

JOURNAL 
of Applied Economic Sciences



Volume XIII
Issue 5(59) Fall 2018

ISSN-L 1843 - 6110
ISSN 2393 - 5162

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Journal of Applied Economic Sciences is indexed in SCOPUS www.scopus.com, CEEOL www.ceeol.org, EBSCO www.ebsco.com, and RePEc www.repec.org databases.

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Journal of Applied Economic Sciences

ISSN-L 1843 - 6110

ISSN 2393 – 5162

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Social Return on Investment as Instrument for Assessing Socially Responsible Investing in the Republic of Kazakhstan

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Suggested Citation:

Murzaliyeva, A., Markhayeva, B., Bakhyt, E., Karshalova, A. 2018. Social Return on Investment as Instrument for Assessing Socially Responsible Investing in the Republic of Kazakhstan. *Journal of Applied Economic Sciences*, Volume XIII, Fall 5(59): 1357 - 1365.

Abstract:

The index of social return on investment (SROI) is an efficient instrument to measure social impact, which has been given special attention over the recent years, and which is most widely used by social investment experts. This paper provides the results of researching a socially -oriented project implemented by an international group of companies in the Republic of Kazakhstan. This paper uses in practice the methodology for calculating social value and the SROI index for a group of interested parties. According to the author, further research related to applying SROI when assessing socially-oriented projects should be aimed at improving the methodological approaches to assessing, ensuring transparency and reliability of quantitative indices, and determining financial proxies.

Keywords: socially-oriented project; social investment; social entrepreneurship; social profitability; SROI; social value; return on investment; polyclinic; outpatient care; management accounting in healthcare.

JEL Classification: G10; G11.

Introduction

Social investments are a combination of political measures and instruments that include investments in human capital and extending opportunities of people to participate in social and economic life and on the labor market.

The approach to social investments is largely based on the assumption that social and economic policies mutually reinforce each other and that the first one, when formulated in the antisocial investment perspective, does represent a “precondition” for the future economic growth and growth of employment (Bouget, Frazer, Marlier, Sabato and Vanhercke 2015).

Over the past decade, new forms of social investments have been rapidly introduced in the world. This growth is substantiated by changes both in demand (a new generation of social entrepreneurs and new opportunities for them) and supply (new investors’ preferences, new ways of social actions) supported by tax incentives and other public policy instruments. Major changes take place in such areas as socially responsible investment (SRI), social investments, outpatient services, and social enterprises’ investments.

SRI is the investment of the company’s material assets in socially significant public facilities (Niggemann, Brägger 2011). This concept means the implementation of activities aimed at solving important social problems. Despite the widespread opinion, SRI is not just charity, but the process closely related to business and its goals.

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The level of SRI development in the USA and European countries is at a rather high level: many foreign companies invest their funds in solving important social problems. In the Republic of Kazakhstan, the practice of social investment has just started. Unfortunately, the country has not yet developed a clear system of mechanisms; each company in the Republic of Kazakhstan is looking for its own way in this area. The health care is not an exception, including polyclinics.

Many established forms of state investment, for example, the construction of schools, hospitals and polyclinics, can be considered as social investments. Particular attention is paid to nongovernmental and quasistate funds called to achieve certain social consequences. They were established and are supported by both governments and a new generation of philanthropists and funds aimed at maximizing social effect. Examples of such changes include the creation and rapid expansion of financial institutions for the development of communities, the development of “venture philanthropy”, and the creation of venture capital funds financed by the state for public organizations.

Over the recent years, investments in social enterprises have been developing. Some social investors prefer to finance social enterprises. As a rule, these are organizations that are publically owned and pursue a combination of social and economic goals through market transactions.

Cooperatives in housing, retail, agriculture and financial services are a historically familiar form of social entrepreneurship and are still important in a number of sectors of the Kazakh economy. Over the past 20 years, new forms of social entrepreneurship have been developed to solve new social challenges in a wide variety of areas.

The state as a whole and every organization should know about the impact of social programs and projects on the social life as a whole and on certain groups of the population. When trying to estimate investments, it is necessary to expand the basic financial concept of return on investments for it to cover a broader concept of the value that is related to all aspects of economic, social, and environmental value. Decisions taken solely with regard to costs and instant return may not reflect wider and more long-term benefits.

This has resulted in the application of the method of estimating social return (SROI) that aims at covering not only the financial aspect (*i.e.* economic and socio-economic benefits), but also social aspects, such as extending rights and opportunities, social cohesion and participation in political life that are evaluated by using various quantitative and qualitative ways. The SROI method not only reflects the revenues generated for the investor, but usually also focuses on what social value was created for other interested groups, including society as a whole.

Social return means less tangible consequences, such as an increased sense of self-esteem and personal independence, as well as improvement of knowledge and skills, health and life duration of the population by improving outpatient care financing. These measures are expressed in terms of money, quantity or quality. Although the latter aspects are a key characteristic of SROI, monetization is as important.

Helping to identify the economic value of social and ecological results, SROI creates a unified perspective on whether a development project, a social business or a social enterprise is beneficial and profitable. The SROI analysis can accomplish a number of objectives. It can be used as an instrument for strategic planning and improvement, for informing about the impact and attracting investments or for making investment decisions. It also contributes to the development of management accounting in health care.

Despite the practical importance of the SROI method, there is still a lot of ambiguity in terms of its practical development. In terms of methodology, the impact on the social sphere is usually more complex than that on the commercial sphere (Mildenberger, Münscher and Schmitz 2012). The methodology of estimating social consequences is an area of research at the evolutionary stage (Yates, Marra 2017). Perhaps, SROI is just going to become an “area of research and practice, a combination of researchers and practitioners, a discourse and a community of practice” (Vanclay and Esteves 2011).

This research aims at eliminating this gap in knowledge and stimulating academic discourse around the SROI social return index from the point of view of its methodological development as well as practical application in socially responsible investing in the Republic of Kazakhstan.

1. Literature review

The initial concept of SROI was developed and applied by charitable funds that finance social programs to measure and show their impact. In the late 1990s, the Roberts Enterprise Development Fund developed the first version of SROI as an instrument to assess the efficiency of the projects financed by it (Banke-Thomas, Madaj, Charles, Broek 2015). In its initial work, the fund defined three types of values created by social enterprises: economic value, social value and socio-economic value.

The first is determined by the market value of resource inputs and products. The second one takes into account the things that are difficult to measure because of the lack of a direct market price (*i.e.* intangible assets), for example, the value of knowledge, health, life duration or heritage. Finally, SROI must fix the socio-economic value generated by the enterprise by taking into account the resulting savings of public expenditures and the increase in state revenues, in addition to the cash flow of business.

Since then, the concept of SROI has undergone a number of changes and attracted special attention of researchers. The *Social Value International* global network (SROI in action, Supplementary Guidance on Using SROI, *n.d.*) considerably contributed to the development of SROI. It made an attempt to provide a more complete overview of the social consequences of the program by taking into account a wider range of results related to various interested parties. The manual offered by SROI Network also defines some key steps in the SROI analysis and determines fundamental principles (Nicholls, Lawlor, Neitzert, Goodspeed 2009).

SROI is still being developed and improved both in organizational and academic areas, and new guiding principles are published by organizations and research centers (Brouwers, Prins, Salverda 2010). Generally speaking, SROI is based on the logics of choosing a rationale (Zappala and Lyons 2009), and is therefore fundamentally related to the concept of cost-benefit analysis (Rotheroe and Richards 2007). Nevertheless, this index makes a more detailed differentiation among the impact aspects (Smith 2010) and contributes to the consideration of various social situations (Taylor and Bradbury-Jones 2011).

At the same time, there is a tendency to increase the scale of monetization of the social effect. The question of how profitable this is for achieving the goals of creating social wealth is still disputable. Nevertheless, as Arvidson *et al.* (2010) note, special attention should be paid to the dual nature of SROI: extending the use of monetization as much as possible, it follows the logics of financial markets and commercial investments. At the same time, this method makes an exclusive focus on the social element and allows managers and investors to simultaneously use social and financial benefits, while in the classical cost-benefit analysis they are more likely to be considered as compromises (Lingane and Olsen 2004).

One more, quite clear feature is the focus on the analysis of the interested parties, which allows to integrally take into account all aspects of the impact. It is stipulated by the development of a rather clearly structured and standardized approach to analysis, including careful mapping of source inputs, results, impacts and relationships among them (Nicholls 2009a).

Zappala and Lyons note that SROI as a method of assessing social consequences is most often used by nonprofit organizations (Zappala and Lyons 2009). In the context of social entrepreneurship, the SROI method is placed in a broader scope that requires to improve the efficiency assessment instruments and to prove effects for the organizations specializing in this area (Haug 2005).

Due to this, Loidl and Laskowski (2012) go further and state that SROI can play an important role in promoting professions in the social area. Since the measurement of the obtained effect is the central part of the definition of a profession, the instruments for enhancing it can contribute to the creation, stabilization and development of the latter. This reasoning can be especially important in the context of “quasiprofessions”, such as social work or such area as social entrepreneurship.

2. Methods

This work analyzes the investment project in the social area by using the SROI index of one of the largest corporations in the Republic of Kazakhstan. The index of SROI allows bringing the created values and used resources to the common denominator, and it is calculated by using the following formula:

$$\text{SROI} = V/I \quad \text{where: } V \text{ is the value, } I \text{ is the investment} \quad (1)$$

SROI is calculated in several stages:

- stage 1 – selection of the analysis object and determination of key stakeholders;
- stage 2 – compiling the results’ map. In order to show how the analyzed program or project use certain resources on the basis of the data obtained from stakeholders, an impact map is compiled;
- stage 3 – the results’ monetization. This stage of analysis determines the financial equivalents of social results; they will allow giving an idea of the relative importance of the relevant changes for stakeholders;
- stage 4 – impact assessment. This stage determined what changes would occur in any case and which are due to the implementation of the social project (the so called “deadweight” is the Deadweight indicator). This indicator is expressed as a percentage and is calculated based on the general result;
- stage 5 – calculation of SROI.

Quantitative data are obtained from available sources (external and internal), such as corporate reports on the sustainable development of the Eurasian Resources Group (ERG) international group of companies in the Republic of Kazakhstan for 2014-2016, the database of the Kazakh Statistics Committee, as well as international and nongovernmental organizations.

3. Results

The ERG is a leading diversified company in the area of natural resources' extraction and processing, represented by operating enterprises and development projects in Kazakhstan. Throughout its history in Kazakhstan, the company annually takes part in implementing the most important social and economic projects in four regions of the country where its enterprises are located. ERG invests funds in creating social infrastructure facilities (polyclinics, medical centers, sports centers, swimming pools and cultural and entertainment centers, etc.). These facilities are fully accessible to employees, their families and local communities, including socially disadvantaged groups of the population. The access to them is simplified by providing benefits to retired employees of the company, low-income people, and large families. More than half of SRI in Kazakhstan are carried out in the framework of official agreements (memorandums of understanding) concluded annually between ERG and regional authorities.

In 2010-2017 enterprises of the Eurasian Group in Kazakhstan sent about 194 billion tenge for the social protection of employees and the maintenance of the social area, as well as for sponsorship and charity (the official website of the Eurasian Group in Kazakhstan. Social projects (<https://www.erg.kz/en/content/ustoychivoe-razvitiye/social-nye-proekty>) where 119.6 billion tenge were spent for sponsorship and charity only (Official website of the Eurasian Group in Kazakhstan, *n.d.*). A separate block of social investments of the Eurasian Group is programs on training HR. They contribute to the further growth of the company's assets value. One of the areas in this work is vocational guidance in educational institutions of the ERG presence regions.

The object of assessment is the social project "Ecosystem of Student Entrepreneurship" initiated in March 2017 by the Eurasian Group in partnership with the Association of Friends of the Tel Aviv University, Almaty Management University and the MOST Business Incubator. Youth entrepreneurship is the theme that attracts and involves more and more people. Dozens of new business projects are opened every month in the Republic of Kazakhstan. Involving young people in entrepreneurial activities is not only an increase in the share of small business, but also a solution of the problem related to youth employment. The youth unemployment rate in the world had been increasing after several years of improvement, and, according to the World Bank, it reached 13.6% in 2016 (from 12.9 in 2015), and did not decrease in 2017.

The analysis of the entrepreneurial ecosystem in Kazakhstan shows that the Kazakh entrepreneurial ecosystem has a number of advantages. In particular, state support for entrepreneurship in Kazakhstan is strong; there are programs on supporting and developing entrepreneurship. At the same time, it is necessary to improve the level of education in the area of entrepreneurial activity, both on the school and higher education levels ("Global Entrepreneurship Monitoring: Kazakhstan 2016/2017" Report, Astana 2017).

The main challenge for Industry 4.0 will be the employment. The Eurasian Group offers one of the ways to solve the problem related to the employment – the development of active and adventurous youth in small towns. In this regard, the ERG Company, being guided by the principles of socially responsible business, announces about its readiness to support the transformation of regional universities into entrepreneurial ones and launches the "Creating an ecosystem of youth entrepreneurship in a student environment" project in the regions of the Group's enterprises' presence.

The project aims at developing entrepreneurial skills among students in the regions of the ERG enterprises' presence. The pilot project of ERG to support student entrepreneurship was tested on the basis of the Pavlodar S. Toraigyrov State University. The results achieved when implementing the pilot project can be analyzed by using the SROI calculation methodology. Based on analyzing the stakeholders, the project impact map has been compiled (Table 1).

Table 1. Impact Map of the "Ecosystem of Student Entrepreneurship" Project

Project goal	<ul style="list-style-type: none"> ▪ Development of the entrepreneurial ecosystem of the university environment, the formation of entrepreneurial thinking and commercialization skills among students of higher and secondary educational institutions
Activity	<ul style="list-style-type: none"> ▪ Formation of innovative training programs (for developing the youth's entrepreneurial potential);

- Assistance to local educational institutions in the transformation into entrepreneurial ones, involvement of future businessmen and leading coaches of the world for training, assigning mentors for initiative students.

The total amount of the required financial investments of stakeholders in the creation of the social value of the project is 414,147.8 thousand tenge per year, including the contributions from ERG -326,704.2 thousand tenge, the higher educational establishment's funds – 106,354.1 thousand tenge per year, and the regional budget funds – 181,089.5 thousand tenge.

Table 2 shows the results of analyzing the parties interested in the “Ecosystem of Student Entrepreneurship” Project.

Table 2. Results of Analyzing the Parties Interested in the “Ecosystem of Student Entrepreneurship” Project

Donatee	Result	Indicators	Resource of information
Students participating in the project	<ul style="list-style-type: none"> ▪ Financial independence; ▪ Opportunity to reveal the entrepreneurial potential, networking, knowledge and skills; ▪ Creative freedom. 	<ul style="list-style-type: none"> ▪ Number of students who established their own business when training or during the first year after graduation; ▪ The number of students who obtained grants to start a business; ▪ Income growth. 	<ul style="list-style-type: none"> ▪ Students survey; ▪ Contests results.
State and regional authorities	<ul style="list-style-type: none"> ▪ Creation of jobs; ▪ Socio-economic involvement of young people; ▪ Reducing tension on the labor market and increase in the population's welfare; ▪ Increase in the share of SMEs in the region's economy; ▪ Increase in the taxable base. 	<ul style="list-style-type: none"> ▪ Number of jobs created in the region; ▪ Volume of products, works performed and services rendered, thous. Tenge; ▪ Growth of tax receipts and other obligatory payments, thous. Tenge; ▪ Unemployment rate among youth; ▪ Share of small and medium-sized enterprises in the GRP. 	<ul style="list-style-type: none"> ▪ Committee on Statistics of the Republic of Kazakhstan
University	<ul style="list-style-type: none"> ▪ Competitive faculty; ▪ Preference in choosing a university by students and employers; ▪ Reducing dependence on the state budget . 	<ul style="list-style-type: none"> ▪ Number of business projects implemented jointly with Kazakh and international companies on the basis of the university; ▪ Growth in the number of applicants and students; ▪ Increase in revenues from providing paid services. 	<ul style="list-style-type: none"> ▪ Self-examination of the university; ▪ Financial statements of the University.
ERG	<ul style="list-style-type: none"> ▪ Creation of highly professional human resources; ▪ Improvement of business reputation in the regions of presence. 	<ul style="list-style-type: none"> ▪ Savings on the search and selection of personnel; ▪ Savings on retraining and training of personnel; ▪ Growth of the share of highly qualified personnel; ▪ Goodwill. 	<ul style="list-style-type: none"> ▪ Corporate reporting of ERG; ▪ Assessment of the ERG HR Development Department; ▪ Financial statements.

According to the results of surveying students of the Pavlodar S. Toraiyrov State University on their attitude to the entrepreneurship conducted in the early 2018, a rather high level of students' interest and willingness to start their own business was revealed. Out of 620 respondents, 58% of the students answered that they would like to

become an entrepreneur at one of their career stages. At the same time, it is necessary to note that most of the students surveyed plan to start their business not earlier than in 5 years (32%), or not earlier than in 2 -3 years after the graduation (17%) . It proves that students are not ready to run business and simultaneously study at the university. Only 5% of the respondents answered that they wanted and were ready to start their business right after the graduation from the university, and 4% – while studying at the Pavlodar S. Toraigyrov State University. It is also interesting that since the start of the “Ecosystem of Student Entrepreneurship” project, 3% of the students surveyed had already registered their small enterprise and were running them.

When analyzing SROI, it was decided to take into account only the number of the students who started their own business when implementing the project or during the first year after the graduation. As on the analysis date, this indicator is 56 people.

The results assessing the project impact on stakeholders' activity are shown in Table 3.

Table 3. Results of Assessing the Impact of the “Ecosystem of Student Entrepreneurship” Project on the Stakeholders' Activities

Indicator	Result	Dead weight	Financial proxy		Financial impact, thous. tenge per year (V)
			Criterion	Cost	
Students participating in the project					
Establishing own business by project participants during training or during the first year after graduation	56	7.0%	Profit (loss) before taxation, thous. tenge per 1 SME employee per year	1,295.1	67,449
Obtaining income and financial independence	56	91.0%	Average monthly salary of one employee, tenge	112,463.0	567
Obtaining grants for establishing business	2	0.0%	Average grant amount	1,000.0	2,000
In total, thous. Tenge					70,016
Regional authorities					
Increase in the share of SMEs in the total volume of production in the region	147	47%	The volume of products, works performed and services rendered per 1 workplace, thous. tenge	10,566.90	823,267
Taxes and other mandatory payments to the budget	147	9,5%	Taxes and other mandatory payments to the budget per 1 SME employee, thous. tenge per year	240.06	31,936
Reduction of youth unemployment	56	0%	Unemployment benefit, tenge per month (minimum size from 28,284*replacement ratio – 0.3)	8,485.20	5,702
In total, thous. Tenge					860,905
University					
Growth in the number of students, persons	113	3.0%	Increase in the number of students	0	110
Increase in income from educational activities	110	3%	Income of the university from 1 student per year, thous.tenge	223.76	23,875
Income from implementing business projects jointly with Kazakh and international companies at the University	12	5%	Average income from implementing a business project at the university	3,420.70	38,996
In total, thous. Tenge					
ERG					
Savings on the search and selection of personnel	40	5%	Savings on the search and selection of personnel; Growth of the share of highly qualified personnel; Goodwill.	331.16	12,584
Savings on retraining and training of personnel	112	5%	Savings on training and improvement of personnel, thous. tenge per 1 employee	416.80	44,348
Improvement of goodwill	5%	0%	Increase in the index of the Kazakh enterprises goodwill, thous. Tenge	103,683	266,768
In total, thous. Tenge					323,700

Table 4 shows the results of calculating the SROI index for the first year of the social project implementation for every stakeholder.

Table 4. Calculation of the SROI Index for the First Year of the “Ecosystem of Student Entrepreneurship” Social Project

Parties in interest	Social value, thous. tenge	Investments, thous. tenge	SROI
Students	70,016	0	-
Regional authorities	860,906	289,902.9	2.97
University	62,981	18,523.2	3.40
ERG	323,700	77,812.5	4.16
In total for the project	1,317,603	386,238.6	3.41

Thus, when implementing this project, the social values obtained by all interested parties will exceed the amount of invested financial resources almost 3.4 times. The ERD company will get the highest return on investment due to the improvement of business reputation and image of a large socially-oriented company on the market of the Republic of Kazakhstan.

4. Discussion

The SROI methodology is a new word in assessing social values, which has proved itself in foreign countries, and shows an innovative approach not only to measuring social results, but also to forecasting them. In the Republic of Kazakhstan, the first steps are being taken to apply this methodology in assessing social values. It is necessary to note that even in the developed countries, the areas of applying and the existing interested parties are still considerably limited to the classical areas of applying SROI.

The use of the SROI methodology in the outpatient clinic is recommended to assess the flow of funds and for obtaining visual information in the context of programs on the prevention and sanitation of certain categories of citizens that will cause an increase in life duration. It will help managers of health care organizations to develop management accounting in polyclinics, and to take management decisions. The area to be studied the most carefully is that of the SROI methodological development. The key issue here is the interpretation of the conducted analysis, especially with respect to the SROI correlation and reflecting critical assumptions behind it. However, although this can be changed quite easily, there are basic issues related to indicators, financial proxies and the notion of social effects.

First of all, and it is the most important aspect, it is necessary to monetize the subject of a critical discussion. Where is it reasonable to monetize and where to look for alternative ways of capturing the created value? Taking this as a starting point, it would be easier to discuss how and what indicators should be used. This may change over time when there are new and viable ideas on how different kinds of impacts can be covered, but first of all a common basis is required. As for the indicators, it is necessary to make sure that it is not enough to merely increase their number to assess the created impact. It is necessary to always take into account a combination of quality (how things change and to what extent) and quantity (in how many cases this happens). Based on this principle, there happens to be the need in standardizing certain areas.

What is to be developed locally is transparent information and agreed standards of application. Databases should use accessible and objective data sources from the existing national and international surveys or research projects, especially with regard to financial intermediaries. To improve comparability, it is necessary to make sure that the analysis uses analogous or even the same data.

Finally, it is necessary to address the most underdeveloped area: the description of social elements in SROI. Now there is a serious shortage of standardized and meaningful ways to do this not only because of the desire for monetization, but also because of a weak theoretically grounded discourse about the measurement methods to be applied. A potential starting point could be the linking of this discussion to the CSI concept about four functions of social investments (Then and Kehl 2012a). In addition to the rather simple economic function, this definition helps to further differentiate the social element as the one consisting of social, political and cultural aspects. The use of this keener understanding of broader social effects can enhance the ability of SROI research to fuller and more accurate understand the latter.

Conclusion

The approach provided in this paper has several limitations. For example, it cannot be representative of all the studies available in this area, because many of them are considered confidentially and not published – sometimes due to unfavorable results, sometimes due to other reasons. Nevertheless, the conducted research will help to get an idea of the public image of SROI. Data evaluation, of course, can be challenged, but an attempt has been made to ensure the highest degree of objectivity.

In any case, this research is a valuable starting point, because both general practical discourse and academic discussion of SROI, and measurement of impact in a broader sense are in their infancy.

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