



Why do companies ignore measuring the social impact of their Corporate Community Involvement programs?

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The Centre for Social Impact (CSI) is a bold partnership between the business schools of the University of New South Wales, the University of Melbourne and the Swinburne University of Technology. It brings together the committed hearts and business heads of the philanthropic, not-for-profit, private and government sectors in pursuit of social innovation. It provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.

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Introduction

The voices demanding that the Third sector better accounts for and demonstrates its social impact have been getting louder in recent years. They have been particularly loud from governments and business and corporate foundations providing grants to nonprofit organisations. Ironically, those that are demanding social impact measurement might consider leading by example. While it is true that the rise and influence of the Corporate Responsibility (CR) movement has led to an interest in assessing the social impact of corporations (e.g. the myriad indexes for ranking corporate responsibility performance, most of which have a category for assessing social impact), corporates generally remain uninterested in measuring the impact of their social initiatives. As Margolis and Walsh argued in a powerful critique of the 'business case' argument for Corporate Social Initiatives:

Although the financial effects of corporate social performance have been extensively studied, little is known about any other consequences of corporate social initiatives. Most notably, as calls for corporate involvement increase, there is a vital need to understand how corporate efforts to redress social misery actually affect their intended beneficiaries.¹

Most of the corporate responsibility guidelines, standards and reporting frameworks that have been developed over the last decade have remained primarily at the level of capturing companies' inputs and in some cases outputs with respect to their social and community initiatives. So it still largely remains the case that many Corporate Community Involvement (CCI) initiatives reported by companies merely emphasise the dollars spent or time dedicated by staff through volunteering on a particular project rather than discuss the outcomes of a particular social initiative for the intended community.²

While there are some key exceptions, why is it that companies on the whole continue to overlook the social impact that a particular CCI project may have on the particular targeted community? A reading of the literature suggests three main reasons:

1. First, a lack of time and resources within companies to measure the social impact of the community-based projects they support;
2. Second, it seems that companies are basically not interested in measuring the social impact of the community-based projects they support;
3. Third, the current standardised frameworks and measures around CR performance and reporting do not generally focus on or encourage measuring social impact.

The remainder of this paper briefly expands on these reasons.

¹ J. D. Margolis & J.P. Walsh 'Misery Loves Companies: Rethinking Social Initiatives by Business', *Administrative Science Quarterly*, 48(2), 2003, pp. 268-305.

² M.E. Porter & M.R. Kramer, 'Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility', *Harvard Business Review*, 85, 2007, pp.136-137; S. Du, Sen, S., & Bhattacharya, C. B., 'Exploring the Social and Business Returns of a Corporate Oral Health Initiative Aimed at Disadvantaged Hispanic Families', *Journal of Consumer Research*, 35(3), 2008, pp. 483-494; A. McWilliams & D. Siegel, 'Corporate Social Responsibility: A Theory of Firm Perspective', *Academy of Management Review*, 26(1), 2001, pp.117-127.

Lack of time and resources

While the last decade has seen an increase in the professionalisation of the CR function, most companies do not have the luxury of a dedicated CR department within their organization. In many cases, the person in charge of CR has multiple roles, usually with other functional areas such as Human Resources, Public Relations, Corporate Affairs and Marketing. Usually, the CR manager is the only person working in the company or is part of a small team.³ Furthermore, most companies do not have a full-time senior executive responsible for CR. Senior executives usually prioritise other areas which impedes their involvement in CR issues.⁴ The challenge of measuring the social impact of CCI initiatives becomes difficult if not impossible in a situation of limited time and resources. There is a concern that the time and effort required to measure the impact will distract staff from their daily business activities.

Lack of interest

Stated simply, much of the evidence suggests that companies are not interested in measuring the social impact of their CCI projects. The business case arguments for CR and CCI has meant that companies are more interested in measuring the business benefits, whether in terms of increased sales, customer satisfaction, enhanced brand and profile or improved employee engagement and morale. Externally reported information on most CCI initiatives tends to emphasise the dollars spent or time dedicated by staff on a particular project rather than the social impact an initiative has had on the target community.⁵ The more sophisticated metrics using traditional Return on Investment (ROI) frameworks are left for reporting to the Board CR sub-committees (where they exist) or to the respective functional area senior management. To date there has been little incentive or reward for managers responsible for CCI or CR being able to demonstrate the social benefits or impacts of a project in any rigorous or detailed manner. Nice if you have it but not essential. In addition, when CR is not strongly linked to the overall companies' strategy and employees' day to day decisions, employees' interest toward CR and CCI in general is also diminished, hence there is little interest in learning about the social impact of particular initiatives.⁶

Limitations of existing CR frameworks

The final reason for the lack of social impact measurement among business is that the current standardised frameworks to measure and report on CR performance do not generally focus on or encourage measuring social impact. These frameworks are well known and used and include the Global Reporting Initiative (GRI); the London Benchmarking Group (LBG); and the AccountAbility AAI000 Standards. These frameworks have certainly been and are valuable but they have largely

³ Australian Centre for Corporate Social Responsibility, *The CSR Manager in Australia*, 2007. Source: http://www.accsr.com.au/pdf/ACCSR_Research_Report_CSR_Managers.pdf. Retrieved: 20 April 2009.

⁴ S. Kinnicutt, & P. Mirvis, *Structure and Strategies, Profile of the Practice 2008: Managing Corporate Citizenship*, Boston College, Carroll School of Management: Center for Corporate Citizenship, 2008.

⁵ Porter & Kramer, *op. cit.*, p. 2.

⁶ Kinnicutt & Mirvis, *op. cit.*, p. 8.

been designed from the perspective of companies instead of recipients of corporate social initiatives. So it largely remains the case that many community initiatives reported by companies merely emphasise the money spent or the time of employees volunteering on particular projects rather than discuss the outcomes of a particular social initiative for the intended community. That is, most of the CR guidelines, standards and reporting frameworks that have been developed over the last decade have remained primarily at the level of capturing companies' inputs and in some cases outputs with respect to their social and community initiatives. Social impact has been left for the too hard basket.

As a recent study on corporate responsibility reporting concluded, the majority of companies tend to emphasise their positive contributions without mentioning the negative implications and there still remains great variation in terms of how each company communicates the impact of their initiatives.

It would appear that the majority of the companies do not apply the same sort of measurement rigor to the management of work related to their relationship with community as they would to other aspects of their business. While there are exceptions to the rule, community impacts appear to be something not many companies are able to clearly define or report on.⁷

Mutual agreement across companies and international bodies concerned with measurement regarding what indicators to use for non-financial reporting, the meaning of social impact, and the criteria used in various rankings of non-financial performance is still a somewhat distant goal.⁸ In other words, there is still a need to develop more systematic approaches to assessing the impact of CCI initiatives on recipient communities over time.⁹

A potential way forward: from ROI to SROI

A way to improve the current situation may be for companies that are involved in social initiatives to explore using a relatively recent framework being promoted (and used) in the Third sector that somewhat ironically, borrows from traditional business frameworks of assessing investment opportunities. The framework, known as Social Return on Investment (SROI), is a process and method to understand how certain activities can generate value, and importantly, a way to estimate that value in monetary terms. Like Return on Investment (ROI) it is also a way to gauge the magnitude or quantity of the value created compared to the initial investment.

SROI was initially developed by Jed Emerson at Harvard Business School for the Roberts Enterprise Development Fund in 2000. It has since evolved and been improved by organisations such as the London based think tank, the New Economics Foundation.¹⁰ It is also currently being promoted by

⁷ Global Reporting Initiative, *Reporting on Community Impacts: A survey conducted by the Global Reporting Initiative, the University of Hong Kong and CSR Asia*, 2008.

⁸ A. Chatterji, & D. Levine, 'Breaking Down the Wall of Codes: Evaluating Non-Financial Performance Measurement', *California Management Review*, 48(2), 2006, pp. 29-51.

⁹ D. Hess & D.E. Warren, 'The Meaning and Meaningfulness of Corporate Social Initiatives', *Business & Society Review*, 113(2), 2008, pp.163-197.

¹⁰ See www.thesroinetwork.org See for instance, nef, *Measuring Value: a guide to Social Return on Investment (SROI)*, 2nd ed. 2008. (www.neweconomics.org).

The Office of the Third Sector within the Cabinet Office in the UK as a potential framework to be used across the Third sector.

The key assumption of SROI analysis is that there is more to value creation than purely economic value, indeed the value creation process can be thought of as a continuum with purely economic value at one end, through to socio-economic somewhere in the middle, and social value at the other end.¹¹ Economic value creation is the *raison d'être* of most for-profit corporations (i.e. taking a product to service to market that has greater value than the original inputs and processes that were required to generate it) and economists and accountants have refined and standardized a range of measures to capture and compare this type of value creation. Money being the main unit of economic value, then whether value is generated can be expressed in monetary or dollar terms.

Social value, according to the originators of the SROI model, is created when 'resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole'.¹² Social value creation is the *raison d'être* of most not-for-profit organizations and should be central to any corporate social initiative or CCI program. Unlike economic value, social value is difficult to quantify, varies according to the type of organization involved in its creation and does not have a common unit of analysis (such as money) that enables it to be standardized and compared across an economy or society. SROI is about using money as the common unit of analysis in order to attempt to quantify and express social value creation, hence making some comparative assessment of social value creation possible.

The other key assumption of SROI is that social value generates cost savings for the public purse in the form of decreased public expenditure on things such as health payments, welfare benefits, criminal justice and so on and in turn increases revenues to the public purse via the extra income tax from people that may now be employed who were previously excluded or marginalized from the labour market and mainstream economy. The kernel of SROI analysis is to arrive at the SROI ratio, which is expressed as:

$$\text{SROI ratio} = \frac{\text{Net present value of benefits}}{\text{Net present value of inputs (investment)}}$$

In other words, SROI measures the value (in monetary terms) of any benefits that may be generated by a program relative to what it cost the particular organization or CCI program to achieve those program benefits. So an SROI ratio of 7:1 suggests that an investment of \$1 delivers \$7 worth of social value.

¹¹ Jed Emerson, Jay Wachowicz & Suzi Chun, 'Social Return on Investment (SROI): Exploring aspects of value creation', *Harvard Business School – Working Knowledge*, 2001.

¹² *Ibid.*

As with any economic modeling however the problem (or skill) lies in the quality of the assumptions made, in the case of SROI, with respect to the outcomes generated and the time taken to generate them and then crucially placing a financial proxy or monetary value on those outcomes. SROI is not without its flaws, limitations and dangers which have been outlined elsewhere.¹³

On the positive side, SROI is based on principles of stakeholder engagement, materiality, transparency and external verification and assurance. Using such methods to understand the social impact of CCI programs can help companies identify positive and negative consequences of such programs and make decisions about when to start, adjust, and/or limit their involvement in any particular community program.¹⁴

Best practice CCI should specify clear, measurable objectives for all stakeholders and track results overtime.¹⁵ Despite the millions of dollars spent on CCI initiatives each year, there is still very little known about the actual impact of such initiatives on the recipients.¹⁶ Understanding the social impact of any CCI program is an essential element for good decision making, justifying courses of action, understanding a company's social performance and ensuring social value creation is embedded into the way it does business.¹⁷

If business is serious about creating both economic and social value then it is time it applied *ROI to CCI using SROI!*

¹³ G. Zappalà & M. Lyons, 'Recent approaches to measuring social impact in the Third sector: an overview', CSI Background Paper No 5 August 2009, Centre for Social Impact.

¹⁴ Margolish & Walsh, *op. cit.*, pp. 268-305.

¹⁵ Porter & Kramer, *op.cit.*, p.9.

¹⁶ J.L. Baker, *Evaluating the impact of development projects on poverty: a handbook for practitioners.*, Washington, D.C: The World Bank, 2000; M. Blowfield, 'Reasons to be cheerful? What we know about csr's impact', *Third World Quarterly*, 28(4), 2007, pp. 683-695.

¹⁷ Porter & Kramer, *op.cit.*, p.9.

¹⁸ J.L. Baker, *Evaluating the impact of development projects on poverty: a handbook for practitioners.*, Washington, D.C: The World Bank, 2000; M. Blowfield, 'Reasons to be cheerful? What we know about csr's impact', *Third World Quarterly*, 28(4), 2007, pp. 683-695.

¹⁹ Blowfield, *op.cit.*