A Practical Framework for Measuring Social and Business Value

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For years, companies seeking to justify and guide their investments in corporate social responsibility (CSR) have looked to each new research study seeking linkage between CSR and profitability, stock price, growth, and the like.

This focus is misguided. Enterprise-level metrics are too blunt an instrument to help, for example, measure the value of individual community involvement programs or cross-sector partnerships. And in any case, sophisticated regressions and longitudinal studies are too costly in terms of time, resources, and technical expertise to be practical tools for already overburdened managers.

While the quest continues for that elegant, singular equation that captures CSR's total return on investment, we suggest an interim solution: refocus on bottom-line outcomes. Though pedestrian, this back-to-the-basics perspective can help you leverage everyday metrics on sales, recruiting, productivity, and so on to piece together an ROI picture – both financial and social – that you can use to continuously improve your programs, build support among stakeholders, and guide investment decision-making.

Business Value

A key principal of a bottom-line-outcome perspective is remembering that, regardless of your industry, there are only two ways to create business value*: increase revenues or reduce costs*. Calculating the business value of a CSR program is, then, the degree to which it contributes to either of these two outcomes.

On the revenue side, programs can either help attract or retain customers, or enable a company to charge a premium for its goods or services. The monetary value of these impacts is the profit from the resulting transactions: generally speaking, revenues multiplied by profit margin.

On the cost side, programs can increase efficiency by, for example, improving recruiting, productivity, or retention; or by reducing risk, energy use, or waste. The monetary value of these impacts is the amount of time, materials, overhead, and other costs avoided or reduced as a result.

These basic dynamics often make monetizing direct business impacts a matter of simple arithmetic. In cases where a CSR program's impacts on revenues or costs are indirect, the data collection demands may increase, but the underlying dynamics—and the arithmetic—remain largely the same.

For example, impacts on brand, employee satisfaction, professional development, and reputation can all be valuable, but *only to the degree they "drive" reduced costs and increased revenues*. That is, increasing brand awareness is valuable if it helps attract or retain customers or employees, or otherwise lowers costs or increases revenues. If the increased awareness does not accomplish this, it holds no value.

To measure the value of these indirect impacts, you have at least two options. If your company already recognizes a particular driver (e.g., brand, satisfaction, skill development) as a predictor, and therefore proxy, of bottom-line outcomes, then you may incorporate measures of the driver itself—typically qualitative measures of satisfaction, awareness, or skill development for example—into your business ROI evaluation.

If your company does not recognize a particular driver as a bottom-line proxy, you can make the connection yourself through "modeling." That is, you can convert your drivers into monetary terms by calculating their *estimated* impacts on costs and revenues, given certain assumptions about how they will ultimately affect the bottom line. For example, the value of a community-involvement initiative on recruiting could be modeled using assumptions about the number of potential recruits reached and the percentage of that group likely to apply for work as a result of that outreach (each provided, perhaps, by your recruiting department). The result, multiplied by your company's average cost per application generated, is the estimated business value.

Such modeling can be a powerful and compelling tool, though care must be taken that the underlying assumptions are explicit, credible, and testable. Anecdotal data, industry averages, or even the best guesses of colleagues most familiar with the functional area you are modeling are all valuable sources of assumptions.

Social Value

A focus on bottom-line outcomes can be just as useful in quantifying social value. Instead of dollars spent, volunteer hours invested, or nonprofit partnerships created—all measures of investment (inputs)—assessing how your program ultimately improves education, the community, or other social cause is what measures the return on that investment (outcomes).

In general, there are three ways to measure social value. Often the most valuable is a simple description of the resulting change in social condition. Typically expressed in a "quantity x quality" format, an environmental clean-up initiative can be measured in terms of how many acres of wetlands (quantity) improved from an unsatisfactory to a satisfactory level (quality); or an education initiative in terms of how many kids (quantity) improved from grade 1 to grade 2 reading levels (quality).

The final two ways involve monetary measures. One is calculating a program's socio-economic value, or how a program results in increased revenues or reduced costs for society. For example, reduced demands on social welfare system, crime, and state-supported healthcare reduce societal costs; and job-training programs that result in new taxpayers increase societal revenues.

The second is calculating the market value of goods or services provided by a program. This common metric must, however, be calculated in terms of social outcomes (rarely done) to be accurate. For example, a company that donates $100,000 worth of computer equipment to nonprofits, only half of which actually end up using them, has provided no more than $50,000 in market value to the social cause.

Implementation

Training yourself to focus on bottom-line outcomes, and to use models and estimates when data gaps appear, can help you to use everyday measures to evaluate even complex CSR programs and manage them to maximize returns. Remember that investments in R&D, advertising, recruiting, training, and every aspect of business operations are often made based on the same mix of anecdotal experience, pilot tests, and logic that are suggestive—if not statistically valid predictors—of certain outcomes. Such imperfect information is par for the course in business. CSR evaluation and management should be no different.

Indeed, you may find that you don't need that elusive and magical CSR equation after all. That is, if it ever is discovered.