

## FinancialQuotient

# What is social return on investment?

**Zhang Weina and Ruth Tan**

### WHAT DOES IT MEAN?

Social return on investment (SROI) is a framework that takes into account economic, social and environmental value created or destroyed by an activity.

It is the ratio of the total value created by the activity to the investment cost incurred. It is much broader than the traditional financial return considered in the business world in that it also includes incremental environmental and social value created for the key stakeholders involved.

### WHY IS IT IMPORTANT?

In the for-profit sector, financial returns are widely captured and measured by many parties, including firms, investors and intermediaries. However, such luxury of data availability is not enjoyed by the non-profit sector. Given the increasing social issues and problems faced,

the non-profit sector has to attract capital to provide effective solutions, and SROI can be used to guide investment decisions by the donors as well as resource allocation by the non-profit organisations.

The computed ratio can be used to benchmark and compare with similar activities done elsewhere to

improve the choice of activity as well as the operational efficiency.

SROI can be applied in for-profit organisations too. When a firm hires a person with disability, not only will that person gain more financial income and have a better social life, but the employer might also enjoy a better public perception and higher staff morale.

The public sector can also use SROI for better resource allocation and policymaking, for example, measuring the total value generated from having one more public park for the surrounding community and estimating the subsidy or

concession that can be granted to employers of the marginalised workforce for building a more inclusive society.

### IF YOU WANT TO USE THE TERM, JUST SAY:

“Social return on investment takes into account economic, social and environmental value created or destroyed by an activity.”

• Dr Zhang Weina is senior lecturer and Ruth Tan is associate professor at the department of finance, National University of Singapore Business School.