csaco COMMUNITY SERVICES ANALYSIS LLC

STRATEGIC PLANNING USING SOCIAL RETURN ON INVESTMENT

Overview of Social Return on Investment (SROI)

The economics of a social service are such that public and private funders are bound to underinvest in it, since the considerable social benefits – increased quality and level of education, higher levels of employment, reduced community health costs, reduced community law enforcement costs, increased property values, and increased tax revenues, to name some of the possible long term outcomes – accrue to everyone, not just to direct participants or customers.

A Social Return on Investment analysis examines the immediate fiscal benefits to the funding sources, to the stakeholders, and to the community based on the Fair Market Value replacement costs of the services currently delivered (the "Outputs") and the longer-term benefits resulting from these services (the "Outcomes").

The results of a SROI analysis give a clearer picture of the value of the short-term and long-term social benefits delivered by the services delivered by any individual service provider organization or associated group of providers – the measurement of the "Bang for the Buck" actually delivered by these services.

The Use of SROI in Funding Justifications

SROI analysis has primarily has been used for justification of funding expenditures as a method of determining the values received by the funding sources and their constituents. This justification can be based on either an additional confirmation of the value of the services or as a basis for prioritization of funding allocations when multiple services are competing for funding awards from a limited set of resources.

SROI analysis is not meant to be the "magic bullet" of funding justifications. The primary previous methods of justifying funding requests – the presentation of success stories, the descriptions of the needs of the unfortunate recipients, and the outlining of the provider organization's output activities and planned outcomes – all are effective reasons and are important elements of successful fundraising efforts.

What these methods do not answer are the critical questions that are among the most important issues today due to the increasing levels of funding agencies budget shortfalls and the need to allocate limited funds between a wide range of competing organizations and services to where they can provide the most benefit to the community.

In the words of the head of the head of the California Department of Social Services during televised budget hearings a few years ago when he was questioning the presenter representing a particular provider organization, "We only have a limited amount of funding available. Why should we fund your services as compared to someone else's? What bang for our buck will we receive from you?. This presenter had no immediate answer and the presentation ended with a significant unresolved issue.

The results of an SROI analysis answer these questions and provide the "third leg" of reasoning on funding decisions for the decision makers. The SROI results can provide the answers needed on the fiscal values of the services delivered, the cost efficiency of these services, and the long-term financial value to the community that would be realized from the outcome results of funding these services.

The advantages of providing these social value return on investment results are not only important for tax-based funding decision makers, but also for private funding donations and grants.

SROI analysis for these funding decisions is more widely used in other countries that in the United States, but there are significant indications that the need for SROI information is becoming an important requirement in formal funding decision processes in the US.

As an example, the Edward M. Kennedy Serve America Act of 2009 allocates approximately $1 billion per year to fund community services. A mechanism for achieving this goal is the creation of Social Innovation Funds which are awarded on an open competitive basis to organizations.

The Roberts Enterprise Development Fund was the only intermediate organization in the country to receive Social Innovation funds – and the distribution of these funds required the end recipient to *"Conduct a rigorous Social Return on Investment (SROI) analysis to quantify the effect of social enterprises on employee income, receipt of public and employer benefits, education, taxes, and incarceration"*.

For another recent example, the City of Philadelphia Mayor's Office of Community Services recently retained CSACO to analyze the SROI benefits of two existing community service operations and one planned operation to determine the actual long-term fiscal benefits to the Philadelphia community from these operations.

One operation involved a Pre-Apprenticeship Program (in partnership with the Philadelphia Housing Authority and the Philadelphia Building and Construction Trades Council) that provides low-income residents with training opportunities to prepare them for participation in building and construction trades apprenticeship programs, leading to long-term unsubsidized employment at union wage scales and benefits.

The SROI analysis shows that there were material short-term savings to the City of Philadelphia resulting in an immediate SROI return of 195% of annual funding and significant long-term financial benefits (over a twenty-year period) resulting in a 457% SROI return on annual program funding.

Another type of important result from a SROI analysis is the demonstration to the community at large that the operation being analyzed not only provides measurable fiscal value for their funding but does so in an accountable, transparent, and responsible manner.

> A SROI engagement for a provider organization in Iowa not only showed that there was a reasonable rate of return on donation funding, but more importantly formed that basis for a large news media article addressing a local social service organization that had recently closed without delivering any services – and how the organization under study was actually delivering valuable services and providing needed community benefits.

Strategic Planning using SROI

Recently, innovative organizations are finding that strategic planning based on a better understanding of the benefits delivered to the community can result in more effective business development, increased operational efficiency, and a greater understanding of the actual value of the service outputs and outcomes provided by the organization.

The examination of services to measure the short and long term values received by the community reveals the trends of valuations delivered. While the community may not realize an increase or decline in the values received, it is only a matter of time before this realization develops – and if the provider organization is unaware of the trend results and the changing community perception of their value, the provider may see unexpected and undesirable developments in their funding or their operational results.

Some specific examples of progressive organizations who used their SROI analysis information for effective strategic planning:

United Cerebral Palsy in Birmingham, Alabama has provided early childhood education services at affordable costs for children with disabilities for many years. Their educational services also encouraged children without disabilities to enroll and participate in these services, to the point where there was an approximate equal distribution of children with and without disabilities.

The SROI analysis that UCP completed in 2010 showed a gradual trend of a reduction in the social value of these ECE services. Further investigation showed that this gradual decline was the result of increased competition in this area due to other early education providers starting to offer similar services – including full medical and assistive staffing for the children with disabilities. This increase in competition was resulting in pricing pressures and reduced costs for the consumers of these services, resulting in a lessening in the social value return from the individual UCP services.

Further expansion of these UCP services would have resulted in a competition with other supplier based primarily on cost. This would have had a developing negative impact on UCP’s results financial results from their operations.

UCP management recognized this SROI trend, however, and decided to emphasis future development in other areas – primarily adult day treatment services – which allowed them to continue to deliver services to the community with a higher social value than other alternatives. As a result, after several years of this change of focus, UCP's overall social value to the community is increasing and their financial results reflect this increase.

As another example, MARC Community Resources in Mesa, Arizona commissioned a SROI analysis in 2009 that compared the social return value for their major operational groups. The results proved what they had started to suspect – that overall community values of one line of business were significantly less that the values delivered by their other operations.

MARC's management further realized that their continued support through tax-based funding depended heavily on the community and legislative knowledge of the high values of their services and the community understanding that social problems were being solved in a cost-effective manner.

The management team made the strategic decision to reduce their operating efforts in the lower value area of service and emphasis a higher value area. This strategic decision was an instrumental factor in their continued financial success and the overall community understanding of the values of their services.

They were so successful in their planning and operations that a update of the SROI analysis showed that their overall financial results had improved SROI values were equal to the previous analysis - despite the fact that the State of Arizona had reduced service reimbursement rates an average of 20% due to budget deficit pressures.

UPDATE – the recent SROI projects completed for the Legal Aid organizations in Arizona have already been used in several strategic planning areas – and more are planned:

• Community Legal Services and Southern Arizona Legal Aid are using the SROI process to examine their strategic advocacy efforts. The goals of these advocacy efforts, which may not be related to individual cases or matters, are to develop new legal procedures, qualifications and restrictions, and processes to increase the availability and effectiveness of the legal system for future clients. These organizations are using the SROI process to determine the future fiscal impacts of these projected changes both as a comparative analysis of which areas will deliver the most benefit and as a value justification during the change process.

• These organizations are also looking at the SROI value of individual problem classification codes as an additional tool during the intake and assessment phase as a basis for acceptance of the client given the limited resources and growing community demand for their services.

These examples show that SROI analysis provides a new tool for strategic planning with demonstrated results for those initial adapter organizations who have included SROI information in their strategic planning process.

The SROI results can be also used for a variety of other purposes:

- Communication: By providing credible numbers and qualitative and narrative value information, and the systematic story to support all of these, it can "talk" to stakeholders with different values. It can help in communicating information with stakeholders and provide a means of drawing them into the mission and focus on the socio – economic impacts desired.

- More effective decision making: If being used for planning the focus on stakeholders can highlight interrelationships and help define activities with stronger synergies and increase planned social value. It allows management to think about whether their strategy is optimum in generating social returns, or if there may be a better means of using their resources. It can help donors and contractors to more efficiently select investments that are aligned with their value objectives.

- Focusing on the important issues: By focusing on the critical impacts, a SROI analysis can be completed relatively quickly and is an effective way of defining management information systems necessary.

- Investment mentality: The concept of social economic return on investment helps people understand that any grant or loan into an organization can be thought of as an investment rather than a subsidy. The focus shifts to the creation of value, and away from the concept of wasted resources.

- Clarity on governance: If community organizations are more sustainable, then understanding and explaining these impacts and then responding to them is critical. A SROI analysis will help clarify impacts and focus the understanding of the value propositions.