPRISE INDICATORS

Most Rubicon positions are full-time. The total number of employees is expected to increase slightly in 2008 and more dramatically in following years. Assuming the cost savings and new tax revenue results constant on a per target-employee basis for the projected 78 to 140 target employees over the next ten years, total social savings and new tax yield \$15.3 million in today's dollars. It will only cost Rubicon approximately \$4.6 million in social operating expenses to generate each value. In addition, Rubicon Landscape Services is expected to provide the parent agency with over \$11 million in revenues.

REVENUES AND EXPENSES

Since 1995, 100% of Rubicon's revenues have come from sales. Beginning in 1998, Rubicon focused on managing its expenses that result from the social mission, decreasing the proportion of social operating expenses to overall expenses without reducing social benefits.

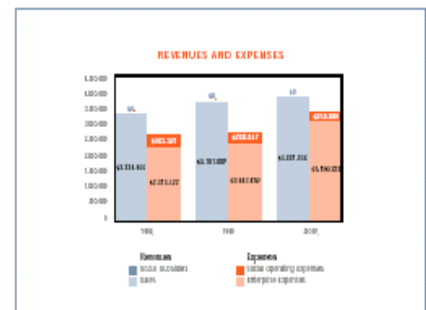
SOCIAL PURPOSE RESULTS (PER TARGET EMPLOYEE)	1999
PUBLIC ASSISTANCE	\$10,777
NET TAXES	\$1,880
WAGE IMPROVEMENT	\$16,000
FINANCIAL IMPROVEMENT	\$9,850

ENTERPRISE FINANCIALS	1999	1999	2008P
SALES	\$6,854,400	\$4,100,000	\$4,883,888
GROSS MARGIN	69%	61%	66%
NET MARGIN (BEFORE TAX) ¹	81%	64%	78%
NET MARGIN (AFTER TAX)	83%	57%	71%

SOCIAL PURPOSE ENTERPRISE INDICATORS	1999	1999	2008P
TOTAL EMPLOYEES/TOTAL TARGET EMPLOYEES	36A	82*60	79*64
FTE EMPLOYEES/FTE TARGET EMPLOYEES	36A	82*60	79*64
SOCIAL OPERATING EXPENSES PER TARGET EMPLOYEE	36A	\$6,170	\$4,600

TOTAL PROJECTED INVESTMENT	\$0
TOTAL PROJECTED SOCIAL SAVINGS AND NEW TAXES	\$16,218,888
TOTAL PROJECTED SOCIAL OPERATING EXPENSES	\$4,671,748
TOTAL PROJECTED CONTRIBUTION TO SOCIETY	\$11,547,140

*80% Rehabilitation and Social Operating Expenses



Implications of the BVP at Multiple Levels:

- Our Understanding of the Nature of Capital
- Our Perception of For-Profit Companies and how we define their role in creation of Social and Environmental Value
- Our Assumption Nonprofit Organizations primarily create Social Value
- Our Definition of what constitutes “returns” and the need to create new metrics by which capital performance may be assessed for its generation of multiple returns.

Implications for our Definition of Returns

- Those committed to true value maximization recognize that existing econo-metrics and reporting frameworks are the product of 70+ years of exploration and development...
- ...and the “new metrics” by which managers will track performance and investors will understand BVP returns will build on this base, but...

these “21st Century Metrics” will themselves be the product of new debate and exploration over the next decade. (Jed Emerson’s quote)

Meer weten over SROI ?

- www.sroi.nl
- www.redf.org
- Dokifath / Scholten & Franssen
- Email: info@dokifath.nl
- *“The Nature of Returns: A Social Capital Markets Inquiry into Elements of Investment and the Blended Value Proposition,”* A Harvard Business School Working Paper published in 2000.

Stellingen

- De Blended Value Proposition / SROI methode maakt een onderneming zich weer extra bewust van de impact van en op haar omgevings- factoren
- Het SROI analyse proces is legt veel beslag op ondernemingscapaciteit, echter daardoor leert u wel alle effecten van de onderneming kennen in de omgeving, waarin deze opereert.
- Binnen 10 jaar zal een onderneming even zwaar op SROI als op FROI-indicatoren worden beoordeeld.