

**The Value of Social Enterprises in Vancouver:
Research into the Impact of Employing Individuals who are
Marginalized**

Developing a Societal Cost Calculator

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Vancity
Community Foundation

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Introduction

Social enterprises employ individuals who are not welcome elsewhere. They provide personalized support and go the extra mile to connect employees to the resources they need to be successful. While there are a few specific case studies of the impact of individual social enterprises in Vancouver, and some research into the size and composition of the social enterprise sector in B.C., there is little research into the broader impact and value of these enterprises in this region. This research is important to building the visibility and credibility of social enterprise, as well as in learning what works and how to scale impacts.

To respond to this need, Vancity Community Foundation is leading a collective research project that seeks to demonstrate the collective impact of social enterprises and their partners that are providing employment, training leading to employment, and economic opportunities for individuals who are marginalized. This includes the development of a common impact map and indicators, as well as a societal cost calculator that can be applied to value social enterprises outcomes in terms of potential community cost savings.

The following paper lays out our approach to developing a societal cost calculator, first by exploring whether this approach is feasible, and secondly by describing potential ‘impact pathways’ that could be used to relate indicators that social enterprises can collect, to societal cost estimates. We conclude by discussing how this approach could be applied, particularly in relation to methods currently used in the field such as Social Return on Investment and Cost-Benefit Analysis. We seek to pilot this societal cost calculator with five social enterprises in 2015.

This paper complements another paper *Impact Map and Measurement Framework* that presents a common impact map and indicators.

Developing a Cost Calculator

The societal costs of poverty are estimated to be \$8.1 to 9.2 billion a year in B.C., based on higher health care costs, crime costs, reduced economic productivity and the cost of poverty to future generations.¹ This estimate is just one example of a sizeable body of research that has sought to identify and model the societal costs of poverty as well as the specific factors that influence the incidence of poverty.² We believe that it is possible to draw on this research to develop a calculator that can provide reasonable estimates of how successfully engaging individuals who are marginalized in employment and other economic activities could influence poverty-related outcomes and associated societal costs. This would provide social enterprises with a straight forward means to provide estimates of their impact based on data that they could reasonably gather, and which draws on empirically-supported research. The results of this calculator would be useful to government and others in showing how social enterprises

¹ Iglia Ivanova, *The Cost of Poverty in B.C.*, Centre for Policy Alternatives, July 2011.

² See the reference list at the end for examples of this research.

are connected to important social and economic policy objectives, and the general direction and magnitude of their impact.

This approach is not new in the field of social impact measurement, but does not appear to have been applied to work-integration social enterprises.³ For instance, the Capital for Health Families and Communities developed a Social Impact Calculator for its Low Income Investment Fund's program areas: affordable housing, early learning, education, health, and equitable transit oriented development. They leverage academic research to estimate impact and monetized value based on 'impact pathways' so that estimates of impact can be made based on data that can be collected fairly easily.⁴

In our case we can leverage a wide range of research and modelling, such as recidivism models, economic input-output models, to develop a calculator that can be used by WISE social enterprises in Vancouver, and which could potentially be adapted to other contexts. It could also be something that is integrated into methods which develop 'investment' and decision-making ratios such as Social Return on Investment and Cost-Benefit Analysis.

Impact Pathways

We have conducted a preliminary research review to ascertain whether this approach may be feasible. The literature that was reviewed is shown in the reference list at the end. At present, the review was limited to ascertaining the degree to which quantitative relationships may have been estimated and could be potentially be drawn upon for our purposes. While there is very limited research applied to social enterprises specifically, there is a large amount of research that looks at employment as an explanatory variable in many social outcomes. Diagrams are shown below that describe potential empirical research linkages between the key mission-related activities of social enterprises and three key areas of societal costs: health, crime and income/ local economic development. Each of the diagrams also show how the pathways could be related to the indicators shown in the *Impact Model and Monitoring Framework*. Costs are described as:

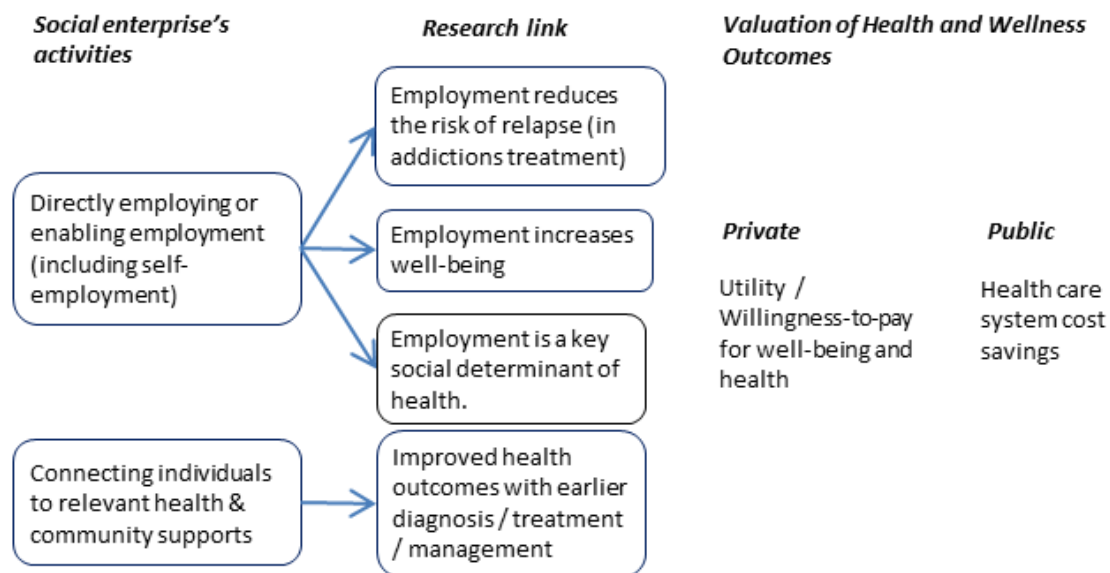
- Public: fiscal implications in terms of expenditures on health, social services and programs, education, employment, criminality, and lower economic productivity.
- Private: implications for the individuals who are marginalized and/or to other individuals. These can be both tangible (measured in the market place) or intangible.

³ 'Work Integration Social Enterprises' (WISE) refers to social enterprises that provide jobs for disadvantaged workers as well as training, placement and other supports. These jobs can be transitional, stops on the way to integration into the mainstream labour market, or stable, long-term alternatives to existing mainstream jobs. WISEs' defining purpose is to help disadvantaged individuals who are at risk of permanent exclusion from the labour market, to integrate into work and society through productive activity, mainly through jobs. This is based on a definition used in: Pauline O'Connor PhD & Agnes Meinhard PhD Work Integration Social Enterprises (WISEs): Their Potential Contribution to Labour Market (Re-)Integration of At Risk Populations Centre for Voluntary Sector Studies Ted Rogers School of Management Ryerson University, May 2014. http://www.sess.ca/english/wp-content/uploads/2014/12/OConnorMeinhard.OHCRIF-report-2014.FINAL_.pdf

⁴ Capital for Health Families and Communities. The Value of Social Investments The Methodology Behind the Low Income Investment Fund's Social Impact Calculator. August 2014. [www.liifund.org/calculator]

Health Costs

There are a number of different pathways in which employment and economic participation are linked by research to population health outcomes. These outcomes have different implications for how the health care system is used (and associated costs) as well as how individuals achieve well-being and health (and how they value it).



Minimal Data Needs:

Primary Indicators from Framework

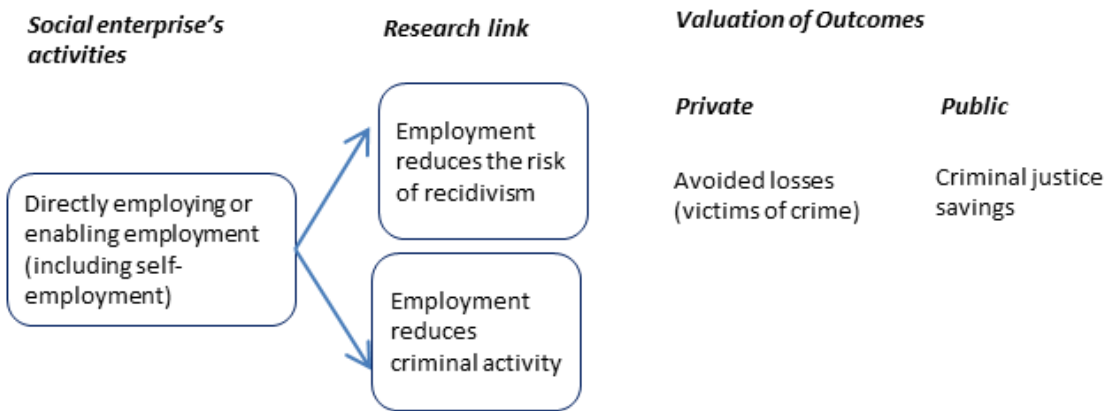
- # individuals who face barriers to employment who are involved in the social enterprise
- Change in use of public and community supports and services (over specific time period)

Additional assumption (ideally supported by additional data)

- Future employment status (particularly for training);

Crime

Crime-related costs are very high in Canada. In 2002–2003, Canada spent \$12.7 billion for police services, courts, legal aid, correctional services for adults and judicial proceedings.⁵ There is considerable research that has sought to understand the roots of criminal behaviour. Recidivism models in particular include parameters that relate employment to the risk of re-offense.



Minimal Data Needs:

Primary Indicators from Framework

- # individuals who face barriers to employment who are involved in the social enterprise

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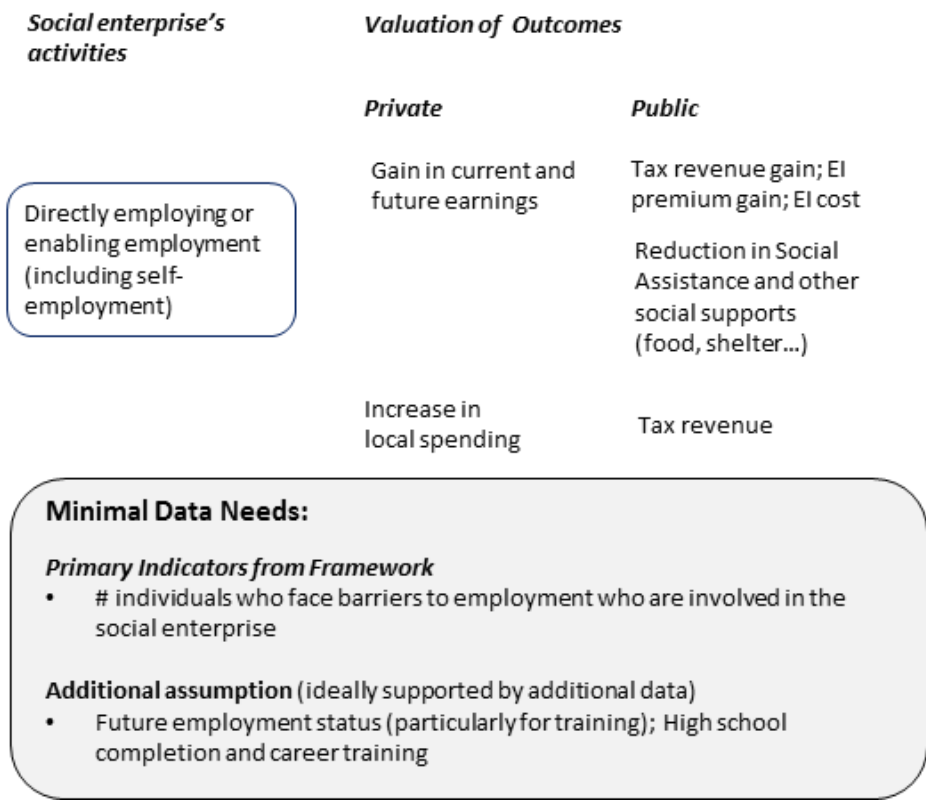
- Future employment status (particularly for training);

⁵ Statistics Canada. *Justice System Spending*, Ottawa, Catalogue Nos. 85-225-XIE, 85-403-XIE, 85F0015XIE, 85-211-XIE and 85-402-XIE.

Income and Local Economic Development

When somebody is not participating in the economy, there is an opportunity cost: personally from the loss of earnings over time, and to society as a whole. When somebody participates in the economic system (as labour, as consumers, as business owners), there are both personal and public benefits. Given the local regional development context of social enterprise, it is also important to consider the way in which economic activity may have local benefits.

While not shown in the diagram, social enterprises also have a role in connecting individuals to educational opportunities that can improve their economic prospects. This may be particularly important in working with youth, for example in helping them to complete high-school (or an equivalency).



Potential Use of the Calculator

Recent experience in social impact measurement internationally has shown that impact measurement is challenging to do, particularly in measuring mid and long term outcomes. This is particularly the case for relatively small, grass root organizations that have limited resources and technical expertise.⁶ The proposed calculator could provide a useful tool to social enterprises, and those that support social enterprise development, to illustrate social impact and to put it in context of other efforts to address poverty and community inclusion. By developing this calculator, social enterprises can focus on measuring what is most useful to them at an operational and planning level – how they can most effectively engage the people who are marginalized in the social enterprise.

This calculator could be used on its own, or potentially incorporated into other costing methods. The practice is evolving: Social Return on Investment (SROI) and Cost Benefit Analysis (CBA) are most widely known. SROI combines a logic model approach with monetization of some outcomes to develop a discounted cash flow ratio that mirrors a Return on Investment ratio used in business, while CBA is a form of economic analysis for projects in which costs and benefits are quantified and compared for specific costs perspectives.⁷ This project could compliment both the work being done by SROI and CBA practitioners, by building on the basic mapping that organizations are doing to show their impact, and empirical research that is yielding very interesting and useful relationships between employment and other societal outcomes. In this way we seek to make it easier for social enterprises to relate what they do to reducing the societal costs of poverty.⁸

⁶ For example, see M. Arvidson, F. Lyon, S. McKay and D. Moro, *The Ambitions and Challenges of SROI*, Working Paper 49. London: Third Sector Research Centre, December 2010; and E.T. Jackson and Associates. *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*. Commissioned for the Rockefeller Foundation, July 2012.

⁷ CBA and SROI are not interchangeable. For instance in SROI, all monetized outcomes ('financial proxies') are added, irrespective of whether they are private or public, or tangible or intangible. In contrast, CBA builds is based on economic welfare theory (and the notion of 'shadow prices' – intrinsic value that may not be represented by market transactions) and is careful to distinguish cost perspectives. A social cost (or benefit) is very specifically a change in the wealth of society. It does not, for example, include transfers in wealth, so an outcome that reduces income support payments does not change social costs (the level of wealth stays constant across society). A useful references for understanding how CBA is applied to WISE social enterprises is Dana Rotz, Nan Maxwell, Adam Dunn, *Economic Self-Sufficiency and Life Stability One Year After Starting a Social Enterprise Job*. Mathematica Policy Research. Submitted to REDF, 2015. Though Cimera doesn't look specifically at Social Enterprise but at supported employment, his research focuses on applying cost benefit analysis to look at costs from different perspectives. For instance see: Cimera, R. (2002). The monetary benefits & costs of hiring supported employees: A Primer. *Journal of Vocational Rehabilitation*, 17, 23-32. (See *Journal of Vocational Rehabilitation* 30 (2009) 111–119 for the piloting of his costing framework from the employer's cost perspective) and Cimera, R. (2009) and for Supported employment's cost efficiency to tax payers: 2002-2007. *Research and Practice for Persons with Severe Disabilities*, 34(2), 13-20.

⁸ SROI and CBA analysis need external funding and technical support. One review of SROI projects in the UK found the cost ranges between £12-15,000 to £40,000 (approximately \$23-29,000 to \$77,000 Cdn.) Gordon, M. (2009) 'Accounting for making a difference', *Social Enterprise Magazine*, November.

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