Quantifying social value

Matthew Hall explains why practitioners develop different calculations

Social value typically refers to improvements in the lives of individuals and/or communities that go beyond or are indeed separate from economic exchanges. For example, the value from employment may not only reflect the economic value from income, but also include significant improvements in psychological wellbeing and family relationships. There has been an upsurge of interest in methods to try and quantify social value. For example, social impact measurement, social and environmental accounting, and triple-bottom line reporting attempt to expand the types of value that can be quantified and accounted for in evaluations of performance. Traditional financial accounting, with its prime focus on the financial value of organizations, often excludes or discounts social value, particularly where it is viewed as difficult to quantity, especially in financial terms. There are also often divergent views on how to quantify the social impact of organizational activities, a plethora of different methods with mixed success and varying support from different parties, compounded by a lack of systematic research. To address these issues, we undertook a detailed examination of the development of one prominent method used to quantify social value: Social Return on Investment (SROI) (Hall et al. 2015).

Social Return on Investment

SROI is a method to quantify the value of social purpose activities carried out by social enterprises, non-profit and also for-profit organizations. Calculating SROI typically involves identifying stakeholders influenced by the organization's activities, determining any benefits (or costs) for those stakeholders, assigning those benefits and costs a monetary value estimated over a specific time horizon (e.g. 5 years), and using discounted cash flow techniques to estimate their present value. A prime focus in SROI is the quantification of social impact in a ratio comparing the net present value of the monetized benefits created by the organization (or project) to the amount of monetary resources used. For example, a computed ratio of 4:1 signals that for every £1 invested in a project, £4 of value was generated.

We analysed how practitioners in the US and UK developed SROI so they could record and report on the social value being generated by the social purpose organizations they were working with. On the surface, the SROI methodologies in each setting were the same as it involved tracking financial and social outcomes of social projects, producing monetary estimates of those outcomes, and then computing the ratio of benefits to costs. However, closer inspection revealed the SROI methodologies quantified social value quite differently.

Quantifying social value in different ways

In the US setting, the SROI calculation only included social value where it could be quantified with reference to data on governmental cost savings. For example, if a client of a social enterprise gained employment, the SROI calculation would include an estimate of the monetary value of that employment flowing to public sector agencies (e.g. lower benefit payments and higher income tax). Other benefits, such as changes in the self-esteem of clients who had gained employment, were also tracked using detailed recording systems. But these benefits were not included in calculating SROI because they could not be readily monetized using references to government cost savings. Consequently, in the US setting, if certain types of benefits did not have governmental cost data available, they were not included in the calculation of SROI.

In the UK setting, the SROI method drew on a diverse mix of proxies to monetize social value, including revealed preferences, a WikiVOIS (a website where stakeholders can directly enter impacts from social projects), and direct consultation with stakeholders. As such, the measure of social value in the SROI calculation in the UK was broader. It included not only the cost savings for the government but also the direct impacts on clients, such as the changes in self-esteem, excluded in the US case.

Why did the SROI methods differ in how they quantified social value? Our research shows two factors were important: practitioners' epistemic beliefs, and the material conditions facing the practitioners in their organizational settings.

Epistemic beliefs

Epistemic beliefs refer to practitioners' views about what counts as valid and appropriate data. US practitioners believed that data is valid only when it is standardized, comparable, and collected consistently over time. In the words of one US practitioner, they wanted to be 'conservative' and only use 'quantifiable, monetizable data' already in place, and so 'ended up focused on savings to society as being the prime value' used to monetize social value in their SROI calculations.

The UK practitioners had different epistemic beliefs. They held the view that data is valid when it reflects and directly incorporates the (potentially) different experiences of a variety of stakeholders. They were interested in asking 'people directly how they value things' and, as one UK practitioner commented, they wanted to capture 'the voice of the stakeholder.' In this way, UK practitioners' were not as conservative as their US counterparts and used a variety of methods to monetize social value in their SROI calculations.

Material conditions

The material conditions facing the practitioners also played an important role. Material conditions refer to data collection and reporting systems, and access to financial resources, labour and expertise. In the US, practitioners had extensive financial resources, interns and consultants, and expertise in data analysis. This allowed them to develop comprehensive and sophisticated systems for gathering data about social impacts

even though they did not necessarily monetize all those social impacts due to their epistemic beliefs. In the UK, practitioners' efforts to capture the voices of stakeholders were constrained to a certain extent by their limited financial resources, labour and expertise. They developed more rudimentary systems to track social impacts and often used more inexpensive methods of data collection, such as the WikiVOIS.

Our research shows the important role of practitioners' epistemic beliefs – their views on the type of knowledge that is valid or acceptable to use in quantification practices – and the organization's material conditions – the amount and type of resources, technical and material, at their disposal – in the quantification of social value. These two factors had important implications for the range of social outcomes included in the calculation of SROI, and the perspective from which the social outcomes were valued, such as the government's perspective or the voice of a variety of stakeholders. As such, our study shows that although methods of quantification may look similar in design, they may work very differently in practice, depending on the epistemic beliefs of practitioners and the organizational context within which quantification takes place.

Reference

Hall, M., Millo, Y. and Barman, E. (2015). Who and what really counts? Stakeholder prioritisation and accounting for social value. *Journal of Management Studies,* in press.

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