Stockholm School of Economics Department of Economics Master's Thesis

SOCIAL RETURN ON INVESTMENT MEASURING THE WELFARE EFFECTS OF CSR ACTIVITIES

Abstract

During past decades, investments in Corporate Social Responsibility (CSR) activities have increased significantly, but the welfare effects of the activities generally remain unexplored. The focus of this study is to determine how welfare effects of CSR activities can be measured. Social Return on Investment (SROI) analysis is a method for understanding the social and environmental value created by organisations through investments in CSR activities. In this study, a general approach for conducting SROI analyses is formulated based on merged knowledge from existing SROI approaches and economic theory. This SROI approach is then applied to a case study where the welfare effects of the CSR activity Med Gemensamma Krafter, financially supported by Electrolux, are quantified. The evaluation of the approach highlights the challenges of quantifying welfare effects. We conclude by providing recommendations for how SROI can be improved in order to become the internationally accepted standard for measuring welfare effects of CSR activities.

> Key words: Corporate Social Responsibility, Social Return on Investment, Welfare economics, Business strategy, Welfare measurement

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1. Introduction

During the last decades of the 20th century, humanitarian trends and company scandals brought about a change in the perception of the role of the private sector, as it has developed to include a greater societal and environmental awareness. As a result, Corporate Social Responsibility (CSR), the integration of social and environmental principles in operations and also consideration for stakeholders' expectations and needs,¹ has become vital for many firms to manage, both internally and externally. Companies are investing in projects that increase different aspects of the general welfare without necessarily expecting higher revenues. Such CSR investments are often positively welcomed by various stakeholders and lead to increased goodwill and positive PR for the conscious company.

Corporations that actively engage in the field of CSR face the challenge of evaluating the outcome of the projects they undertake. However, welfare is a broad concept that is difficult to define and includes both tangible and intangible aspects with varying time horizons. As a result, it is difficult to pinpoint the welfare effects that are caused by a single project. An objective evaluation method could guide the companies in future investments, also giving them the possibility to market their contribution to welfare in their public relations. There is a vast interest and growing need for a management tool that can measure the welfare effects of CSR activities. Different organisations and academic institutions have seen the potential of such a measure as an incentive to employ CSR, which has led to the development of different evaluation methods, in particular the measure of Social Return on Investment (SROI).

Our objective is to examine how welfare effects of CSR activities can be measured. We will evaluate the existing SROI approaches, examine the underlying theories of SROI and thereafter merge this knowledge to construct a general SROI approach, including an SROI framework. By conducting an SROI analysis of a selected CSR activity using our constructed framework, we aim to evaluate the SROI approach, to identify its strengths and weaknesses and to further suggest improvements of SROI.

¹ SIS Förlag, CSR – Socialt ansvarstagande för företag, 2005, p. 7

2. Method

Welfare as a concept is complex, entailing both tangible and intangible aspects. To examine how welfare effects of a CSR activity can be measured, we carefully need to consider the procedure and the limitations of the study.

2.1 Procedure

Corporate Social Responsibility has been described and discussed in existing research, by the media and by stakeholders in society. The opinions about the field are often subjective and highly contested, making it challenging to reach conclusions about the direct causality of CSR activities and their resulting welfare effects. Thus, we use both qualitative methods, interviewing different stakeholders and field experts, as well as quantitative methods, gathering and analysing data in order to find possible welfare changes. The combination of methods is necessary to fully understand the field of CSR and the possibilities to measure welfare effects.

There are two main methods of reasoning that are used for conducting research studies. Deductive reasoning works from the more general to the more specific. One begins by thinking up a theory about the topic of interest, and then narrows it down to a testable hypothesis. By collecting observations and testing the hypothesis, one can confirm or contest the original theory. Inductive reasoning works the other way, from specific observations to broader generalisations and theories. Most social research projects involve both inductive and deductive reasoning processes at some time in the project,² and this is also the case in this report where we will need to use both methods at different times to cover the complex field of welfare effects.

Since many of the terms used in this report are abstract or can have different meanings, e.g. CSR, welfare and social return, we clearly state what definitions are used in this report. These definitions are based on research and interviews conducted with representatives from the United Nations as well as from the Swedish private sector. To be general and reliable, they are also complemented by a literature study, mainly focusing on welfare economics.

² Research Methods Knowledge Base (http://www.socialresearchmethods.net/kb/dedind.php)

SROI is an emerging concept and there are no standards for the measure. Therefore, we will formulate our own SROI approach and SROI framework, using existing SROI approaches as well as the theoretical framework and conducted interviews. Merging the existing knowledge is an important step towards a successful method to measure the effects of CSR activities and the outcome of our study is thus anticipated by a number of different organisations. The United Nations Global Compact, Enact Sustainable Strategies, Electrolux and the municipality of Motala have all expressed their intentions to use our formulated SROI approach for future studies of CSR activities.

To test and evaluate our SROI approach we use a real study case from Electrolux, an international appliance company that is very active within the area of CSR. We apply our formulated SROI approach and framework to the case to quantify the welfare effects and to calculate the SROI ratio for the case, thereby testing the SROI procedure fully. We then evaluate the SROI approach with respect to its strengths, weaknesses and role in different organisations and conclude by suggesting future improvements.

2.2 Sources and limitations

The scarce number of totally objective information sources within the field of CSR makes the study challenging. We put a lot of effort into evaluating our sources of information, filtering opinions from facts. Welfare is an abstract concept that, depending on its definition, may be difficult to quantify in monetary terms. Thus, proxies are needed to measure the changes in welfare. Every approximation implies a certain limitation in accuracy, which will affect the result. By comparing a range of statistics and evaluating different proxies, we find as suitable proxies as possible.

By using well-known and accredited organisations such as the United Nations in our research, comparing their input with the input from private businesses and CSR consultancies, we achieve a broader and more reliable perspective in this report.

We limit our study to measure the welfare effects of CSR activities, not trying to calculate if and how much the activity will affect the company that undertakes the activity in direct economical terms. We are purely interested in the welfare effects and not the company's economical gains from CSR activities. We base this decision on the fact that most corporations keep good track of the direct economical effects themselves and that the need for research is the greatest in the field of welfare effects.

Our aim to create a general approach for measuring the welfare changes resulting from CSR activities also induces a limit on which factors are included in the framework. It is important to realise that the time periods that are taken into account as well as the geographical locations of the projects may vary to a great extent and that this may demand future adjustments of the framework. We strive to make the framework as general and adaptable as possible.

3. Background – measuring Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) is widely accepted and significant investments are made in CSR activities. Still, the definitions of CSR vary and there is no set standard for how the welfare effects resulting from a CSR activity can be quantified. We will thus provide a background, stating how CSR can be defined and what means have been used to measure CSR.

3.1 Definition of CSR

Ever since the term Corporate Social Responsibility (CSR) came into use in the 1970's, there have been many theories and definitions of what the concept should include.³ While *social* refers to the interaction and relationship between the individual and the group, or the welfare of human beings as members of society, there is no commonly agreed definition of CSR.⁴ The definition used throughout this thesis is that a company voluntarily integrates social and environmental principles in their operations and considers stakeholders' expectations and needs. It further implies that organisations integrate the vision of sustainable development into their business strategy.⁵ The most commonly used definition of sustainable development is that of the 1983 Brundtland Commission: "*the ability to meet today's global economic, environmental and social needs without compromising the opportunity for future generation to meet theirs*".⁶ The idea behind sustainability is that an organisation cannot be sustainable in one part and unsustainable in another, but it must pursue a whole-systems approach. This approach involves all stakeholders.⁷ Throughout this thesis, *stakeholders* are defined as the

³ Löhman, O., Steinholtz, D., *Det ansvarsfulla företaget – Corporate Social Responsibility i praktiken*, 2003, p. 116

⁴ Merriam-Webster Online Dictionary (http://www.merriam-webster.com/dictionary/social)

⁵ SIS Förlag AB, CSR – Socialt ansvarstagande för företag, 2005, p. 8

⁶ Laszlo, C., *The Sustainable Company*, 2003, pp. 17-18

⁷ Laszlo, C., The Sustainable Company, 2003, pp. 32-33

individuals and constituencies that contribute voluntarily or involuntarily to the company's wealth-creating capacity. They are potential beneficiaries and/or risk bearers of the company's activities, i.e. they have a stake in the business. There are three typical criteria for identifying significant stakeholders of a company. First, they supply the resources that are critical to business success. Second, they place something of value at risk (e.g. capital, their own welfare, their careers) that is directly affected by the fate of the business. Third, they have sufficient power to affect the business performance either favourably or unfavourably. All three criteria do not have to be met in order to constitute a stakeholder. Stakeholders of CSR are, for example, investors, employees, customers, business partners, unions, value chain associates, regulatory authorities, governments, local communities and citizens, and private organisations.⁸

CSR is often divided into three parts: social, economic and environmental. The basic level of social responsibility is to abide by laws and comply with international human rights agreements. However, it is recommended that companies voluntarily follow additional guiding principles and codes of conduct. Economic responsibility involves compliance with laws and regulations, support of economic development and the creation of welfare in the local society. They should also demand that their whole supply chain follow the same commitments. By adopting economic responsibility, organisations will help to achieve development of local businesses, innovation, productivity, fair trade and poverty reduction. The organisation should also evaluate all direct and indirect effects of its operations on the environment.⁹

The United Nations Global Compact (UNGC) is a corporate responsibility initiative launched by Secretary-General Kofi Annan in 2000 with the primary goal of implementing universal principles of business.¹⁰ UNGC's Civil Society Coordinator Olajobi Makinwa suggests that the term "corporate citizenship" should be used to demonstrate that companies are part of society and should therefore have the same responsibilities and obligations as other citizens of the world. Makinwa further argues that the term *Corporate Social Responsibility* might be misleading considering the word "social". The UN Global Compact does not only encourage social responsibility but also responsibility for the environment, which is equally important

⁸ Laszlo, C., The Sustainable Company, 2003, pp. 117-119

⁹ SIS Förlag AB, CSR – Socialt ansvarstagande för företag, 2005, pp. 13-25

¹⁰ UNDPI, Who Cares Wins, Connecting Financial Markets to a Changing World, 2004, p. 7

and should not be left out by the definition.¹¹ Furthermore, the "C" in "CSR" might be taken out in the future so that it is not only targeted at companies, but at all sorts of organisations.¹² When CSR was adopted as a concept by the corporate world it was first generally defined as separate actions that did not necessarily spur higher returns for the company, but were somehow good for society. Attracting goodwill and demonstrating innovativeness were the reasons for initiating CSR activities. The activities were most commonly external and monetary, i.e. it became common that companies donated a certain amount of money to specific NGO:s or causes, then communicated this benevolent act to their clients. The recent demand for a higher degree of social awareness and responsibility that has arisen from the clients has forced the private sector somewhat not only to use CSR activities as "one-offs" but also to incorporate CSR in their overall business strategy including the entire supply chain and all geographical markets where they are present.¹³ However, even though an organisation might have integrated CSR as a policy that permeates all operations, it can also be said to invest in so-called CSR activities, which can be defined as an activity that is undertaken within their CSR work and that is meant to increase the welfare in society. For the objective of this thesis and the development of our SROI framework, it does not matter why the company undertakes a CSR activity – it can be either profit-maximisation or altruism. The important question is what consequences the activity has on welfare.

3.2 Reporting, evaluating and measuring CSR

The approaches to measure, report and evaluate CSR can be classified into guidelines, standards and principles or indices.

3.2.1 Guidelines, standards and principles

Many national and international organisations have begun to develop conventions, guiding principles and standards for how companies can integrate social responsibility in their business. Some examples are "The natural step",¹⁴ the Global Sullivan Principles,¹⁵ and the OECD Guidelines for Multinational Enterprises.¹⁶ The organisation Social Accountability International has developed the SA8000 – a standard for workplace conditions that aims to make companies protect human rights. Companies and factories can measure their

¹¹ Makinwa, Olajobi, interview 2008-11-20

¹² SIS Förlag AB, CSR – Socialt ansvarstagande för företag, 2005, p. 5

¹³ Iweborg, Mattias, interview 2008-11-05

¹⁴ The Natural Step (http://www.naturalstep.org/)

¹⁵ The Global Sullivan Principles (http://www.globalsullivanprinciples.org/principles.htm)

¹⁶ OECD Guidelines for Multinational Enterprises

⁽http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_00.html)

performance against this benchmark.¹⁷ Another initiative is the Caux Principles for Business, which aims to make corporations act ethically and responsibly by following their seven principles. The first principle for business states; *"respect stakeholders beyond shareholders"*.¹⁸

The International Institute of Standards (ISO) has begun developing a standard for social responsibility.¹⁹ This standard, ISO 26000, will contain guidance to what "social responsibility" should contain and how to implement practices of social responsibility. It is currently targeted that the standard will be finished for publication in late 2010.²⁰

One of the most well-known global initiatives for sustainable business is the United Nations Global Compact (UNGC), founded in 2000, that has set up ten principles in four areas for companies to follow.²¹ These are stated below.

<u>Human Rights</u>

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 Principle 4: the elimination of all forms of forced and compulsory labour;
 Principle 5: the effective abolition of child labour; and
 Principle 6: the elimination of discrimination in respect of employment and occupation.

<u>Environment</u>

Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

*Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.*²²

¹⁷ SA8000 (http://www.sa-intl.org/index.cfm?fuseaction=Page.viewPage&pageID=710)

¹⁸ Caux Principles for Business (http://www.cauxroundtable.org/index.cfm?&menuid=8)

¹⁹ SIS Förlag AB, *CSR* – Socialt ansvarstagande för företag, 2005, p. 8

²⁰ ISO General Secretariat, ISO and social responsibility, 2008, pp. 1-3

²¹ UNGC, United Nations Global Compact – Corporate Citizenship in The World Economy, 2008, pp. 1-5

²² UNGC Ten Principles (http://www.unglobalcompact.org/AbouttheGC/TheTENPrinciples/index.html)

A more extensive collection of human rights is the Universal Declaration of Human Rights (UDHR), adopted by the United Nations in 1948.²³ The UNGC is a purely voluntary initiative and thus it cannot enforce companies' behaviour. Furthermore, it does not entail any performance tool or make any judgments on companies' behaviour. Because there is no standardised tool for measuring the effects of a company's activities, the UNGC simply has to trust that the companies are truthful in their Communication on Progress report, where they are requested to describe their progress within the field of CSR.²⁴

The IRIS initiative (Impact Reporting and Investment Standards) has created a list of common indicators in order to create a common language for assessing social and environmental impact. The indicators have not been ascribed any monetary values, but have other units of measurement, e.g. "liters" regarding clean water, and "number of students" regarding education.²⁵ However, this initiative is an important step towards creating a common framework on defining, tracking and reporting the performance of a specific investment since it is tackling the difficulty of quantifying non-monetary effects of CSR.

3.2.2 Indices

The UNGC and the United Nations Global Reporting Initiative (GRI, set up in 1997) are both voluntary initiatives that play complementary roles in advancing universal principles by promoting organisational accountability. Various indicators and quality requirements make it possible to compare social, environmental and economic performance.²⁶ The GRI's Sustainability Reporting Guidelines provide a means for measuring progress and communicating performance against the GC principles.²⁷ The GRI is a well-known tool to evaluate the extent of a company's CSR work.

There are also other organisations, such as the Dow Jones Sustainability World Index and the FTSE4Good Index Series that rate companies according to the extent to which they have built responsible practices into the way they do business. The United Nations Development

²³ UDHR (http://www.un.org/en/documents/udhr/)

²⁴ Makinwa, Olajobi, interview 2008-11-20

²⁵ Impact Reporting and Investment Standards (http://iris-standards.org)

²⁶ Tulder, R., Zwart, A., International Business-Society Management – Linking corporate responsibility and globalisation, 2006, pp. 246-248

²⁷ UNGC, *Making the connection – The GRI Guidelines and the Global Compact Communication on Progress*, 2007, p. 3

Programme gathers statistics over various indicators of human development and summarises these in the Human Development Index (HDI).²⁸

3.2.3 The development of a new concept

In the 1970's, social accounting came about as a critique of the limitations of financial accounting, particularly the limited range of items that it considers, its exclusion of items that do not have an established dollar value (i.e. non-monetised), and its focus on shareholders and other financing providers to the exclusion of other stakeholders.²⁹ For example, one environmental accounting advocate has argued that if environmental impacts were taken into account, it could be shown that Western industrial concerns would not have made a profit for many years.³⁰ Social accounting is also known as social auditing and social reporting. However, in most cases, social accounting and social reports from multinational companies have only included some statistics of e.g. employment in a certain region. The reports often include reference to some indices, such as the ones described above, but they did not include any actual calculations of the values of their investments. Nevertheless, social accounting can be seen as the basis for the development of SROI.

The recent global economic crisis has shown that there are major flaws in the design of the traditional accounting principles and the capital markets, and that there are large discrepancies between market prices of companies and their products on the one hand, and the value underlying those prices once externalities are considered on the other. Large parts of the public have now realised that market prices are not accurate reflections of value. Value is derived from many sources, not just the stock price. Whereas we used to ask "*what is the return on investment*?" we must now ask "*what is the total social, environmental, and financial return on investment*?"³¹

Social Return on Investment (SROI) analysis is a method for understanding the environmental, social and public economic value being created by organisations in addition to the financial value that accrues to owners.³² SROI first arose in the late 1990's, when the non-

²⁸ UNDP (http://hdr.undp.org/en/statistics/)

²⁹ Richmond et al, *Social Accounting for Nonprofits – Two Models*, 2003, pp. 308-309

³⁰ Mathews, M. R., Social and Environmental Accounting: A Practical Demonstration of Ethical Concern?, 1995, p. 666

³¹ Olsen, S., Galimidi, B., *Managing Social and Environmental Impact: A New Discipline for a New Economy*, 2009, pp. 1-8

³² Olsen, S., et al., A framework for approaches to SROI analysis, 2005, p. 4

profit social enterprise The Roberts Enterprise Development Fund (REDF) began to analyse its SROI in order to illustrate the monetary value of their investments. REDF developed a model that was specific to their type of projects, and they could thus communicate their results to investors and other stakeholders. In 2001, REDF published its "SROI Methodology", which is seen as the beginning of SROI as a concept.³³ Since then, interest in SROI has grown and there have been attempts to develop general SROI models that can be applied to many types of projects. We examine the existing approaches in chapter 5.

4. Theory

To understand how the welfare effects of a CSR activity can be measured, we will learn from welfare economics, looking into Cost-Benefit analysis to understand how benefits and costs resulting from a project can be quantified and will then seek inspiration from classical corporate finance theory, focusing on financial measures for Return on Investment and Net Present Value.

4.1 Welfare

Welfare economics can provide guidance in the analysis of changes in various groups' wellbeing.³⁴ However, before one can begin to measure a phenomenon, it has to be clearly defined. The problem here is that there is no commonly agreed definition of welfare.³⁵ In economics, the term is often used, but the precise meaning is vague because it is problematic to define and measure individuals' and society's utility or welfare.³⁶ There are two main issues. First, it is difficult to know what aspects should be included in a measure of total individual welfare. It usually refers to an individual's economic and social safety.³⁷ This can include many dimensions – to "fare well" through life has many aspects. In Sweden, welfare is often associated with the public sector, and any cuts in public spending on e.g. pensions and health care are automatically seen as a decrease in welfare. But welfare is more than just access to hospitals, education and care of elderly.³⁸ It is a measure of how well people live.³⁹ The Cambridge Dictionary begins its definition of welfare with "*physical and mental health and happiness, especially of a person*", and continues it with "*help given, especially by the*

³³ REDF, REDF SROI Methodology, 2001, pp. 1-9

³⁴ Perloff, J. M., *Microeconomics*, 2004, p. 270

³⁵ Bergmark, Å., et al., Funktionshinder och välfärd: Betänkande av Kommittén Välfärdsbokslut, 2001, p. 10

³⁶ Brekke, K. A., *Economic Growth and the Environment – On the Measurement of Income and Welfare*, 1997, p. 92

³⁷ Umeå universitet, Aktum Extra – Aktuellt vid Umeå Universitet, 2002, p. 25

³⁸ Svenska Dagbladet, Välkommet nytänkande om välfärden, 2006

³⁹ Kommittén Välfärdsbokslut, Välfärd på 1990-talet, 2001, p. 2

state or an organisation, to people who need it, especially because they do not have enough money".⁴⁰ Thus, a measure of total individual welfare should ideally take into account not only economic aspects, but all things that make life worth living. However, that would be nearly impossible to achieve because different people will judge differently what "well-being" is, which will complicate the definition of the term and, hence, the measurement of it.⁴¹ Second, it might be impossible to quantify or ascribe monetary values to everything that is included in total individual welfare. Many of the indices that measure economic well-being are formed on GDP data on the grounds that income is the means to achieve welfare.⁴² It is often claimed that GDP is the most important welfare measure, but it might be that GDP is to accurately measure welfare. It does not account for the negative consequences of economic value creation, e.g., environmental degradation and resource extraction.⁴³ Technological progress and externalities further complicate the measuring of welfare.⁴⁴ Some aspects of life, often intangibles, such as feelings or natural phenomena such as ecological diversity, cannot be captured by economic values. There are, therefore, risks that these aspects will be neglected because of undervaluation or lack of quantification.⁴⁵

For many years, analysts relied heavily on consumer's surplus to measure the welfare effects of changes in prices and income. Yet, it is now widely accepted that consumer's surplus should not be used as a welfare measure.⁴⁶

4.2 Companies as co-providers of welfare

In the previous section it was stated that the government is a commonly known provider of welfare. *The welfare state* can be defined as the government's activities in four broad areas: cash benefits, health care, education, and food, housing and other welfare activities. The aims of the welfare state are to support the citizens' life standards and to reduce inequality.⁴⁷ One policy issue therefore becomes how to maximise welfare. The main starting point for economic theorising about welfare is the social-welfare-maximisation problem, which states

⁴⁰ Cambridge Dictionaries Online (http://dictionary.cambridge.org/define b.asp?key=89729&dict=CALD)

⁴¹ Brekke, K. A., Economic Growth and the Environment – On the Measurement of Income and Welfare, 1997, p. 160

⁴² Myles G. D., *Public Economics*, 1997, p. 60

⁴³ Brekke, K. A., *Economic Growth and the Environment – On the Measurement of Income and Welfare*, 1997, p. 3

p. 3 ⁴⁴ Aronsson T., Johansson P-O., Löfgren, K-G., Welfare measurement, Sustainability and Green National Accounting, 1997, p. 159

⁴⁵ Aronsson T., Johansson P-O., Löfgren, K-G., Welfare measurement, Sustainability and Green National Accounting, 1997, p. 114

⁴⁶ Slesnick, D. T., *Empirical Approaches to the Measurement of Welfare*, 1998, p. 2108

⁴⁷ Barr, N., Economics of the Welfare State, 2004, pp. 7-10

that the aim of welfare policy is to maximise social welfare subject to taste, technology and resource constraints. The task of policy is hence to maximise:

$$W = W(U^A, U^B) \tag{4.1}$$

subject to:

$$\frac{\text{Tastes}}{U^A = U^A(X^A, Y^A)}$$

$$U^B = U^B(X^B, Y^B)$$

$$(4.2)$$

$$(4.3)$$

$$X = X(K^{*}, L^{*})$$
(4.4)

$$Y = Y(K^{Y}, L^{Y})$$
(4.5)

$$\frac{\text{Resources}}{K^X + K^Y} = K^* \tag{4.6}$$

$$L^X + L^Y = L^* \tag{4.7}$$

where A and B are individuals in society, W is social welfare, U is utility, X and Y are goods that are consumed, K is capital and L is labour. The utilities of individuals A and B are constrained by their consumption of goods; consumption is constrained by the production functions for X and Y in terms of the inputs of capital, K, and labour, L, the inputs used to produce X and Y are constrained by the total availability of capital and labour, K^* and $L^{*,48}$. Utility is defined as a person's well-being or satisfaction.⁴⁹

The task of fiscal policy is to provide those goods and services that, because of their nature, cannot be provided by the market.⁵⁰ However, as well as markets can be efficient or inefficient, so can governments.⁵¹ The government may not always be the best provider of all aspects of welfare. Government regulation is a costly and cumbersome process, and therefore, CSR is a less costly substitute for legislation, because it implies that companies are self-regulatory.⁵² Furthermore, governments always have a fairly strict budget constraint, which prevents them from providing as much welfare-enhancing activities as might be desirable. On

⁴⁸ Barr, N., *Economics of the Welfare State*, 2004, p. 65

⁴⁹ Barr, N., Economics of the Welfare State, 2004, p. 394

⁵⁰ Buchanan, J. M., Musgrave, R. A., Public Finance and Public Choice – Two Contrasting Visions of the State, 2001, p. 67

⁵¹ Barr, N., Economics of the Welfare State, 2004, p. 93

⁵² Lyon, T., Maxwell, J., Does "Green" Corporate Social Responsibility Benefit Society?, 2009

this basis, it can be argued that it is socially desirable for companies to undertake CSR projects, given that the projects do more good than bad. CSR activities can then be seen as, for example, an enhancement of resources available. Economic efficiency can be defined as making the best use of limited resources given people's tastes. It involves a choice of an output bundle:

$$X^* = (X_1, X_2, \dots, X_N) \tag{4.8}$$

(where X_i is the output of the *i*th good) which has the property that any deviations from these quantities will make at least one person worse off. Transformation curve $Y^{l}X^{l}$ in Figure 1 shows the maximum quantities of two goods that can be produced with available resources. Productive efficiency means that production is at a point on – rather than inside – the transformation curve. However, this is not enough for allocative efficiency, which requires two additional conditions to hold. First, there must be efficiency in product mix, which means that the optimal combination of goods should be produced, given existing production technology and consumer tastes. Thus, production is at the specific point A, where the ratio of marginal production costs (i.e. the slope of the transformation curve) is equal to the ratio of marginal rates of substitution (i.e. the slope of the social indifference curve). Second, there must be efficiency in consumption, which means that consumers should allocate their income in a way that maximises their utility, given their incomes and the prices of the goods they buy. In Figure 1, point A conforms to both productive and allocative efficiency.⁵³



Figure 1. CSR activities can be welfare-enhancing⁵⁴

⁵³ Barr, N., Economics of the Welfare State, 2004, pp. 66-67

⁵⁴ Ibid

When the company invests in a CSR activity, it often does so with the purpose of doing something good for society, and not necessarily to make a profit. Even advocates of altruistic CSR admit that most CSR activities can be seen as part of a business strategy.⁵⁵ In *Figure 1*, an investment increases available resources which results in a higher production, and thus consumption, of goods. The production curve shifts outwards and in turn, society ends up on a higher indifference curve I^2 and on point *B*. It should be noted that both point *A* and point *B* represent Pareto optimal outputs, i.e. no reallocation can make any individual better off without making at least one other individual worse off.⁵⁶ The company can therefore be seen as a provider of welfare, similarly to the government. The question then naturally arises: Which goods should be publicly provided? The answer to this must be based on a case-by-case analysis, and one must carefully compare different institutions. The characteristics of the good or service and the technology of production are important determinants of organisational efficiency.⁵⁷

The government is still the main provider of welfare services, but the company is a coprovider and thus, it is helping the government to achieve a higher level of welfare in the society. CSR activities can therefore be considered to cause positive welfare effects.

4.3 Cost-Benefit Analysis

Ideally, when evaluating a project, one would insert each household's initial and posterior utility level into the social welfare function (*4.1*) and simply read off the change in social welfare. Unfortunately, such an approach is not possible since utility is not so easily determined.⁵⁸ Still, there is a desire to evaluate projects, both within the area of CSR but also within general economic theory. Historically, the closest attempt to measuring welfare effects is a cost-benefit analysis that can capture and express in a single monetary unit many, but not all, of the effects caused by examined projects.⁵⁹

Cost-benefit analysis is a commonly employed method for the evaluation of public sector projects or programmes such as investment in dams and roads, labour market training, regulation of the private economy, and environmental programmes.⁶⁰ The approach aims to

⁵⁵ Lyon, T., Maxwell, J., Does "Green" Corporate Social Responsibility Benefit Society?, 2009

⁵⁶ Barr, N., Economics of the Welfare State, 2004, p. 389

⁵⁷ Buchanan, J. M., *The Demand and Supply of Public Goods*, 1968, p. 187

⁵⁸ Johansson, P-O., An introduction to modern welfare economics, 1991, p. 133

⁵⁹ Johansson, P-O., An introduction to modern welfare economics, 1991, p. 133

⁶⁰ Johansson, P-O., An introduction to modern welfare economics, 1991, p. 112

quantify the social effects from a particular project in monetary units. Thus, according to welfare economics, it is a decision making tool which aids decision makers when allocating society's scarce resources.⁶¹ Economists and public policy analysts have used cost-benefit models for decades to gauge the economic impact of social programs, most often as a policy tool used to influence levels of government spending. Cost-benefit analysis is often carried out either at the outset of an investment to determine whether it is likely to generate benefits superior to other alternatives, or retrospectively to determine whether or not the investments were worthwhile.⁶²

Cost-benefit analysis, often called project appraisal, aims to capture all real benefits and costs from a project, i.e. direct or indirect, tangible or intangible, final or intermediate, inside or outside. The term tangible is applied to benefits and costs which can be valued in the market, whereas other which cannot are referred to as intangible. Another significant distinction is between those projects which furnish benefits to customers directly and those which enter into the production of other goods and are thus of an intermediate type. A final distinction is between benefits and costs that accrue inside the area in which the project is undertaken and others that accrue outside, i.e. "spillovers".⁶³

Cost-benefit analysis is straightforward. To evaluate if the project should be undertaken, one needs to calculate if individuals are better off with the project than without it. However, even if this is the "correct" procedure to follow in evaluating projects, it is not a practical one. We might have good information concerning the direct costs and benefits of the project (its inputs and outputs), but there might not be any way of calculating the total effects, i.e. both direct and indirect effects of all individuals concerned. The cost-benefit analysis does not present any methods for monetising intangible effects and such are often included in a descriptive part, complementing the calculations. There are problems in finding proxies because there are no market prices for all types of effects.⁶⁴

A fundamental problem in cost-benefit analyses is the issue of time: resources are used and benefits may be created at different times. The standard approach in comparing money spent

⁶¹ Fuguitt, D., Wilcox, S. J., Cost Benefit-Analysis for Public Sector Decision Makers, 1999, p. 35

⁶² Olsen, S., Lingane, A., Social Return On Investment, 2003, p. 5

⁶³ Musgrave R. A., Musgrave P. B., Public Finance in Theory and Practice, 1984, pp. 162-167

⁶⁴ Atkinson, A. B., Stiglitz, J. E., Lectures on public economics, 1980, p. 475

and/or received at different times is to discount all values to present value. A discount rate is the rate by which the present value of money received or paid in the future can be computed.⁶⁵

4.4 Return on Investment

Return on Investment (ROI) is a measure that aims to evaluate past investments and to decide between future investments. It measures the efficiency of an investment and can be used to compare different investments on the basis of this. To calculate ROI, the net benefit of an investment is divided by the cost of the investment. The result is expressed as a percentage. Because of its versatility and simplicity, ROI is a popular metric and a commonly used formula can be written as:

$$ROI = \frac{Benefits - Costs}{Costs}$$
(4.9)

If an investment has a negative ROI, or if there are other opportunities with a higher ROI, the investment should be not be undertaken.⁶⁶

4.5 Discount rates and Net Present Value

One of the basic principles of corporate finance is that a dollar today is worth more than a dollar tomorrow, because the dollar today can be invested to start earning interest immediately. To obtain the present value of the future value, one needs to discount the future value by a discount rate, r. The rate of return r is the reward that investors demand for accepting delayed payment. The discount factor is written as:

$$\frac{1}{\left(1+r\right)^{t}}$$
(4.10)

where r is the discount rate and t is time. The discount rate r is also known as the opportunity cost of capital, because it is the return foregone by investing in the project rather than investing in securities.

Net Present Value (NPV) is the present value of an investment minus the cost of the investment. It is calculated as:

$$NPV = C_0 + \frac{C_1}{(1+r)^{t}}$$
(4.11)

⁶⁵ Johansson, P-O., An introduction to modern welfare economics, 1991, p. 121-131

⁶⁶ Silber, K. H., Calculating Return-On Investment, 2002, pp. 1-4

where C_0 is the cash flow at time 0, i.e. today, which is the investment and will thus be a negative number.⁶⁷ NPV can be used to determine which project should be undertaken -apositive NPV indicates that the project will be profitable.⁶⁸

When it comes to choosing the discount rate, one also has to consider the risk of investment, such as market risk and liquidity risk. Inflation should also be taken into account:

 $1 + r_{nominal} = (1 + r_{real})(1 + inflation rate)^{69}$ (4.12)

5. Social Return on Investment today

The most advanced method to measure the welfare effects of CSR activities is Social Return on Investment (SROI). Developed from cost-benefit analysis and social accounting, SROI uses economic valuation to make visible a far greater range of social, environmental and economic costs and benefits than traditional financial analysis. SROI differs from the approaches to measure and evaluate CSR work described above since it aims at capturing the monetary value of welfare effects. It also puts the value in relation to the investment, like in the classical ROI approach. SROI provides a fuller picture of welfare effects resulting from a specific investment and enables more informed decision making about how resources are allocated.⁷⁰ SROI and cost-benefit analysis share some business accounting principles, such as discounted cash flows and discount rates, but SROI takes the cost-benefit analysis one step further by monetising intangible effects.⁷¹ In order to assign a monetary value to intangibles, SROI requires identification of indicators and determination of relevant proxies.

SROI can be defined as a quantitative measure of social impact from a capital investment. Social impact is defined as the effects of an organisation's actions on stakeholders and the surrounding environment. Similarly, an SROI analysis is the process by which Social Return on Investment is calculated.⁷² The SROI analysis consists of examining a certain activity during a specific period of time, calculating the cost of investment and welfare effects that accrue due to the investment. By discounting the future value into net present value, one arrives at the "social return on investment". The analysis is thus a method for understanding,

⁶⁷ Brealey, R. A., Myers, S. C., Allen, F., Corporate Finance, 2006, pp. 16-17

 ⁶⁸ Brealey, R. A., Myers, S. C., Allen, F., *Corporate Finance*, 2006, pp. 10-17
 ⁶⁹ Brealey, R. A., Myers, S. C., Allen, F., *Corporate Finance*, 2006, p. 116
 ⁷⁰ New Economics Foundation (http://www.neweconomics.org/gen/newways_socialreturn.aspx)

⁷¹ Jump, P., Guide to quantifying social returns launched, 2007

⁷² Olsen, S., et al., A framework for approaches to SROI analysis, 2005, p. 14

measuring and reporting the environmental and social value being created by the organisation in addition to the financial value that accrues to owners of the organisation. The complete analysis is not a single number or ratio, but rather a complex summary of the investment's social and environmental value in its context, and described in monetary, quantitative, qualitative and narrative terms, relative to the financial investment required.⁷³

SROI is an investment tool, an extended cost-benefit analysis, and a practical management tool, and can be implemented in the organisation's regular reporting systems.⁷⁴ However, there is no standard set for SROI and different organisations conduct the analysis in differing ways.

5.1. Existing SROI approaches

SROI is an emerging concept and there are a few models and frameworks that aim to measure the welfare effects of CSR activities by conducting variants of the SROI analysis. We have examined the existing approaches to gain an understanding for how an SROI analysis should be constructed.

5.1.1 REDF

The Roberts Enterprise Development Fund's (REDF) model was the beginning of the advancement towards today's models. The model was developed in 2000, and was thus the first SROI model ever built. It is a very specific SROI model, which was constructed to examine only REDF projects' impact on the American society, and involves, for example, calculations of reduced criminal convictions and public assistance programs. The results of the model are based on the entered data regarding the investment and historical and projected cost savings.⁷⁵ Although the model was made only to evaluate REDF projects, the development of it was important because it indicated that SROI analyses are feasible. The model is freely available to the public on REDF's webpage, but is too specific to be used across all types of CSR activities.

⁷³ European SROI Network (http://www.sroi-europe.org/index.php?article_id=21&clang=1)

⁷⁴ social evaluator[™] (http://www.socialevaluator.eu/SROItool.aspx)

⁷⁵ REDF SROI Model, 2000

5.1.2 True Impact

The American consultancy firm True Impact offers its clients a web based model to measure the social and business value of their operating practices.⁷⁶ True Impact's model, "The Social/Financial/Environmental ROI Calculator", generates ROI scorecards that quantify business and social values in monetary terms. True Impact's approach is called "map & measure", and the key steps are to define stakeholders, brainstorm positive and negative impacts, assess outcomes and calculate values. The business values include e.g. sales, recruiting and retention, while the social values include e.g. arts, culture, education, environment, health and well-being.⁷⁷

The model contains a list of standard stakeholders and potential impacts, which can be customised according to the client. The model is also equipped with calculators, which makes analyses easier to conduct. The model relies on the human factor – all the societal effects have to be brainstormed for every project. The model does not calculate the NPV of future projects; it is only made to calculate the effects of past activities. In one part of the True Impact model, the analyst has to choose between rating each effect on a scale between -5 and 5, or quantifying the effects in monetary terms. If the monetary values are known, the analysis is simple, but this is seldom the case and this implies that subjective valuations have to be made.

5.1.3 social e-valuator™

The social e-valuatorTM is a model that conducts SROI analyses. It was developed in 2007 by two foundations and a social consulting firm in the Netherlands. The social e-valuatorTM SROI analysis consists of ten steps, e.g. identifying stakeholders, quantifying monetised inputs (monetised time of people, donations etc.), identifying each stakeholder's activity, quantifying output (where output is defined as a measurable unit of production created by stakeholder activities), identifying impacts (where impact is defined as the outcome minus what would have happened anyway), and converting various indicators into money value, i.e. monetisation.⁷⁸

Like True Impact, social e-valuator[™] has built-in calculators and lists of stakeholders to help perform the analysis. The social e-valuator[™] also has a special section for monetisation,

⁷⁶ True Impact (http://www.true-impact.com/about.html)

⁷⁷ True Impact (http://www.trueimpact.com/TIBrief.html)

⁷⁸ social evaluator[™] (http://www.socialevaluator.eu/SROItool.aspx)

where the indicators are monetised by entering the proxy for monetisation, i.e. in what unit the indicator should be measured, the number of units, and the value per unit. The user can also enter non-quantifiable benefits as a qualitative narrative. Like True Impact, this model requires subjective valuations. For example, the person conducting the analysis is required to attribute weights to the stakeholders according to how much they contribute to the outcome.⁷⁹

A major difference between this model and the other examined models is that this model does only compare the total benefits with the total investment – not the net benefit (which detracts costs) with the investment. This model thus tends to assign higher SROI ratios to the studied CSR activities, complicating comparisons with SROI rates calculated by other models. The model takes future projected social values into account but does not discount them to a present value. In general, the model is not as straightforward as e.g. the True Impact model.

5.1.4 SROI Calculator™

The Social Venture Technology Group (SVT Group) was founded in 2001 by Sara Olsen, a leading researcher on SROI. SVT Group's SROI model is called the SROI CalculatorTM, and is available to the company's clients.⁸⁰ The model is customised by the SVT Group and the client to fit the specific needs of the organisation, and then the organisation itself uses the model. One special aspect of this model is that is compares the outcome to the targets of the activity.⁸¹

In the SROI CalculatorTM, the users need to weigh the relative importance of each indicator according to their own values and preferences.⁸²

5.1.5 Emerging initiatives

Except for the approaches presented above there are several smaller organisations that claim to have developed approaches for calculating SROI, for example the consultancy firms SocialMarkets and SiMPACT Strategy Group. However, they do not have or are not prepared to share any models with the public. Another organisation that has worked much with the development of guidelines and definitions of SROI is the British new economics foundation

⁷⁹ Ibid.

⁸⁰ SVT Group (http://www.svtgroup.net/about/about.html)

⁸¹ SVT Group, Do you base your investment decisions on impact?, pp. 1-2

⁸² Olsen, Sara, interview 2009-07-30

(NEF). NEF has built on REDF's work to explore how the principles of SROI might be applied in the UK context.⁸³

5.2 The dilemmas of SROI

Having examined the existing SROI approaches, we have identified several dilemmas that all the models examined above have managed with varying solutions:

a) *Determining monetary values for intangible effects*. Some organisations provide some proxies; other organisations ask the user of the model or framework to determine the proxies themselves. Different proxies are used for almost every analysis, leading to different results that cannot be directly compared. Assumptions about which proxies should be used affect the outcome of the analysis.

b) *Data.* The observed models and approaches sometimes indicate what kind of proxies should be used, thus indicating what data is needed, but they do not focus on how to collect or handle the data. The user has to make a subjective decision, deciding how data should be found, interpreted and used. Assumptions about the data affect the outcome of the analysis.

c) *Significance of the different inputs for the outcome*. Some organisations assign different weights for different effects to indicate which effects they find the most significant. Assumptions about the relative significance of different effects affect the outcome of the analysis.

d) *Present value of future effects*. Some CSR activities cause effects both at present and in the future and future effects do thus have to be measured in a prognosis. The examined SROI approaches handle the time perspective differently – they assign dissimilar values to future effects and often avoid finding a suitable discount rate by simply using the future value as the present value. Others use different discount rates, e.g. the inflation rate or a selected interest rate to discount future values to present values. Assumptions about the value of different effects at different points in time affect the outcome of the analysis.

Since the different analysers handle these dilemmas differently, the resulting SROI ratio is biased by their assumptions in the SROI analysis process and their different models. This, in

⁸³ Butler, T., Assessing the true value of Social Enterprise: A Review of Current Practice, 2005, p. 6

turn, challenges the purpose of the SROI approach – to be a suitable decision making tool and a practical management tool, the dilemmas have to be handled consistently. With a set general approach, SROI analysis could be conducted faster and with comparable results, measuring the welfare effects of CSR activities.

6. Constructing an SROI approach

Since more money is being invested in CSR activities today than ever before, there is also an increasing demand for procedures to follow up and evaluate the effects of the investments.⁸⁴ There is a need for a general approach for conducting SROI analyses and therefore we merge knowledge about existing SROI approaches to construct an SROI approach and a general SROI framework. We focus on the users of SROI and the procedure of conducting an SROI analysis including crucial steps and monetisation methods. We then construct an SROI framework with indicators and suitable proxies for measuring the welfare effects of CSR activities.

6.1 Identifying the users of SROI

Used correctly, SROI is an effective tool to compare competing requests for funding in the face of growing demands for such financing. Many types of organisations can use the SROI approach: national and international companies, third sector organisations and government authorities. Historically, SROI has been most useful for funders of a project.⁸⁵ However, once calculated, there are many stakeholders that could be interested in knowing the SROI ratios of specific projects.

To begin with, there are stakeholders within the organisation. Since SROI can be used both as an evaluator of past performance and as a prognosis tool for future, not yet undertaken projects, it is a very valuable tool for managers and decision makers. For the private sector, SROI is a tool to either demonstrate its current welfare effects, or the future welfare effects of a possible investment.⁸⁶ For the private sector, it is important to examine which stakeholders might be affected by the CSR activity. Every company must focus both on shareholders to gain economic payback and stakeholders so that it does not lose its legitimacy.⁸⁷

⁸⁴ Iweborg, Mattias, interview 2008-11-05

⁸⁵ Clark, Catherine H., interview 2009-07-30

⁸⁶ New Economics Foundation (http://www.neweconomics.org/gen/newways_socialreturn.aspx)

⁸⁷ Laszlo, C., The Sustainable Company, 2003, p. 115

Whenever the organisation needs external funding for its projects, it is important to be able to inform outside stakeholders about the results. Outside the organisation, investors and shareholders are interested in knowing how well the organisation's money is used. Furthermore, because CSR activities and social projects sometimes receive partial funding from the government, the organisation is often interested in knowing what impacts the projects have had. SROI can also be used in public sector policies to understand how the limited public resources can be allocated to maximise value. The government can then be sure that real value for money is achieved when public money is spent.⁸⁸ Furthermore, SROI analysis can help to change investment mentality, because the concept of social return makes the donor or investor understand that any grant or loan can be thought of as an investment in society, rather than as a subsidy.⁸⁹

Finally, the public is interested in knowing SROI ratios of CSR activities. Because the organisation needs support from the public, it is important for the organisation to be able to communicate the results. Therefore, SROI is a measure that would be of interest to any stakeholder a project might have.⁹⁰ However, regardless of who is using the model, it is important to note that SROI analysis demands substantial resources. Today, if the organisation does not employ a consultancy firm to conduct the SROI analysis, it has to invent its own framework because there is no general SROI model that is freely accessible. Thus, the organisation has to construct its own measure and conduct the whole analysis on its own. This requires a lot of time, effort and skills. The people conducting the analysis have to know what information to collect and where, and how to manage the gathered information. It is recommended that one allows at least a couple of days for study, research and analysis.⁹¹

It is important to note that when the SROI models are not freely accessible to the public, it is difficult for the public to know exactly how the analysis has been conducted and what assumptions have been made, e.g. for the proxies. In most cases, the company is involved in conducting the SROI analysis and can freely choose which stakeholders to consider and what impacts to measure in the analysis. Thus, the company chooses what to present in the report. This makes the need for a standardised, freely accessible and well-known SROI model even greater.

⁸⁸ New Economics Foundation (http://www.neweconomics.org/gen/newways_socialreturn.aspx)

⁸⁹ social evaluator[™], *SROI Methodology: an introduction*, 2008, p. 2

⁹⁰ Olsen, Sara, interview 2009-07-30

⁹¹ social evaluator[™] (http://www.socialevaluator.eu/SROItool.aspx)

If thoroughly constructed, an SROI framework is both flexible and accessible: it is flexible enough to be applied in a way that is sensitive to the context of any given organisation, but it also gives rise to the possibility of comparison of projects. Therefore, two SROI ratios can be compared when and if the identical options have been selected and the same assumptions have been made. The SROI analysis should therefore include an explanatory section where choices and assumptions are explained explicitly.⁹²

The process of identifying stakeholders is a fundamental part of any SROI analysis. It is vital that no important stakeholder is left out of the calculations. For example, all individual actors in the supply chain should be seen as potential stakeholders (see Figure 2 below).⁹³



Figure 2. Stakeholders of CSR activities⁹⁴

 ⁹² Olsen, S., et al., *A framework for approaches to SROI analysis*, 2005, p. 5
 ⁹³ Bergdahl., Sara, interview 2008-11-21

6.2 Conducting an SROI analysis

In order to formulate a general SROI approach for measuring the welfare effects of CSR activities, it is crucial to consider the different steps of the analysis and to determine a method for how an SROI analysis should be conducted.

6.2.1 Impact Value Chain

Most of the SROI approaches examined in chapter 5 use an adaptation of the method called *Impact Value Chain* (IVC) to assess the impact of a certain investment (see *Figure 3* below). In the first step of the value chain, the inputs that are put into the venture are identified and quantified. Then, the venture's primary activities and affected stakeholders are determined. The third step is to identify which outputs the venture has had. The outputs are all results that can be identified, and these include both direct and indirect effects, as well as short term and long term effects. A direct effect is defined as an effect that has a clear causal relationship with the activity. The final step is to calculate the impact the venture has had. This is done by measuring the outcomes, i.e. the changes to the social systems minus what would have happened anyway. What would have happened anyway can be determined by e.g. examining how things used to be before the venture started.



The IVC approach is a suitable method for an SROI analysis since it covers all aspects that need to be included in the analysis in a systematic manner.⁹⁶ IVC will serve as the basis for our SROI approach.

⁹⁴ McIntosh, M., Raising a Ladder to the Moon, 2003, p. 35

^{95 95} Clark, C., et al., *Double bottom line project report: assessing social impact in double bottom line ventures*, 2004, pp. 6-7

⁹⁶ Clark, C., et al., *Double bottom line project report: assessing social impact in double bottom line ventures*, 2004, pp. 6-7

6.2.2 Calculation methods

Traditional economic theory sees welfare as a measure of an individual's utility that correlates to consumed goods (see equation 5.1). A change in welfare would then be calculated as a change in GDP, i.e.:

$$\Delta Y_{welfare} = \Delta X_{ec} \tag{6.1}$$

where $\Delta Y_{welfare}$ is the change in total welfare, i.e. the total effects, of a CSR activity. ΔX_{ec} is the economic effect, such as a change in GDP, that a given CSR activity has on welfare. However, when calculating SROI and thus integrating social and environmental effects, we need to set up a different equation:

$$\Delta Y_{welfare} = \Delta X_{soc} + \Delta X_{env} + \Delta X_{eth} \tag{6.2}$$

where X_{soc} is the social effect and X_{env} is the environmental effect on welfare that the project has. Ethics is represented by X_{eth} , which includes factors such as obedience to human rights agreements. This should be included in the measure of total welfare since many CSR activities target the ethical aspects e.g. in developing countries.

 X_{soc} , X_{env} and X_{eth} include both direct and indirect effects. In cases where indirect effects include feelings and perceptions of an individual's situation, the indirect effects correspond to the utility perceived according to the individual's taste, i.e. equations 4.2 and 4.3 in section 4.2.

One way to make the value of welfare change visible is to use monetary values.⁹⁷ The process of expressing effects in monetary terms is called monetisation. The socio-economic values that come from CSR activities often have a non-financial value, and by using a monetisation method, which is a key part of an SROI analysis, these values are given monetary values. There are many reasons for monetising non-financial effects. The main advantage of monetisation is that it allows for relative comparisons between projects.⁹⁸ Furthermore, it is easy to communicate the results of a given investment, both within and outside the company. Another advantage of monetising welfare effects is that monetised indicators can help managers analyse what might happen if they change their strategy, as well as evaluate the

⁹⁷ social evaluator[™] (http://www.socialevaluator.eu/SROItool.aspx)

⁹⁸ social evaluator[™], *SROI Methodology: an introduction*, 2008, p. 2

suitability of that strategy to generate optimal social returns. However, it is very important to note that projects should be evaluated using the same standardised SROI model, and that the users should be aware of any limitations the model might have. It is not certain that all impacts can be ascribed a monetary value but this can be solved by including a qualitative part in the SROI analysis.

There are two main methods of monetisation that are used depending on what sort of information is available (see *Figure 4* below). Both methods can be used together in the SROI analysis. The starting point for them is that the relevant indicators of welfare have been identified. Indicators are the various elements of the effects. Effects that at first glance seem non-financial and which do not seem to have a market value (such as new jobs, improved health and improved safety) can usually be broken down into many indicators, which in turn can be assigned a monetary value by using one of the monetisation methods. By dividing the effects into partial effects they can be valued more easily. To exemplify this, some indicators of the effect "improved safety" could be decreased number of injuries and visits to hospitals, less working time lost due to injuries, less insurance money to be paid out etc. If comparable prices are known for the indicator, the ordinary cost price-based monetisation method is used.⁹⁹ If prices are unknown or unavailable, a proxy needs to be determined. Then a value price-based monetisation method must be used, which assigns a value to an indicator for an impact when there are no market prices available. The value can be determined by asking the stakeholders about it, generally using "willingness to pay" and "willingness to accept" as methods for determining the value. The main advantage of this method is that one receives information directly from the stakeholders. However, a disadvantage is that the values can become fairly subjective.

⁹⁹ social evaluator[™], SROI Methodology: an introduction, 2008, pp. 9-12



Figure 4. Methods of monetisation.¹⁰⁰

It can be argued that social projects entail much more than what can be determined by monetary approximations, but to organisations it is important to prove the effects on welfare in a comparable and quantitative way. Monetisation of effects is a suitable method to doing so.¹⁰¹

6.3 Formulating a general SROI framework

One of the main challenges in creating a general SROI approach is to construct the actual framework which is to be used as a basis for the measurements of the welfare effects which occur due to a CSR activity. The framework should include both indicators and suggested proxies for measuring the effects of the CSR activity. A few attempts have been made to create SROI measures that not only take into account direct costs and benefits but also indirect effects of the activities. However, the SROI models presented in chapter 5 included either too few indicators or too specific indicators to be usable in general on a global or even country level. For example, the REDF model was designed for the American society.

¹⁰⁰ social evaluator[™], SROI Methodology: an introduction, 2008, p. 9

¹⁰¹ social evaluator[™] (http://www.socialevaluator.eu/SROItool.aspx)

In formulating a general SROI framework, we have merged the relevant aspects from previous models, starting from the well-known cost-benefit analysis, adding indicators from the REDF model and the other SROI models, GRI, UDHR, the Human Development Index (HDI) and the Impact Reporting and Investment Standards (IRIS). By including the ethical aspect, as shown in equation (6.2) in the previous section, our framework will be more extensive and thus applicable to wider range of CSR activities than other existing frameworks. Furthermore, welfare economics has shown how the concept of welfare can be understood, and corporate finance theory has shown how to put benefits in relation to the costs they require. Furthermore, the conducted interviews at the United Nations Headquarters, Enact Sustainable Strategies, SVT Group and Electrolux have facilitated further understanding of what indicators that should be included in a more general SROI framework.

When identifying relevant indicators for the SROI framework, we consider all possible stakeholders and how they could be affected by any given activity. Assuming a stakeholder perspective makes it easier to judge whether or not an effect is beneficial. The indicators aim to measure the ethical, social and environmental effects and have been grouped by such in our framework. To highlight how the indicators may be measured we have compiled suggestions of proxies for every indicator. The effects of a CSR activity, measured by the proxies, can be short term or long term, direct or indirect, and tangible or intangible. These classifications can be used jointly, for instance, a given effect can be short term, direct and intangible. Indirect effects can be defined as effects that might arise due to the project, but where the causality is not entirely clear. There can hence be other factors that influence the relationship between the project and the indirect effect. It is important to note that one should take care when evaluating indirect effects and try to find as exact proxies as possible when attempting to measure them.

For any CSR activity, the first step of the SROI analysis is to identify which indicators are applicable. The next step is to determine suitable proxies. One can think of it as "breaking down" the indicators into proxies. There is a vast number of possible proxies, and it should be noted that there might be additional possible proxies that can be used in order to measure the indicators, but that are not included in the list below. In some cases, our suggested proxies will not be applicable and others will have to be identified. The suggested proxies will, however, provide guidance and inspiration to what kind of other proxies that might be suitable to use. To make the framework useful and manageable, we have compiled the indicators and

proxies that we find to be the most significant for measuring the welfare effects of CSR activities. There are similar proxies for different indicators so the user of the framework has to take care not to calculate the same effects several times.

Indicators	Suggested proxies for effects
Ethics	
Human Rights	Compliance with UDHR. Societal effects when deviating from UDHR.
Other	Effects specific to the CSR activity
Social	
Diversity	No. of reported discrimination cases
-	Hours worked, Discrimination Ombudsman
	Hours worked, lawyers
	Hours worked, other workers in the criminal justice system
	Greater understanding of people and cultures
Labour (health) ¹⁰²	No. of days of sick-leave
	Vaccination provided by employer
	Healthcare activities, e.g. gym membership
	Safety programmes
Labour (training) 103	No. of hours of training provided
_	Promotion possibilities
	Employability
Labour (safety)	No. of accidents at work
Labour (satisfaction) 104	Value of work benefits
	Decrease in sick leave days
	Employee turnover
	HR costs
	Cost associated with changing jobs
	Health care costs (e.g. if company offers free vaccin)
	Higher wage than minimum wage
Factory Monitoring	Health care costs relating to work-related injuries
	Hours spent monitoring and follow up
	Safety at workplace
Product Responsibility ¹⁰⁵	No. of injuries in factories
	No. of consumer injuries
	Quality assessment of products
	Costs of incidents of non-compliance with regulations concerning health and
	safety
Society Involvement	Lower costs of waste management
	Local maintenance and cleaning costs
	Investments in infrastructure
	Maintenance of infrastructure
T 500 1	
Tax Effect	Corporate tax
	Employment tax
Disaster Dalla (Income tax
Disaster Relief	Amount of food and shelter delivered to the site
Health	Health care costs relating to the project
	Life expectancy at birth ¹⁰⁶
	Access to clean water
	Number of hospital beds
	l lotal number of caregivers (doctors, nurses etc.) employed

¹⁰² UNGC, Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress, 2007, p 12 ¹⁰³ Ibid.

¹⁰⁴ UNGC, Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress, 2007, p 11

¹⁰⁵ UNGC, Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress, 2007, p 14

¹⁰⁶ UNDP: HDI (http://hdr.undp.org/en/statistics/data/calculator/)

	Caregivers' gualifications
	Patient's average waiting time for treatment
	Types of medical services provided at local hospital ¹⁰⁷
	Child mortality
	Education training and provention programs regarding disasses
E dura e the c	Education, training, and prevention programs regarding diseases
Education	No. of hours of teaching
	Employability
	Adult literacy rate
	Enrolment ratio for primary, secondary and tertiary schools ¹⁰⁸
	Drop out ratio for primary, secondary and tertiary schools
	Educational materials
	Other facilities (textbooks, buildings etc.)
	Educator qualifications
	Student transportation to and from school ¹⁰⁹
Poverty	No of ich opportunities
Toverty	Education (sociation)
	Donations
	Dullations
	Housing services (sheller, transitory housing)
	Food provision
Public Authorities	Hours spent on police work
	Hours spent on cleaning up
	Hours spent on social services
Government Grants	Government grants such as unemployment benefits, sick pay etc.
Criminality	Number of crimes committed
	Incarceration ¹¹¹
	Hours used in criminal justice system
	Costs savings for victims
Culture	
Culture	Access to modia
	Access to churches (religious sites
	Access to characterized sites
Corruption	Costs of setting up a business
	Time spent filling out forms
Indirect Jobs ¹¹²	Jobs created through the activity
Equality	Equal opportunities for men and women
	Fair criminal justice system (trials, access to legal counselling etc.)
Distribution of Resources and	Fairness of distribution between social groups
Wealth	Government subsidies
Childrens' Care	Davcare facilities
Infrastructure	Value of infrastructure built or renovated ¹¹³
	Dublic transports
Microfinance 114	Fublic Italispoits
(especially applicable in	Group lending
Newly industrialised Countries)	No. of services provided by village bank
	Women empowerment services
	Total number of clients, or individuals, served
	Transparent communication with clients about prices, terms and conditions of
	financial products
	Safeguard privacy of clients' data
	People self-employed (including family members) in financed enterprise
	Hired workers (non-household) in financed enterprise
	Number of clients that have been trained in basic business skills through
	training programs

 ¹⁰⁷ Impact Reporting and Investment Standards (http://iris-standards.org/framework/0800)
 ¹⁰⁸ UNDP: HDI (http://hdr.undp.org/en/statistics/data/calculator/)
 ¹⁰⁹ Impact Reporting and Investment Standards (http://iris-standards.org/framework/0500)
 ¹¹⁰ REDF SROI Model, 2000
 ¹¹¹ REDF SROI Model, 2000
 ¹¹² Impact Reporting and Investment Standards (http://iris-standards.org/framework/0600)
 ¹¹³ Ibid.
 ¹¹⁴ Ibid.

Other	Effects specific to the CSR activity
Environment	
Environmental Awareness	Labour training on environmental issues
	Amount of highly hazardous pesticides purchased
	Total area of land treated with highly hazardous pesticides
	Total area of productive forests (areas where timber may be harvested) ¹¹⁵
	Total number of trees planted ¹¹⁶
	Pollution
Nature Conservation ¹¹⁷	Land area designated as a strict reserve
	Total area of high conservation value forests protected ¹¹⁸
	Total length of coastlines protected through the establishment of conservation
	areas
	Total number of hectares that have been reforested
	Habitats protected or restored
	Riodiversity value ¹¹⁹
Sustainable Resource Usage	Price of emissions
	Type of energy used (charcoal water power wind power sup power etc.)
	Energy savings
	Water usage ¹²⁰
	Energy $(K/W/hs)$ consumed as a result of the investment ¹²¹
	Materials used by weight or volume
	Materials used by weight of volume
	Total water withdrawal
	like of recycled water
	Enorgy consumption
	Energy consumption Energy sayed due to officiency improvements
	Lice of renewable operative sources
	Total water discharge by guality and destination ¹²²
	lice of fuel
	Use of weter
	Use of other recourses
	Ose of other resources
	Carbon dioxide enlissions
Class Currely	Other emissions/pollution
Clean Suppry	Emissions of greenhouse gases ¹²³
Chain/Production Chain	Price of emissions (emissions trade)
	Total weight of waste by type and disposal method
	I local number and volume of significant spills
	vveight of transported, imported, exported, or treated waste deemed
	hazardous under the Basel Convention
	Iransported waste snipped internationally ¹²⁴
Products	
Transports	Type of transport used
	Type of fuel used in transports
	Emissions from fuel
	Fuel usage during transports
Other	Effects specific to the CSR activity

Table 1. Indicators and proxies in the SROI framework.

- ¹²⁰ Impact Reporting and Investment Standards (http://iris-standards.org/framework/0700)
- ¹²¹ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid.
¹¹⁸ Impact Reporting and Investment Standards (http://iris-standards.org/framework/0400)
¹¹⁹ UNGC, *Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress*,

¹²² UNGC, Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress, ¹²³ Impact Reporting and Investment Standards (http://iris-standards.org/framework/0900)
 ¹²⁴ UNGC, *Making the Connection – The GRI Guidelines and the Global Compact Communication on Progress,*

^{2007,} p 11

In most cases, the indicators and proxies will indicate the positive welfare effects of a CSR activity. But in some cases, a CSR activity might cause some negative effects, and in such cases it is imperative for the organisation to include those in the calculation. To clarify, an example would be if an organisation decides to sponsor the construction of an art gallery in the city. This might increase the welfare in the society due to enhanced culture and happiness among the citizens, but the construction itself might cause pollution due to transports and the use of machines. To include such negative values, the organisation should calculate the costs from e.g. pollution and include them in the SROI analysis as a negative value. This is a vital condition for accurately evaluating and comparing investments.

An important indicator to notice is the tax effect since it has often been ignored in SROI calculations.¹²⁵ We choose to include tax effects because tax payments go directly into the government budget, adding to the funds that are spent on welfare.

We calculate the SROI ratio as:

(6.3)

SROI = <u>Net Social Impact + Net Environmental Impact + Net Ethical Impact</u> <u>Net Investment</u>

7. Applying the SROI approach

To evaluate our constructed SROI framework as a mean to assess the welfare effects of CSR activities we will conduct a case study, calculating the SROI ratio for a CSR activity undertaken by an international corporation in Sweden.

7.1 Case description

To find a suitable case for an SROI calculation, we cooperated with the CSR consultancy Enact Sustainable Strategies. They work with a wide range of international clients that all aim to improve their CSR practices and to better understand the welfare effects of their CSR activities. A screening was conducted to select a suitable study object and several companies were interviewed for the case selection. Electrolux, a company that strives to improve and develop their CSR practices was chosen for the study because of their great interest in following up on the effects of their CSR activities. The company has been working with its

¹²⁵ Wetter, Erik, interview 2009-08-13

CSR strategy for many years already and has been very successful in applying their CSR strategy to its everyday operations and communicating it to its customers.¹²⁶ In addition to producing climate-smart appliances and having sound business practices in accordance with the UNGC, Electrolux has set up EMS Factory Foundation, which aims to enhance performance inside the organisation as well as helping those in need.¹²⁷ It is based on a simple principle, which states that the higher output a factory has, the more points it gets. The points are translated into money that is used to support a local project.¹²⁸ In 2008, Electrolux's division in Motala sponsored the project *Med Gemensamma Krafter* (MGK) which can be translated into "With Joint Forces", through EMS. Electrolux chose MGK in order to support the local region and give something back to society. Electrolux is one of the largest companies that are represented in Motala municipality.¹²⁹ Electrolux is currently considering investing more money in the MGK project and extending it to a yearly engagement, but wants to know more about the project's welfare effects before making the decision.

In 2002, Motala municipality started MGK, a project designed to reduce teenage drinking and crimes through alcohol- and drug-free events for 13-17 year olds. These events take place a couple of times a year – the most troublesome days are December 13th (Swedish tradition Lucia, ubiquitously known to involve much teenage drinking), May 1st (Swedish holiday) and sometime in June when pupils start their summer holiday. The target group is pupils in classes 7-9, but teenagers up to 17 are welcome. During recent years there have been approximately four events per year. Motala had many problems related to teenage drinking during these holidays, for example alcohol-related injuries, crimes and littering. MGK was thus set up in order to reduce these problems and the costs related to them.¹³⁰ The events have involved approximately 50% of all pupils in classes 7-9 in Motala municipality. Approximately 2876 visitors attended the events in 2008.¹³¹

MGK has succeeded in reducing the problems and costs related to teenage drinking. By making the most problematic teenagers take part in the preparations of the events, many crimes and injuries have been eliminated.¹³²

¹²⁶ Schlyter, Jens and Sundström, Henrik, interview 2009-02-18

¹²⁷ Electrolux Sustainability Report 2007, p. 6

¹²⁸ Electrolux, *EMS – Our way to excellence*, p. 1

¹²⁹ Sjöholm, Andreas and Forssell, Jonas, interview 2009-04-08

¹³⁰ Gustavsson, Johnny, Björkman, Anders and Svärd, Stefan, interview 2009-04-08

¹³¹ Med Gemensamma Krafter, Official information documents

¹³² Gustavsson, Johnny, Björkman, Anders and Svärd, Stefan, interview 2009-04-08

We classify MGK as a CSR activity for two reasons. First, the project is supported by Electrolux and is part of their CSR strategy. Second, MGK was set up in order to support teenagers and improve their behaviour. This, in turn, will hopefully make society better by reducing teenage drinking problems, crimes and other issues connected with teenage drinking. This case study will focus on the welfare effects of MGK in 2008 when Electrolux joined as a CSR partner.

7.2 Case study

The first step of the Impact Value Chain is to determine the inputs into the project. We are trying to determine the SROI for the inputs made by Electrolux but since the project also has other sources of funding, we will calculate the SROI for the entire project.

Electrolux has invested 5000 SEK and MGK's total budget is 266272 SEK. Electrolux has not contributed with any other resources except for money. This simplifies our analysis – if they would have contributed with e.g. coaching or knowledge this would have had to be quantified in monetary terms to make it comparable with the other figures in the calculations.

The activities, the second step of the Impact Value Chain, described above, were mainly organised drug-free events for under aged children during main school and/or typical Swedish holidays.

The third step of the Impact Value Chain, the results that can be measured, is a challenging task and it is important to make a selection that is broad enough to cover widely different effects but also narrow enough to be reasonable. We use the general SROI framework formulated in chapter 6 to determine which indicators are applicable to MGK. These are summarised in *Table 2* below.

Indicators applicable to MGK	Suggested proxies for positive and negative effects	Type of effect
Social		
Health	Health care costs relating to the project	Direct
Education	Employability	Indirect (future)
Government Grants	Decrease in government grants such as unemployment benefits, sick pay etc.	Indirect (future)
Tax Effects	Corporate tax	Direct
	Employment tax	Direct
	Income tax	Direct

Criminality	Reduced crime rate	Direct
Culture	Entertainment	Indirect (today)
Public authorities	Less hours spent on cleaning up	Direct
	Less hours spent on social services	Direct
Other	Positive feelings caused by MGK	Indirect (today)
Table 2 Indicators and provide applicable to MCK		

Table 2. Indicators and proxies applicable to MGK

The fourth step in the Impact Value Chain is to measure the outcomes. We compare the investment to all identified effects. All the net welfare effects (estimated in monetary terms) are then divided by the initial investment in order to reach the SROI ratio for MGK. The measurements are described below and the calculations can be found in Appendix 1.

7.2.1 Investments

The investment consists of two main parts: the salaries and the equipment for the events. The project manager is paid 155 862 SEK yearly, including taxes, *lönekostnadspålägg* (LKP) of 41.92%, for managing the MGK project.¹³³ The project assistants work approximately 100 hours per year in total and are paid 17 740 SEK, including LKP, per year for their work with MGK. The equipment for the four events costs 92 670 SEK.¹³⁴ The total sum of investments is 266 272 SEK.

7.2.2 Welfare effects

To quantify the welfare effects, we use the proxies suggested in the framework above. We use the effects directly related to the MGK project and include a consideration for what would have happened anyway as required in the Impact Value Chain method. We use the proxies from our SROI framework described in chapter 6, and explain how the measures for the different indicators are reached.

Social services

Two social service assistants work to help the youth in Motala to avoid drug-related problems, criminality and other destructive behavioural patterns. During the years that the MGK project has operated, two people have been working full time to assist the youth in the municipality. Karolina Markström, one of the current social services assistants, claims that the MGK project has had a positive effect in the Motala municipality with effects such as fewer cases of drug addiction among children and fewer negative incidents during the event evenings. During a regular holiday, which is typically associated with a larger event, Karolina estimates that they would have to take care of approximately six children and drive them home. This would take

¹³³ Gustavsson, Johnny, interview 2009-04-08

¹³⁴ Med Gemensamma Krafter, Official information documents

approximately six hours in total. Having an MGK event in town reduces the number of problematic cases to more than half and about two children have to be driven home which takes approximately two hours. The spare four hours can then be spent on patrolling a wider area, giving more attention to the children.¹³⁵ The salary of the social service assistants is approximately 212.88 SEK per hour including the LKP. Since the social service agents usually patrol together in groups of two, and four events take place during one year, 6812 SEK can be considered as saved due to the MGK project. In addition, the social services agents this equals to: 3406 SEK. In total, 10 218 SEK was saved in direct effects from the MGK events.

There are also many secondary effects (more time devoted to other aspects of the social service agents' work can help them to reach a greater impact in other areas). Children with social problems get more attention and have thus a higher chance to recover, and avoid problems in the future, thereby costing the society less on a longer term.

Criminality

The crimes committed by teenagers in Motala are often related to their alcohol consumption. The chief of police says that the decrease in crimes during the holidays is due to the MGK events because the teenagers then spend the evenings in closed premises and do not consume any alcohol.¹³⁶ The five most common crimes are assault (such as wounding and grievous bodily harm), robbery, theft, vandalism to dwellings and vandalism to cars. The number of these crimes has been reduced by 25 - from 33 in 2001 (when the MGK project did not exist) to 8 in 2008.¹³⁷ There are cost savings relating to the police's work, the criminals and the victims.

There are two areas in which the police's work has decreased. The decreased number of crimes leads to less time dedicated to administrate police reports. On average, each report takes three hours to fill in and file. In 2008, 75 hours were saved compared to 2001. There has also been a decrease in the need for patrolling police officers. When teenagers attend the MGK events, fewer police officers are needed to patrol the streets. Between 2001 and 2008, there has been a decrease in the number of patrolling police officers from twelve to six. On

¹³⁵ Markström, Karolina, interview 2008-08-19

¹³⁶ Andersson, Per-Åke, interview 2009-07-13

¹³⁷ Polismyndigheten i Östergötlands län, statistics from Marie Åkerbjörk

average, each policeman works ten hours per day on these holidays. This amounts to 60 hours per holiday and hence 240 hours per year.¹³⁸ On average, a policeman works 165 hours per month and has a starting salary of 20 000 SEK. The three first years there is a set salary increase, and the salary in year three is 21 600 SEK. After that, salaries are set on an individual basis.¹³⁹ We choose to set the average salary to 27 000 SEK, which implies that the cost per hour per policeman is 232 SEK per hour including LKP. Multiplying the 315 hours with the cost per hour equals an approximated welfare effect of 73 080 SEK in 2008 compared to 2001.

Richard Dobourg at Home Office (the British government department for immigration and passports, drugs policy, counter-terrorism and police) has calculated the average criminal justice system cost for various crimes.¹⁴⁰ Because all crimes differ regarding to the time needed with a lawyer and in court etc.,¹⁴¹ we choose to use Dubourg's calculations as proxies for the costs of crime. The five common crimes described above have different costs, but there are no statistics over how many crimes of each type that have been committed in Motala. Therefore, we have to use the average cost of the five types of crimes. The average cost for the five types of crimes is 15 799 SEK. On average, 17% of crimes in Sweden are solved, i.e. the prosecutor has found the person guilty and decided on a penalty.¹⁴² Because Dubourg's costs include lawyer costs and court fees, we multiply the decrease in the number of crimes (25) by 17% before we multiply them with the cost of the crime. The approximated total saving in 2008 compared to 2001 is 67 148 SEK.

The direct cost relating to the victims is the cost of the damage caused by the criminal. In principle, the guilty person has to pay damages to the victim.¹⁴³ However, in cases when the criminal cannot pay, the victim needs to use his or her insurance.¹⁴⁴ We use excess and compensation values from Trygg-Hansa, a major Swedish insurance company, as proxy values for the savings relating to the victims. This is a good proxy since the majority of Swedish people have a basic insurance. We treat both the excess and the amount paid out by the insurance company as costs in the SROI analysis because it is something that could have

¹³⁸ Andersson, Per-Åke, interview 2009-07-13

¹³⁹ Lundgren, Charlotte, interview 2009-07-13

¹⁴⁰ Home Office (http://www.homeoffice.gov.uk/about-us/)

¹⁴¹ Lewenhaupt, Knut, interview 2009-08-26

¹⁴² Brottsförebyggande Rådet (http://www.bra.se/extra/pod/?action=pod_show&id=62&module_instance=15)

¹⁴³ Brottsoffermyndigheten (http://www.brottsoffermyndigheten.se/default.asp?id=1298)

¹⁴⁴ Unga Brottsoffer (http://www.ungabrottsoffer.se/skadestand.asp)

been avoided. The average excess for a car insurance is 3000 SEK. There are no standard amounts paid out for a vandalised car, the insurance company pays whatever the cost for repair is.¹⁴⁵ We use a proxy value of 3000 SEK for this. The proxy value used for vandalisation of a dwelling is 1200 for the excess and 4000 for the compensation. For theft and robbery, we use a proxy value for a stolen handbag containing a mobile phone, an iPod and a wallet. The excess for this is 1200 SEK and the average amount paid out is 4500 SEK.¹⁴⁶ In the case of assault, the victim does not pay any excess. The fixed amount paid out is 8000 SEK, which is meant to cover pain and suffering. The insurance company also pays whatever costs the victim has had, usually taking a taxi to the emergency room and seeing a doctor. On average, this costs 400 SEK.¹⁴⁷ The average value of excess and compensation for the common five crimes is thus 6200 SEK. The total cost saving relating to victims is then approximately 155 000 SEK.

In sum, the approximated net savings of reduced criminality in 2008 compared to 2001 are 295 228 SEK.

Health care services

Alcohol and drug consumption is often an explanatory factor to injuries inquired during the problematic holidays. To estimate how health care services have been affected in relation to MGK-activities, we contacted Motala Hospital, which keeps track of the number of youth injuries that are treated at the emergency care. We were able to access statistics for two of the event nights in 2001 and 2008. There has been a significant decrease of alcohol-related injuries from 2001 in the absence of MGK and 2008 when the MGK project was in place. During the Lucia event, six injuries were handled in 2001 and four injuries were handled in 2008, during the May 1st event, nine injuries were handled in 2001 and only four injuries in 2008.¹⁴⁸ The injuries are different, ranging from concussion to open wounds and the costs that they bring are of course different. However, we were not able to access the specific costs for each specific injury but will use the average cost of 2100 SEK.¹⁴⁹ During the two events the difference in amount of injuries is seven injuries. Assuming that the situation is similar for the two other events, we have a total difference of 14 injuries that did not occur due to the MGK

¹⁴⁵ Pauli, Åsa, interview 2009-08-26

¹⁴⁶ Eriksson, Malin, interview 2009-08-26

¹⁴⁷ Mattsson, Kristina, interview 2009-08-26

¹⁴⁸ Edoff, Anette, interview 2009-08-27

¹⁴⁹ Stockholms Läns Landsting (http://www.sll.se/Handlingar/HSN/2007/2007-06-26/04zBilaga5.doc)

project. We are aware that this is a **bold** estimation, as the injuries might have other causes and the difference might be aleatoric, but it is the closest proxy that can be determined. 14 injuries multiplied by 2100 SEK gives us a total welfare effect of 29 400 SEK.

We also add the estimated costs for the ambulance needed to take care of the injured people. To estimate how many ambulance journeys were saved due to the MGK project we compare the types of injuries during 2001 to 2008. The injuries in 2008 were much easier to handle and that ambulance care was not needed for most of them whereas the injuries in 2001 were more severe (poisoning, concussions, severe stomach pains etc.). We conclude that of the seven injuries that were avoided, five had otherwise required ambulance assistance. Thus approximately ten ambulance journeys are spared in 2008 due to the MGK project. As a proxy for the total cost of using the ambulance from and back to the hospital (the car, the equipment and the staff), we use the cost calculated by the hospital MAS in Uppsala, which is 2500 SEK.¹⁵⁰ In total, 25 000 SEK was saved in ambulance costs due to MGK. Together with the estimated costs for the emergency care at the hospital, approximately 54 400 SEK was saved in health care costs due to MGK.

Municipality cleaning up costs

Another area where costs have been saved is the cleaning up in the city after the holidays. This is done by the municipality itself. Because the majority of the pupils have attended the MGK events, they have been at the same premises and have not been out in the streets or at the beach, where they would otherwise spend the evenings. At the day following each of these four holidays, three hours of cleaning has been saved. The cost for the use of the cleaning equipment and the wage of the cleaner is 500 SEK per hour including LKP.¹⁵¹ This amounts to 1500 SEK per holiday, and thus 6000 SEK per year.

Taxes

MGK is funded by money from Electrolux and the municipality of Motala. The money from the municipality has already undergone taxation and should not be seen as a revenue that otherwise would have to undergo taxation. The money from Electrolux, however, would otherwise have to undergo taxation by a rate equal to approximately 28%,¹⁵² increasing the

¹⁵⁰ Kommunfullmäktiges protokoll, Ambulerande läkare, Kommunstyrelsen i Karlskoga kommun, 2007-03-07

¹⁵¹ Kraft, Gunnar, interview 2009-04-28
¹⁵² Skatteverket (http://www.skatteverket.se)

welfare through the tax payment. The foregone tax of 1400 SEK is therefore included in the calculation as a negative welfare effect.

In the calculation we also include employment taxes. In Sweden, these kinds of fees are called *lönekostnadspålägg* (LKP), and they include employment tax, pension and other fees. LKP is included both in the investments and the welfare effects. In investments, the LKP (together with the salary) is considered as a cost. However, when salaries are paid, an immediate effect is that the taxes are paid which implies a positive welfare effect. Similarly, when the amount of hours worked (by e.g. the police or the social service assistants) decrease due to MGK, there is less tax paid to the government. The taxes that are not paid to the government due to the savings resulting from MGK are included in the SROI calculation as a negative effect.

The effect from income taxes is determined similarly to the effect of employment taxes. The average income tax rate for Motala municipality in 2008 was 32.9%.¹⁵³ The income taxes are included both on the investment side of the calculation and in the effects. The income tax for e.g. the Project Manager of MGK is treated as a positive welfare effect whereas the forgone income tax for e.g. the reduced need for the police is treated as a negative effect.

The LKP and income taxes for health care services and municipality administration cannot be determined using the data provided by the hospital and the municipality, but we recognise that including these effects would lower the calculated SROI rate.

Other effects and Net Present Value

Our SROI analysis concentrates on the direct effects of the MGK events, but we are aware that there are also indirect effects resulting from the CSR activity. Short term indirect effects are, e.g., teenagers' positive feelings about attending the events and the perceived entertainment value of the events. In section 6.2.2, we argued that a "willingness to pay" survey could be made in order to find a proxy for indirect effects like these. However, this was not possible in the case of MGK, because we cannot direct our survey towards the correct teenagers since we do not have personal data of the teenagers that have attended the events. Asking someone who has not been to the events would give a misleading picture.

¹⁵³ Skatteverket (http://www.skatteverket.se/4.24321e0c1165ddd612080001670.html)

There are also short term indirect effects relating to the reduced crime rate that should be considered. Some examples are the reduced amount of time spent by the victims going to the police and proving damages caused to the insurance company.

Although it is difficult to precisely determine the extent of MGK's influence upon teenagers, we can say with confidence that MGK has succeeded in reducing teenage drinking and criminality during the four events. Hopefully, MGK's involvement with teenagers will lead to changed attitudes and habits regarding alcohol consumption. In the short term, this can have effects on their ability to perform well in school. If the teenagers attend the MGK event and do not drink alcohol, they will not miss classes due to alcohol-related illnesses or injuries. The pupils can also concentrate better in school, which in turn can lead to a reduced need for extra education and other support measures. There might also be long term effects such as better grades and the ability to enrol into further education, which would add to their employability.¹⁵⁴

Changed alcohol habits can lead to future benefits in terms of lower health care costs. MGK can also cause even more positive effects resulting from lower crime rates – not only savings relating to the criminal justice system but also with regards to the loss of individuals at work.¹⁵⁵ This could lead to a reduction of government grants such as sick pay. However, MGK has only been operating for a few years, so there are not enough statistics available to make predictions of what might happen in the future. Therefore, we do not calculate any future effects of MGK. However, if we would have satisfactory data and attempted to calculate the NPV, we would have used a discount rate of 3.5%, which is the discount rate recommended in HM's Treasury's Green Book.¹⁵⁶ The Green Book contains a methodology which can be used in economic assessments of the social costs and benefits of projects such as public sector investments.¹⁵⁷ This is regarded as an appropriate discount rate for SROI analyses.¹⁵⁸ One could also use the risk free rate to discount social returns. Whichever rate is used, it is important to know how sensitive to it the analysis is.¹⁵⁹

¹⁵⁴ Gustavsson, Johnny, Björkman, Anders and Svärd, Stefan, interview 2009-04-08

¹⁵⁵ Johnson, Miljarder! Alkoholens samhällsekonomiska kostnad – En jämförelse av två studier, 2006, p. 14

¹⁵⁶ Her Majesty's Treasury, The Green Book – Appraisal and Evaluation in Central government, 2003, p 26

¹⁵⁷ Her Majesty's Treasury (http://www.hm-treasury.gov.uk/data_greenbook_index.htm)

¹⁵⁸ Cabinet Office: Office of the Third Sector, 2009, A Guide to Social Return on Investment, p 67

¹⁵⁹ Olsen, S., et al., A framework for approaches to SROI analysis, 2005, p 31

If we had more available and reliable data, it would have been possible to conduct a regression analysis, trying to separate the impact from MKG from other impacting variables. Crime rates have indeed been heavily reduced every year since 2002,¹⁶⁰ but we cannot say for sure that this is due only to the MGK events. It is likely that there are additional factors affecting the pupils' behaviour (such as their situation at home, their parents' habits etc.) and it is very difficult to determine the ultimate causal factor.

We do not find any ethical or environmental effects to be applicable in the SROI analysis of MGK. It is however relevant to describe how such can be measured. For example, a change in human rights might be measured through an estimation of the effects of the increase in life quality for children that do not have to conduct manual labour but instead get an education. Regarding the environmental aspects, it is sometimes claimed that the environment, including e.g. biodiversity and climate, has an intrinsic value and that nature and animals should be given increased legal rights so that there would be a more effective tool to preserve them.¹⁶¹ Some people argue that it would be impossible to ascribe monetary values to the environment due to both philosophical and practical issues. One crucial question is that of sustainability: how do we take future generations into account when measuring and making decisions about the environment? We do recognise that there are challenges in ascribing monetary values to various types of indicators. However, if there are meaningful measures that facilitate better decisions regarding the environment, these should be used as much as possible.¹⁶² The solution might be to use a common standard or approach to the measurement of these seemingly intangible values. An interesting initiative to measuring the values of nature is the BBC series "Nature Inc", which has attempted to calculate the economic value of e.g. deforestation, crop diversity and coral reefs.¹⁶³ One attempt to put monetary values on pollution is the EU Emissions Trading Scheme, where the cost of pollution is determined by the market for greenhouse gases (GHG) emitters.¹⁶⁴ These market values could be used in an SROI analysis as a proxy for the value of GHG emissions.

¹⁶⁰ Polismyndigheten i Östergötlands län, statistics from Marie Åkerbjörk

¹⁶¹ Vilkka, L., The intrinsic value of nature, 1997, p. 111

 ¹⁶² Polasky, S., *Valuing Nature – Biophysical or Monetary Measures?*, 2008, pp. 1-6
 ¹⁶³ BBC (http://www.bbcchannelpartners.com/worldnews/programmes/1000014/)

¹⁶⁴ Department for Environment, Food and Rural Affairs

⁽http://www.defra.gov.uk/environment/climatechange/trading/eu/how.htm)

7.2.3 Results

The SROI calculated for the entire project is 55% – thus Electrolux's share of the entire investment renders an SROI of 55%. The value is calculated by adding all the costs of the project, i.e. salaries for the project manager and the assistants as well as all the equipment costs comparing it to the estimated effects from the social services, the police and court, from the hospitals, the municipality administration and the specified taxes. See *Table 3* below.

Indicators used to analyse MGK	Proxies used for positive and negative effects	Monetary value of the effect
Social		
Health	Health care costs relating to the project	54400
Education	Employability	N/A
Government Grants	Government grants such as unemployment benefits, sick	N/A
	pay etc.	
Tax Effect	Corporate tax	-1400
	Employment tax	26673
	Income tax	20935
Criminality	Reduced crime rate	295228
Culture	Entertainment	N/A
Public Authorities	Less hours spent on cleaning up	6000
	Less hours spent on social services	10218
Other	Positive feelings relating to MGK	N/A
Total Monetary Value of Effects		412054
Total Investment		266272
SROI		55%

Table 3. SROI Calculation

Except for the direct effects that could be monetised, it is important to recognise that the indirect effects further add to the social return of MGK. Their monetary value might be difficult to determine but they can still be of great importance.

7.3 Case analysis

The case study of MGK shows that our SROI approach can capture and quantify welfare effects resulting from a CSR activity.

7.3.1 Interpreting the results

The result of our SROI analysis indicates that the investment in the MGK project has a Social Return on Investment of 55% plus unquantifiable positive indirect effects. This shows that the MGK project has an overall positive welfare effect and that the outcomes are worth the investment. However, the immediate question that arises is – is 55% good or bad? Should the investments in the MGK project continue? There is a need for reference points from other SROI analyses conducted with the exact same method and limitations. Such points of reference do not exist yet – other organisations have conducted SROI analyses finding SROI

ratios ranging from very low negative values to a return of thousands of percent, all depending on the method chosen and the indicators included.

Because SROI can be seen as a modification of an ROI analysis it could be wise to use common ROI measures as a reference point. An ROI rate for an investment should preferably be higher than the rate given when depositing money at a savings account in the bank or investing the money in risk free bonds. However, when it comes to SROI, any value over 0 (i.e. when benefits just exceed costs) can be seen as a "good" SROI rate. In some cases, the investment might even be larger than the benefits, but the intangible effects that cannot be monetised might be so significant that it does not matter if the investments are larger than the monetised benefits. Some government investments in society might be of this kind. Just as in the case of ROI, it is important to determine what the alternative would be: what would happen if the project had not been undertaken, and what would the return be if the investment was not undertaken but the money had been deposited in the bank instead? No savings account would offer a return of 55% on the investment, so from such a perspective the investment in MGK is wise.

Considering the return of 55% it is crucial to remember that the process of calculating SROI involves finding suitable proxies and making assumptions about their values. This SROI rate is a well motivated approximation of the welfare effects resulting from MGK, but it cannot be considered to fully entail all welfare effects.

7.3.2 Evaluating the SROI framework

The measurement of the change in welfare due to the MGK project has highlighted many challenges with the SROI measure. Trying to find as accurate statistics as possible, we spent a lot of time and effort searching for statistics that in some cases did not exist or that could not directly separate the effect of the MGK project from other affecting factors. Although some indicators could be estimated more closely than others, the lack of specific and correct data made the SROI analysis more difficult and limited. Since these kinds of statistics apparently are rarely requested, this low demand has affected the supply and there is thus a lack of data that would be needed to reach accurate estimations of the effects. However, recent technological development has made data and statistics more accessible than ever before and the new strive for cost effectiveness will probably lead to more detailed statistics being collected, facilitating the SROI analyses.

The second major challenge is the limitation of the study with respect to direct and indirect effects. A limitation of the time perspective is necessary to conduct an SROI analysis but does automatically cause errors in the measured rate. If the SROI analysis is conducted with our suggested general framework every time, this problem can be overcome since the SROI measure is used as a relative measure – not an absolute one.

Another challenge faced is the amount of time that the SROI analysis has taken. To find out a single approximate number for e.g. criminality, we have been in touch with a large number of people, been sent back and forth, replaced some planned partial proxies with others and devoted a lot of time to determine suitable data for the SROI calculation. Since most companies face limited time resources, our investigation has probably exceeded what most companies would be willing to devote to such a study. Despite this, we are convinced that our study could go even further and deeper to reach even more accurate and detailed results. This is problematic since it is clear that the approach for measuring the welfare effects of CSR activities is costly. Because of this, organisations may decide that it is not worth conducting such an analysis and then the most developed tool for cost-effectiveness management of CSR activities might be lost. Without a formulated framework including suggested proxies, it would take even more time for companies to measure the welfare effects of CSR activities. Hence, a general framework is an important step towards a more cost-effective method to measure the welfare effects of CSR activities.

An SROI analysis should not be restricted to determining one number, but should be seen as a framework for exploring an organisation's CSR activities, in which monetisation plays an important, but not an exclusive, role. A great advantage of the conducted SROI analysis is that MGK and Electrolux now have a chance to understand what types and how large effects their project causes. By acknowledging these effects they can become more motivated to continue investing in the project and can also gain positive publicity for the project, highlighting that the events have had a positive effect on welfare.

Even if the general SROI framework, which we have constructed, is somewhat problematic to use due to the lack of data, the time resources needed and the limitations, it still gives a good approximation of the welfare effects. The framework facilitates the identification of relevant stakeholders, types of welfare effects, the applicable indicators and suitable proxies. It can thus be seen as a suitable mean for assessing the welfare effects resulting from the CSR activity MGK.

8. Analysing the SROI approach

We have examined the most advanced methods for measuring the welfare effects of CSR activities and have used these approaches as well as economic theory to formulate a general SROI framework, thereafter testing the framework in a case study of an actual CSR activity. The framework has proven to be successful in determining welfare effects but has several limitations. We will now analyse and discuss how the welfare effects resulting from a CSR activity can be measured.

8.1 The challenges of SROI

Whereas investing in an organisation's operations might render a return that is directly measured in monetary effects, the returns in the form of welfare effects resulting from a CSR activity investment are more difficult to determine. An investment in the improvement of a supply chain mechanism can render perhaps 5% higher revenues and the connection between the investment and the effects are often clear. Investing in welfare-enhancing CSR activities, we know that welfare effects will usually occur but we cannot clearly determine the causality between the CSR activities and the welfare effects, since welfare is affected by so many different actors and causes.¹⁶⁵ Governmental actions, other companies and a wide range of factors might influence welfare. The SROI measure can thus only provide an indication of what the connection between the activities and the outcomes might be. SROI can help companies to understand what kind of effects their activities cause, but cannot in absolute terms determine how large these effects are.

8.1.1 Conflicting interests of society and the organisation

Companies that invest in CSR activities might do so for various reasons; to increase their profits, to act responsibly in order to gain support from its stakeholder, or simply to "do good". Whatever the reasons, they want their investments to make a positive difference in society. Since SROI is a voluntarily used measure, the chances for negative SROI ratios to be reported are low. If a CSR activity causes negative effects as well, companies might choose not to report these, focusing only on the positive effects and the costs of the CSR activities. Since there is no standard or agency that might be able to control this, companies are free to

¹⁶⁵ Tagger, Jerome, interview 2008-11-19

report according to their own preferences. CSR activities that bring limited positive effects for society or even cause negative effects might thus be communicated as positive to the society and might be encouraged to continue. From a societal perspective, it would be better to know the real benefits and costs, in order to be able to evaluate to what extent a project causes positive and/or negative welfare effects.

There is a risk that companies would use different types of models that weigh welfare indicators differently in order to boost their SROI ratio. Companies may want to outshine each others' CSR performances, not necessarily through more or better CSR activities but through higher SROI ratios. If there is inflation in SROI ratios and the measurements overvalue the effects, the purpose of the SROI will not be fulfilled. Therefore, a common standard and a supervising institution might hinder inflated SROI rates, helping the market to make better use of the SROI measure.

8.1.2 Costs, time and skills

Having conducted an extensive SROI analysis, searching for historical data and determining proxies for partial costs, we have observed how resource demanding a thorough SROI analysis can be. For most organisations, time is a scarce resource and they would not devote months or even weeks of research to calculate the SROI values of a CSR activity. The cost of the analysis would be too high compared to the cost of most CSR activity investments. On the other hand, in a world where what gets measured gets managed, CSR requires its own set of metrics.¹⁶⁶

Most organisations that wish to measure the welfare effects of their CSR activities will have to face a trade-off between a more thorough analysis with better proxies and the costeffectiveness of the analysis. If the CSR activity investments are very low, companies might find it unprofitable to undertake an SROI analysis, thus not knowing how and how much they affect the welfare with their activities. This can be seen as a loss to society if the money spent on certain CSR activities could have been invested in better options, rendering higher positive welfare effects.

¹⁶⁶ Laszlo, C., The Sustainable Company, 2003, p 166

8.1.3 Using correct information

If the accuracy of an SROI measure only depended on how much time needs to be devoted to search for the "correct" data, the method could be optimised easily and the SROI analysis would be enhanced. However, the access to data and its relevance for the analysis is only one of the challenges to conducting an accurate SROI analysis. To measure and monetise an intangible effect, different approaches can be used, rendering different values. For example, when determining "what would have happened anyway", i.e. what would have been the case without the CSR activity, one could use another geographical location as a proxy, or another point in time or a potential scenario. All these proxies are not necessary wrong, but there is no method to determine which proxy would give the most exact value for the intangible effect. Whether it is on a personal or organisational level, subjective decisions will influence what data is the most suitable to use. As a result, there will be prevailing errors, caused by the subjective decisions and limitations by those conducting the analysis. However, one could argue that since SROI is not an absolute measure but a relative one, there will be no errors as long as the SROI analysis is conducted in a standardised manner every time. The errors will only exist if the same types of effects are measured differently each time.

Our case study focused on historical events and mostly the direct welfare effects of the CSR activity. However, when calculating SROI for an event that will occur in the future, or when trying to determine the present value of future welfare effects caused by an activity today, it is crucial to use an appropriate discount rate. Since many welfare effects can be considered global, the discount rate should be implemented on an international level. The discounting of future values can however, induce a side effect – projects that generate short term effects might be prioritised over projects that generate long term effects since the value of an effect today is higher than the discounted value of a future effect.

8.1.4 Weight of different effects

In our case study we have chosen not to assign weights to the different effects. Assigning such weights would make the analysis biased since there are no objective valuations of the relative importance of e.g. environmental effects contra health effects. However, as the times change and different priorities come to society's attention, it could become relevant to assign extra value to the effects caused by reduced levels of pollution etc. If a standard for SROI would be developed, it could be influenced by the areas that e.g. governments find to be the most problematic, assigning different weights to different effects from year to year. The newest

standard would then have to be communicated on a yearly basis to guide the users in their analysis, also directing the users to concentrate their CSR efforts in the areas that need most attention.

8.1.5 Lack of standards

In our framework, we merged information from existing models. Our choice to merge information was due to the fact that there was no single model that included all the relevant indicators. It could be argued that the lack of a common standard for conducting the SROI analysis decreases the possibility for an effective usage of the SROI measure as a mean to assess the welfare effects of different CSR activities, but this is not a reason for abandoning the emerging concept of SROI. By reflecting upon the SROI of a certain CSR activity, the organisation can learn a lot about its role and effect in society. To determine how much welfare is affected by a certain activity, the company will first have to understand in what way it affects welfare – an understanding which can come to use in many different ways. Also, there could be a first-mover advantage for the organisations that adopt the SROI approach early and use it in their public relations. If the organisation can indicate the extent of the positive welfare effects they bring to society by conducting the CSR activities, this could bring a lot of positive publicity. However, if a company were to communicate, e.g., an interest rate in an advertisement or a ROI measure to the public, the calculations would have to follow certain standards, in order to avoid facing legal consequences or bad publicity if examined in detail. Since there are no such standards for SROI, companies might communicate any rates they wish, which in the long term could lead to negative effects such as SROI rate inflation, as discussed above. A standard is needed to facilitate trustworthy communication which renders an important question – who should set the standard? Since many different companies, organisations and academic faculties are beginning to use and evaluate the measure, there will also be many interested parties that will try to claim ownership over the SROI approach, setting their own standard. The situation we are facing might actually bring about a competition delivering the best SROI approximations with the best methods. Competition might contribute to better frameworks being developed but may also hinder a global consent about how to conduct SROI analyses, hindering the SROI measure to become a successful method for welfare effect comparison between different organisations.

If or when more organisations start conducting SROI analyses, preferably with a common general framework like the one formulated in this report, it is likely that there will be indices

comparing different CSR activities to one another, rating them to indicate which ones cause the greatest welfare effects. This could, in the long run, lead to a more efficient use of CSR investments, focusing on the areas where the impact is largest.

8.2 The relevance of SROI

In the past, it was often claimed that a company's only social responsibility in a free market system was to maximise its profits, thereby presumably maximising its contribution to society. However, the economic depression phenomenon of arriving at full equilibrium with high unemployment rates and the serious erosion in the quality of the environment caused by production activities have led to sharp criticisms of the use of economical profits as an all-inclusive measure of corporate social performance.¹⁶⁷ Therefore, as previously discussed, many companies have started to invest in CSR activities. The CSR activities have to be managed to be cost-effective and the welfare effects thus have to be measured. SROI is the most advanced approach for measuring the welfare effects of CSR activities and should thus be used proactively in the investment decision process to choose among investments. It can also be used by managers in evaluating past activities and to conduct decision-making and strategic planning. Measuring welfare effects of CSR can make resource utilisation more efficient, inducing larger welfare effects with less invested resources.

The obtained SROI ratio can be used in internal and/or external communication targeting the various stakeholders of CSR activities. Organisations can employ SROI reporting as a mean to influence or respond to society. Internally, reporting fulfils an important communication and management function. For example, the organisation can have environmental, social and ethical reports. The SROI analysis can be used to signal intentions and improvements, and to promote a dialogue about the work being done, by communicating both a ratio and a more qualitative description of the project.¹⁶⁸

SROI can also be used to enhance the organisation's goodwill. Reporting a positive SROI ratio would enable the organisation to show the long term, comprehensive and meaningful effects for individuals and communities caused by their CSR activities.¹⁶⁹ In short, SROI can

¹⁶⁷ Ramanathan, K. V., *Toward a theory of Corporate Social Accounting*, 1976, p. 516

¹⁶⁸ SIS Förlag, CSR – Socialt ansvarstagande för företag, 2005, p. 36

¹⁶⁹ Warrell H., Social return on investment networking group launched, 2008

be used by organisations to prove that they "do good", to improve what they do and how they do it.¹⁷⁰

Using SROI can be beneficial to many organisations. SROI can be used as a performance measure when analysing and reporting the effects of a project that has already been undertaken. Thus, the organisation can learn from past events. SROI can also be used in the decision-making process before undertaking a certain project in order to make better and more effective decisions. By using SROI the organisation can motivate and communicate the value of their CSR activities to employees, investors etc. Furthermore, when using SROI, stakeholders outside the organisation are recognised and taken into account. In doing so, the organisation builds goodwill with customers, employees, investors and the community at large. Also, by communicating SROI, the organisation becomes more transparent, something that is required by world markets today.

9. Summary and conclusions

To measure the welfare effects of CSR activities, it is crucial to define welfare broadly enough to cover aspects both from a social, an environmental and an ethical perspective. Identifying the stakeholders of the CSR activities is also crucial to understand what effects should be included in the measurements. For every aspect of welfare, relevant indicators have to be identified and they have to be translated into proxies that can be monetised. Taxes should also be considered as direct effects on welfare. The SROI approach assumes such a holistic top-down procedure and is thus the most suitable tool at present for measuring the welfare effects of CSR activities.

SROI is an emerging measure, generating interest from a growing number of organisations. Some organisations see CSR activities as a crucial part of their strategy and others consider CSR to be an extra activity used to signal certain values to the public. No matter how organisations make use of CSR, they are all interested in making cost-effective investments and also want to follow up the welfare effects of their investments. There is a need for a reliable measure of welfare effects. The SROI approach is being developed and discussed worldwide and some organisations are already conducting SROI analyses. However, there are no set standards for SROI analyses, which makes it costly, resource demanding and complicated for organisations to use in order to measure the welfare effects of their CSR

¹⁷⁰ Butler, T., Assessing the true value of Social Enterprise: A Review of Current Practice, 2005, p. 3

activities. In this report, we have examined the concept of SROI and have formulated a general SROI approach and framework with the intention to guide organisations that wish to measure the welfare effects of their CSR activities.

We have evaluated the SROI approach and our SROI framework by conducting a case study focusing on the CSR activity *Med Gemensamma Krafter* that is financially supported by Electrolux. We were able to quantify the welfare effects of the activity, the SROI rate, to 55%, which clearly indicates that the CSR activity has had a positive effect on welfare. Our framework facilitated identification of stakeholders, welfare effects and the related indicators and proxies. However, the case study has shown that our SROI framework is not perfect – there are many difficulties in quantifying and monetising welfare effects, and it is very resource demanding to find the values of proxies based on existing data. It is also difficult to tackle the time aspect in the analysis and calculate a present value of future welfare effects.

Since the existing approaches demand many subjective decisions about limitations, the SROI analysis has to be conducted with the exact same method and limits every time to be suitable as a tool for comparison. Currently, there are no institutions or companies that can claim full "ownership" of the SROI measure and as a result, the different SROI methods tend to vary, which limits the possibility of using SROI as an objective framework for comparisons between the welfare effects of different CSR activities. Still, the SROI approach is of value to many organisations and it is an important step towards more cost-efficient CSR activities that will benefit society. Even though SROI rates are difficult to compare if the analyses have been conducted with different methods and organisations, they can still be used internally to create an understanding for the effects of CSR activities. They can also be used in strategic communication with stakeholders – at least if the inflation of the rates is kept low. The SROI measure is clearly needed in a setting where cost-efficient CSR activities are wanted. Therefore, organisations should familiarise themselves with the dimensions of the approach, understanding how welfare effects can be valuable and thus measured and managed.

Most organisations are restrained by limited resources and need to use them as efficiently as possible. In a time where cost cutting and rationalising is a necessity for survival, it is imperative that corporations also follow up on the cost-efficiency of the resources used on CSR activities. The SROI approach poses many challenges to the people conducting the

analysis, but despite this, it is the best solution available at present to measure the welfare effects of CSR activities.

9.1 Future recommendations

To optimise the measurement of welfare effects resulting from CSR activities it is important to set both regional and international standards for valuation of welfare effects in order to create a standard for the SROI approach. We suggest that the academia and the consultancies using SROI should convene to discuss and set a standard for the SROI measure, in particularly focusing on determining which indicators should be included in the standardised framework. If a common basis is formed, organisations might add extra information and aspects that they find relevant for their own activities in their specific SROI analyses – just as corporations do in annual reports.

One possibility would be to grant one organisation the right to issue SROI licenses. The licences could be obtained after the completion of an SROI competence test where the licensee learns how welfare effects can be monetised and how the SROI approach can be used to achieve more cost-effective CSR investments. If ISO manages to set a standard for CSR, an ISO standard for SROI might follow short after. Such a standard will hopefully be applicable to a wide range of investments on a global level. If the standard approach becomes freely accessible, for example on the Internet, the adoption of SROI might be accelerated, facilitating learning and understanding of the SROI approach. A freely accessible model will also increase the transparency of how SROI analyses are conducted, which is important for the stakeholders of the investments in CSR activities.

Furthermore, newly developed IT technology should be used to facilitate learning across organisational borders, sectors and countries. It is crucial that organisations that already use an SROI approach share their experiences with other organisations to identify and solve the challenges of SROI.

To develop the SROI measure further, we suggest that a global discount rate is set – so that future welfare effects can easily be discounted to a present value. Welfare effects often have an impact on the global society, for example, reduced pollution over a number of years will have an impact on global climate, not just the region where pollution is reduced. Thus, there should be an internationally decided discount rate that can be used for SROI calculations by

organisations worldwide. For example, if the organisations that use SROI agree to use a set 3.5% discount rate, it would facilitate comparison between investments with different time perspectives.

The UN Global Compact, the most acknowledged policy-making organisation within the area of CSR, should strive to encourage measurement of welfare effects of its members' CSR activities in order to contribute to cost-effective CSR investments.

Although the SROI approach is not perfect, it does have great potential, especially when considering the growing number of CSR investments. Furthermore, the recent economic crisis has shown that there are important factors that are currently beyond the scope of traditional financial indicators, and so traditional valuations should be questioned. We hope that this study will lead to further improvements within the area of Social Return on Investment.

Appendix 1. SROI Calculation

SROI Calculation					
Investments in MGK	Information	No. of Units	Cost per Unit	Calculations	SEK
Salaries					
Project Manager, yearly wage incl. LKP					155862
Assistents, yearly wage, incl. LKP					17740
Festivity 1	Equipment costs				20970
Festivity 2	Equipment costs				21990
Festivity 3	Equipment costs				17860
Festivity 4	Equipment costs				31850
Total Investments					266272
Welfare Effects					
Social Services					
Festivity, Social Service Assistents, wage incl. LKP	4 hours per festivity, 4 festivities, 2 assistants	32 hours	212.88	4*4*2*212.88=	6812
Follow up, Social Service Assistents, wage incl. LKF	4 hours per festivity, 4 festivities	16 hours	212.88	4*4*212.88=	3406
Total	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,		10218
Criminality					
Hours of police work, Police Officers, wage incl. LKP	4 events, 6 officers, 10 hours per event	240 hours	232	4*6*10*232=	55680
Reporting	3 hours per report, 25 less crimes	75 hours	232	3*25*232=	17400
Total saving on criminals	4.25 crimes (17% of 25 crimes)	4.25 crimes	15799.49	4.25*15799=	67148
Total saving on victims on 25 crimes	25 crimes multiplied by average excess and compensation	25 crimes	1320/4880	25*(1320+4880) =	155000
Total				(/	295228
Health Care Costs					
Emergency Care, incl. Equipment, wages and LKP	Estimated injuries per vear	14 iniuries	2100	14*2100=	29400
Ambulance Costs, incl. Equipment, wages and LKP	Estimated ambulance journeys per year	10 amb, jour,	2500	10*2500=	25000
Total					54400
Municipality Administration					
Equipment and yearly wage incl. LKP	4 events, 3 hours per event	12 hours	500.00		6000
Total					6000
Taxes					
Corporate Tax (28 %)	Foregone tax payment (negative welfare effect)		5000	5000*0.28=	-1400
Employment Tax (LKP) (41,92 %)					
Project Manager					46038
Assistents					5240
Social Services					
	Festivity, Social Service Assistents, LKP	32 hours	62,88	32*62.88=	-2012
	Follow up, Social Service Assistents, LKP	16 hours	62,88	16*62.88=	-1006
Criminality					
· · · ·	Hours of police work, Police Officers, wage, LKP	240 hours	68,53	240*68.53=	-16447
	Reporting	75 hours	68,53	75*68.53=	-5140
Health Care					-
Municipality administration					-
Income Tax (32,9%)					
Project Manager					36132
Assistents					4113
Social Services					
	Festivity, Social Service Assistents, Income tax	32 hours	49,35	32*49,35=	-1579
	Follow up, Social Service Assistents, Income tax	16 hours	49,35	16*49,35=	-790
Criminality					
	Hours of police work, Police Officers, wage, Income tax	240 hours	53,78	240*53,78=	-12907
	Reporting	75 hours	53,78	75*53,78=	-4034
Health Care					-
Municipality administration wage					-
Total					46208
Total Welfare Effects					412054
Welfare Effects - Investment					145782
Total Investment					266272
SROI					0,55
SROI in percent					55%

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