Education, Knowledge and Economy ›
Volume 2, 2008 - Issue 3: Social Enterprise: Governance, Impact and Measurement

Articles

Social enterprise and the measurement of social value: methodological issues with the calculation and application of the social return on investment

Patrick W. Ryan & Isaac Lyne

Pages 223-237 | Published online: 16 Dec 2008

Cite this article https://doi.org/10.1080/17496890802426253

Abstract

This article considers the methodological challenge of quantifying the social value generated through social enterprise activity. It argues that in the context of increasing enthusiasm for social enterprise as a mechanism for delivering social services and for tackling social exclusion, it is increasingly necessary to be able to value social impacts. Further it will be necessary to be able to assess the potential creation of social value from different investments in social enterprise. Specifically, this article considers methodology of social return on investment (SROI). SROI has become increasingly promoted in both policy and practice in the United States and the United Kingdom. This article considers the development of this methodology and draws on lessons from international development to highlight the limitations of the current use of SROI.

Keywords:

social enterprise

social return on investment

methodology

application

Notes

1. The index of return is defined as the discounted projected value created in the future/investment to date. An index of 1:2 means that for each £1 invested, £2 has been created (Emerson et al. 2000; REDF 2001).

2. The NPV is as the sum of net benefits generated over the life of a project discounted at a rate reflecting the opportunity cost of capital (Potts 2002).

3. It is recognised that these problems are exactly the issues that SES and NEF are attempting to address through the action research projects, and these comments are in no way meant as a criticism of these excellent initiatives.

4. The formal decision rule is to accept all projects with an NPV greater than zero when discounted at an appropriate discount rate, and to accept an IoR if the ratio is greater than 1:1 (Curry and Weiss 2000; Potts 2002).

5. Mutual exclusivity refers to the situation where a project can only be implemented at the expense of another. This could be because there is only one piece of land for example (Potts 2002).

6. It is recognised that the SES and NEF studies were not prepared with comparison in mind and no criticism is implied. The studies are being used simply to highlight methodological issues that arise when trying to compare investment alternatives.

7. The rationale for the choice of 10 years in REDF (2001) is also not specified.

8. The discount rate is defined as the opportunity cost of the capital employed in the project. Thus, to be acceptable, a project must generate a return at least equal to the return available elsewhere (Lumby and Jones, 2003; Arnold 2005).

9. This is calculated by using a weighted average of the (Industry Average %Debt) × (Average Cost of Debt) × (Industry Average %Equity) × (Cost of Equity). In the REDF

(2000) guide this gives a Discount Rate of 12.08%.

10. Certainly, current prices will be required for project financing and implementation because the project manager will be purchasing items in current prices.