Assessing the Relevance of Social Return on Investment (SROI) as a Method of Impact Assessment - Case Study of Hindustan Unilever Ltd.

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Abstract:

With the increased need for sustainability and conscious business practices, companies are altering operational capabilities for good. There arises a need to monitor and assess the impact of these practices on surroundings and stakeholders in order to evaluate the deviation from the set standard. This paper explores the relevance of Social Return on Investment (SROI) as a method of evaluating sustainable business practices for companies. The paper further highlights the use of SROI to measure the impact of business practices of Hindustan Unilever Limited and gauges the benefits in impact measurement.

Keywords: Social Return on Investment (SROI), impact assessment, Return on Investment (ROI), impact measurement

Introduction:

Return on Investment (ROI) is one of the most used methods of impact assessment for projects, while at the same time Social Return on Investment (SROI) is another way that helps us with the impact assessment.

SROI takes into consideration a company's social activity and the way it affects its social value, and helps to get a ratio analysis to cost meaning how much monetary benefit an institution gets for each rupee invested. It focuses on the social and environmental effects of a project that a company takes up. For example, a ratio of 4:1 means a social value of Rs. 4 is added for every rupee invested. Social value can be understood as qualitative change that is experienced by the stakeholders of a company.

Initially devised by the Roberts Enterprise Development Fund in the United States of America, the nature of SROI as a metric of assessment can be understood as:

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- Outcome based : SROI equips organisations to justify their social, economic as well as environmental benefits that they are creating.
- Stakeholder specific: as a metric, SROI is stakeholder specific and includes them at the core of the project, as these are the groups that will reap the benefits.
- Denoted in monetary terms: It denotes intangible inputs into financial terms for quantifying social impact.
- Time based evaluation: SROI considers past, present and future perspectives while evaluating the social value that a company is creating. This evaluates the consistent efforts of a company and ensures perpetuity in their engagements.

Impact assessment is a formal, evidence based procedure that assesses the economic, social and environmental effects of public policy. It helps to identify, predict, and evaluate the environmental, health, social and economic impacts of development proposals before allowing them to proceed.

However the challenging part is converting all social outcomes in monetary terms. Conversion of these outcomes is essential for asserting value to the inputs that have been invested by the firm and also assists in expressing the results to the stakeholders. To note, social impact becomes challenging to measure as the results that have no direct monetary connection, at the same time there are more than one action reflecting the changes- a government policy and a company's policy can complement each other into getting a desired result. Here again, it gets complex to figure out how much a particular decision affected monetarily.

A firm's social benefits from insurance to maternity leaves and sustainable policies like green finance, reduced carbon footprint etc. helps develop a sense of affection amongst the employees, consumers and investors. This draws them towards working harder and buying goods and services from such companies as it creates an optimistic and holistic business environment. This in turn increases the production-sale leading to profitability, and a higher profitability, good corporate governance encourages investors to invest their money in such companies leading to a boost in company value in the market.

Objectives:

The objectives of the paper are as follows:

- To understand the concept of Social Return on Investment (SROI) and reflect on its composition.
- To assess the need of SROI for measuring sustainable business practices.
- To evaluate SROI as a measurement mechanism to assess the performance of Hindustan Unilever Limited.

ROI and SROI:

Return on Investment (ROI), Net present Value (NPV), Internal Rate of Return (IRR), or payback period are traditional methods of assessment of investment projects. These only include tangible inputs and often exclude qualitative factors of evaluation. ROI measures the profitability of a project and its return as compared to the initial cost of investment that was financed. ROI is calculated by subtracting the initial cost of investment from the final value, dividing it by the initial cost and then multiplying it by 100.

However, traditional techniques like ROI do not consider qualitative effects of an investment. If an investment promises a high return of investment but at a damaging cost to the environment; ROI as a metric ignores the latter.

ROI = [Net Income or (Appreciated Value - Cost of Investment) / Cost of Investment] *100

While, ROI can still be used to evaluate development projects with varied interests and expected outcomes, it needs to be highlighted that ROI in its core aims for profit maximisation. Hence, it may align the service mission of the project as secondary. SROI represents a diverse set of input values, from a social and financial perspective which makes it a progressive fit for impact evaluation.

Features and Need for SROI:

SROI majorly revolves around good leadership which is ensured by organisations through good corporate governance practices and workplace policies. A buy-in process at senior level which further ensures loyalty. It helps accounting an organisation for social, economic and environmental value created by the company. Quantifying the social impact of a company's project may be difficult, hence, the inputs of SROI need to be free from fault. To calculate SROI , Social Impact Value (SIV) and Initial Investment Amount (IIV) is taken into consideration.

The core elements of SROI lies in engaging stakeholders and assessing the changes in terms of how the business environment or company led initiatives effects. It also includes transparency, accountability and the ability to verify the impact. Additionally, SROI helps in strategic management which can be used to analyse any future changes in strategies and its impact on the company. Overall, it helps building a good will in the market and at the same time building loyal customers.

The following benefits of calculating SROI for projects makes it needful for businesses :

- Assigning monetary value to impact which helps understand a small impact and its direct or indirect monetary effect on the firm.
- SROI as a metric improves credibility as communicating impact is comparatively more difficult than social return on investment.
- Being transparent helps gain trust of the investors and helps gain loyal customers
- It helps understanding whether the investment has paid off or not, its impact and how it has benefited the company
- Social impact of a company is a self-marketing technique that helps an organisation gain goodwill.

CALCULATION OF SROI

$$SROI = (SIV - IIA/ IIA) *100\%$$

Where, SIV is Social Impact Value and IIA is the Initial Investment Amount
Social impact value of a project is the value that is arrived after accounting for its:

- Relevance and scale of the project
- Target social and environmental outcomes
- Economic value of the above outcomes
- Adjusting for risks associated with the project
- Gauging terminal value (quantifying present or historical impact)

Research Methodology:

The paper adopts a qualitative approach and assesses the role of SROI as a metric as used by Hindustan Unilever Ltd. in its projects. This is undertaken through a theoretical case study analysis.

Case Study - Hindustan Unilever Ltd:

Originally known as Hindustan Unilever Limited (HUL) is a Fast Moving Consumer Goods (FMCG) corporation with its headquarters in Mumbai, Maharashtra. As of 2019, the company has 50+ product names across 14 categories, 21,000 employees, and 34,619 crores Rupees in annual sales. With presence in more than 20 consumer product categories, including soaps, tea, detergents, and shampoos among others, HUL is the market leader in Indian consumer goods. More than 700 million Indians use its products.

The Unilever Sustainable Living Plan-linked initiative Prabhat, which HUL introduced in December 2013, started with the mission to offer all-encompassing solutions to enhance the quality of life for communities residing close to HUL locations. In support of the central government's aim of "Skilled India," HUL this effort by offering vocational training to people in order to overcome the national lack of employable workers. Prabhat offers classes in everything from welding to IT skills. An evaluation research was conducted by Kantar Public, development research unit in Kantar in order to comprehend its return to HUL.

This study was conducted using a cross-sectional case by interviewing direct and indirect beneficiaries and it also used semi-structured interviews with stakeholders to build on the 'Theory of Change Model'. To note, the Theory of Change relied on a set of interventions that directed developmental change through an evidence based approach. This model mapped and linked the objectives, inputs, outputs and outcomes of the initiative.

To analyse the whole concept a cap was maintained, and to evaluate in a uniform manner wherein the intervention training was completed before March 2016. The time period considered for assessing the impact of the project was between November 2014 and March 2016. The stakeholders identified were - trainees (beneficiaries), trainers, employers, implementation partners and key community leaders.

It took into account all inputs and investments, including contributions made by the corporation toward the intervention and tuition costs paid by the trainees for the relevant courses, as well as time invested by the trainee that had been converted to monetary terms. The majority of the trainees, however, were either unemployed or their employment was unaffected because they were not anticipated to miss their jobs or work, so their time was not given an opportunity cost in this situation. SROI is more about value than money, since money is a useful and widely accepted way of conveying value a company converts all the impact into monetary terms, which was specifically applied to assess the impact of this project.

The above study was successful to the extent of identifying all social and brand benefits as well as tangible, intangible outcomes. This study helped us understand which factors were helpful and showcased how benefits from the programme were more than the investment made for the same which is a good thing for the company's financials. It will help the company in analysing which input had the most benefit so as to increase investment in such goals to gain higher returns.

Conclusion:

It is important for companies to account for the intangible inputs so as to assess the overall impact, whether positive or negative, that is caused by them. SROI is a holistic metric, with an input and outcome based approach that is inclusive of stakeholder management. This facilitates transparency and accountability in the engaged work of the company, and may be seen in terms of appreciated goodwill in the market. Thus, SROI as a metric is convenient and relevant for impact assessment, as seen through the example of Hindustan Unilever Ltd.

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