Social Return on Investment: key questions and answers

economics as if people and the planet mattered

THE CITY OF Edmonton

Foreword

Social Return on Investment (SROI) is gathering momentum as organisations and funders look for ways to assess and communicate the full range of social, environmental, and economic value they create through their activities and investments. In the United Kingdom, for instance, a number of government departments are exploring the use of SROI and a network of practitioners, SROI-UK, was launched in 2008.

At **nef** (the new economics foundation), we have been working on SROI since 2004. While we welcome the growing interest in SROI, we are also cautious as it is important to us that SROI does not become 'just another' measurement tool. SROI offers a different way to think about value. This is not only because of the emphasis on 'triple bottom line' measurement, but also because of the challenge it presents to how we go about establishing value. Most fundamentally, SROI challenges us to adopt a more participative and longer-term approach. We believe that SROI provides an opportunity for a different kind of decision-making that is not based on narrow financial concerns, but on what really matters to people and the planet.

Through the key questions and answers which follow we provide an introduction to SROI and to **nef**'s approach. This document has its origins in a week-long SROI Knowledge Exchange between **nef** and a delegation from Edmonton, Canada, that was interested in learning more about SROI. Both the Knowledge Exchange and this report were made possible by funding from City of Edmonton and the Muttart Foundation.

We hope that you find the key questions and answers in this document useful and refer you to **nef**'s Guide, which you can download from our website (www.neweconomics.org), for a fuller description of SROI.

Above all, however, we hope that you will give SROI a go for yourself.

Contents

The basics

What is SROI?

SROI is a measurement approach that helps organisations to understand and manage the social, environmental and economic value that they are creating. Developed from cost-benefit analysis and social accounting, SROI captures social value by translating outcomes into financial and non-financial measures.

Put most succinctly, *SROI measures the monetised value of benefits relative to the costs of achieving those benefits*. It is a ratio of the net present value of benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

$$[\text{SROI}] = \frac{[\text{Net present value of benefits}]}{[\text{Net present value of investment}]}$$

There is a common misconception that SROI is just about this ratio. In fact, SROI is about a lot more, providing a framework for exploring an organisations' impact. It emphasises, for example, engaging stakeholders to find out what matters most to those who are involved in, or affected by, the organisation or intervention. In addition to the ratio, the final SROI report provides a detailed account of how the organisation is making a difference – positively and negatively – in the world.

Tell me, in less than 100 words, what is involved in doing an SROI…

A typical SROI involves the following steps:

- Talking to stakeholders to identify what social value means to them.
- Understanding how that value is created through a set of activities.
- Finding appropriate indicators, or 'ways of knowing' that change has taken place.
- Identifying monetary values and putting financial 'proxies' on outcomes, such as increased self-confidence and well-being, that do not readily lend themselves to monetisation.
- Comparing the financial value of the social change created to the financial cost of producing these changes.

- Preparing an SROI report that describes how the organisation creates value and how the SROI calculations were arrived at.

Sounds like lots of numbers - scary! Will I be able to do this?

We have worked with many different organisations and found that, with practice, anyone can learn how to do an SROI. The trick is to start simply – usually with just one project in your organisation. This will help you to get to grip with the calculations and build up your confidence. We recommend that you seek out someone with prior experience of SROI to help you. There is also a case to be made for dividing up the SROI analysis among a number of people in line with their skill sets. For example, someone in your organisation might be very good at numbers and so can take responsibility for the calculation, while another person might take a lead on organising the stakeholder engagement or project managing the SROI.

What sort of organisations can use SROI?

SROI can be used by organisations across the third, public and private sectors. Box 1 shows some of the ways in which SROI has been used by different types of organisations.

Box 1: Who can use SROI?

Third-sector organisations *and others that create social value* – to understand, quantify and improve how the organisation makes a difference in the world. For example, **nef** worked with a Merseyside Getting Out to Work (GOTW) initiative to assess the social value created through its one-on-one intensive training programme for ex-offenders. The analysis showed that every pound invested in the programme generated £10.50 of social value. The GOTW programme has used the SROI findings to communicate with existing and potential funders.

Public sector and private organisations *that procure social value* – as a way of capturing value beyond a narrow definition of unit price. For example, **nef** has used the principles of SROI to inform the development of a sustainable commissioning model with the London Borough of Camden. This model incorporated social, environmental and economic outcomes into the service description for the tender and was used to award a £2 million contract for a mental health day care service.

Bodies that invest in the creation of social value – as a way of assessing performance and measuring progress over time. For example, **nef** conducted SROI analyses on behalf of the Adventure Capital Fund to assess the return on their investments in seven community enterprises. For a copy of the social investment report, email info@neweconomics.org.

Organisations that develop public policy – SROI is a long-term, comprehensive and participative approach to measurement that enables the costs and benefits of different policy options to be considered. For example, **nef** has used SROI to assess the social value of investing in higher quality residential care for children and in a comparison of custodial and community sentences for non-violent female offenders. The research on children found that that every pound spent on higher quality care generated an additional £4 in social value.

What are some of the benefits of using SROI?

When used in the third sector, SROI is a tool that helps organisations to '*prove* and *improve*'.

As a tool for *proving* – SROI provides a powerful means of demonstrating and communicating social value. It allows organisations and investors to see how much, and where, social value is being created.

As a tool for *improving* – SROI enables organisations to take a step back from day-to-day operations and examine the work they undertake with a new perspective. The insights this generates can shape future decision-making, thus continuously *improving* how a project or organisation runs.

Specific strengths of the SROI approach include the following:

- **Triple-bottom-line focus** – provides a comprehensive approach to value that includes the economic, environmental and social.
- **Accountability and transparency** – by providing both numbers and the story to support those numbers, SROI makes the creation of social value transparent.
- **Useful in change management** – when used for planning purposes, information highlighted by the analysis can provide feedback on the effectiveness of existing activities, areas of weakness, and where unanticipated but beneficial impacts have occurred.
- **Cost and time effectiveness** – SROI includes a 'materiality' check (more later) that focuses the analysis on critical impacts. This means that SROI can be a time- and cost-effective way to learn about the change a project or organisation creates.
- **Simple ratio** – the SROI ratio is a simple and clear indicator of the value an organisation creates for its stakeholders.
- **Emphasis on engagement with stakeholders** – SROI can open up conversation with others. It can aid communication with internal stakeholders, especially those responsible for finances and resource allocation, and with those who prefer quantitative to qualitative ways of learning. It can also be used to speak the language of mainstream economists or people who may otherwise be opposed to the work you do.

What are some of the criticisms of SROI?

There are four main criticisms of SROI.

Box 2: Criticisms of SROI

Difficulty of the analysis – It is often said that SROI is a difficult, cumbersome and costly exercise. It is true that the first time you undertake an SROI is challenging. However, at **nef** we have worked with many different organisations and we firmly believe that anyone can learn the process. Where people are worried about the quantitative aspects, we recommend teaming up with someone who feels more comfortable with numbers. Also, if you are about to embark on your first SROI, we recommend that you attend a training course or seek out an experienced SROI practitioner to help make the process easier and more effective for you and your organisation.

Over-emphasis on the ratio – The ratio, which is one of the strengths of SROI because it enables value to be communicated quickly, is also a potential weakness. It is easy for people to see the ratio as an end in itself and ignore the wider story that the SROI process uncovers about how an organisation makes a difference in the world. See the question 'Can SROI be used to compare organisations?' for more about why this can be problematic.

Lack of external accreditation – For some, the absence of an external accreditation system is a weakness of the SROI approach. If accreditation is important to your organisation, one solution might be to have your results independently verified by an organisation such as **nef**.

Difficulty of monetising 'soft' outcomes – Some outcomes and impacts (for example, increased self-esteem, improved family relationships) cannot be easily associated with a monetary value. To include such benefits in calculation of the SROI ratio, a financial proxy is created. A proxy is a value that is close to the desired indicator, for which there is no actual data available. Some have said the use of proxies is subjective and makes SROI imprecise. In truth, while proxies are subjective, there are a number of steps that test the assumptions that underpin any proxy so that the results can be treated with confidence. See also 'Isn't all just subjective?'

Are there some agreed principles for SROI?

SROI is a relatively 'young' measurement approach – it was developed in the mid-1990s by REDF in the USA – and so is still in the process of being standardised. In a number of contexts there are moves underway to establish a set of shared principles around SROI. In the United Kingdom, for example, the Office of the Third Sector announced in May 2008 that it would provide funding for work on a set of shared SROI principles and a network of practitioners, SROI-UK, was launched to take forward this goal. We recommend that you keep an eye on the SROI-UK website (www.sroi-uk.org) for the latest information.

While this work is underway, the principles developed by a group of leading practitioners in 2004, and elaborated further on pages 16–18 of Scholten *et. al.'s* (2006) *Social Return on Investment*, are your best bet. The **nef** approach informed the development of these principles and so is also consistent with them.

Does that mean there isn't an external accreditation or quality mark for SROI?

That's right – there is currently no external accreditation or quality mark for SROI. However, some organisations, including **nef**, offer a review process that provides independent verification of SROI analyses. This is similar to the way external verification is used in social accounting and audit, providing an independent check that you have completed the process correctly and with rigour.

Most likely, some form of accreditation will be available for SROI and SROI practitioners in the near future as a result of the UK Office of the Third Sector work and the efforts of the SROI-UK network. Again, keep an eye on the SROI-UK website for the latest.

If you are based in Canada, you may also be interested in a new practitioner network being established in Alberta. See 'Where to go for more information' for contact details.

It is also worth noting that, although there isn't currently a standard or quality mark for SROI, you can use standards like AccountAbility's AA1000 to certify components of the SROI process, such as the stakeholder engagement phase. For more information on AccountAbitlity AA 1000, see: www.proveandimprove.org/new/tools/aa1000AS.php

What are some of the key features of the nef approach to SROI?

nef's approach to SROI has four key features, which are derived from our approach to measurement generally and in line with the best practice guidelines developed by the International SROI network in 2004. These features are:

1. **Stakeholder engagement –** We firmly believe that if SROI is to capture social value, then it has to be based on what matters most to those who are involved in, or affected by, the organisation or intervention that is being analysed. For this reason, engagement with stakeholders is a key part of the SROI process.
2. **Materiality –** SROI analysis is about enabling organisations to gather *better* rather than *more* information. A 'materiality check' is conducted to identify the areas that are most important to the organisation and its stakeholders. These areas then become the focus of the SROI.
3. **Developing a theory of change –** The term 'theory of change' refers to the story of how an organisation or project seeks to make a difference in the world. Developing a theory of change is important because it encourages organisations to think beyond outputs – the direct results of their activities – to the wider benefits created for individuals, communities and societies. These wider benefits tell us whether we have made a difference and are what SROI seeks to capture when measuring social value.
4. **Understanding impact –** When we measure outcomes, we have to be aware that the changes we observe might not be solely the result of our intervention. For this reason, **nef** stresses the importance of adjusting our calculation of social value for what would have happened anyway ('deadweight'), any unintended negative consequences, any displaced benefits ('displacement'), and for the extent to which outcomes are the result of other organisations or individuals ('attribution').

Doing an SROI

How do you do an SROI? What are the key steps?

Earlier we gave you a very brief introduction to the SROI process. We now flesh this out a little more. For a full step-by-step description, however, we advise you to consult the **nef** *Guide to SROI.*

The SROI process is broken down into four stages detailed below, each of which has an associated set of tasks.

Stage 1 - Boundary setting and impact mapping	- Establish the boundaries and parameters for the SROI analysis - Identify, prioritise and engage stakeholders - Develop a theory of change and impact map
Stage 2 – Collecting data	- Select outcome indicators - Identify financial values and proxies - Collect data for outcomes, benchmarks and proxies
Stage 3 - Modelling and calculating	- Analyse inputs - Add up the benefits for each stakeholder - Project value into the future (if appropriate) - Calculate the SROI ratio - Conduct sensitivity analysis to test key assumptions - Value added and payback period (optional)
Stage 4 – Reporting and embedding	- Prepare the SROI report - Communicate and embed

An SROI can be either carried out internal to an organisation or by an external consultant or researcher. The length of time it takes to move through the four stages will depend on the scope of the SROI – for example, whether it sets out to analyse a single project or the whole organisation – and on the availability of existing data for outcomes and proxies. We suggest allowing a minimum of 8 weeks to move through the process. Also note that even where an external researcher or consultant is used, the organisation for whom the SROI is being conducted still has to make available time and resources to participate in stakeholder engagement and help with data collection.

What is the difference between an evaluative and forecasted SROI?

An evaluative SROI is based on an analysis of outcomes that have taken place and for which data is available. These are the most common type of SROI analyses and probably what you've already encountered.

Forecasted SROIs, on the other hand, are a more recent development. These follow the same process as evaluative SROIs but calculate a ratio based on *what you expect* to take place rather than on the basis of *what actually has taken place*. There are two main instances where you might use a forecasted SROI:

1. *For projects that are already operational but where there is only very limited outcomes data available.* In such cases you use estimates for any outcomes where data is not currently available. These estimates enable you to calculate a provisional SROI. However, you would also want to put in place data collection mechanisms so that you can return at some later point to conduct an evaluative SROI that assesses the accuracy of your forecasts.
2. *For projects that are in the planning stage*. In these cases you construct an impact map for the proposed project, usually with input from the intended future stakeholders, and estimate what the outcomes would be if the project meets its objectives. You then calculate an SROI based on these estimates. Again, if the project goes ahead, you will want to collect actual outcomes data and conduct an evaluative SROI to see whether the objectives were met and your assumptions were borne out in practice. Forecasted SROIs can be very useful during planning, helping you to see where and how a proposed project could create social value. This information can help you to compare different projects and also to think about different ways of structuring the project to maximise social value. Forecasted SROIs at this stage are also useful because they help to identify outcomes and indicators, making it easier to put in place data collection procedures once the project is up and running.

Why is stakeholder engagement important?

SROI is founded on the principle that if we want to capture 'real' value then we need to find out what matters most to those who are involved in, or affected by, the organisation we are analysing – that is, its stakeholders. Stakeholders can be very 'close' to an organisation; for example, they may be service users or employees of the organisation. They can also, however, be more 'distant' from the organisation; for example, the State may be a stakeholder where an intervention results in savings to the health, criminal justice or welfare system.

Finding out what matters to stakeholders requires active engagement and consultation. When done well, stakeholder engagement can make visible outcomes that an organisation either did not know about or did not intend. Such outcomes can be positive or negative. Identifying additional positive outcomes can help organisations better understand the value they are creating and, in some cases, may lead them to refocus their activities to more directly achieve that outcome. Where negative outcomes are identified, it can prompt a discussion about how to minimise or even eliminate these. In other instances, stakeholder engagement can challenge organisations to think differently about the outcomes they have identified. For example, in a project where **nef** consulted young people in residential care homes we found that pregnancy – identified by the authorities as a negative outcome – could also be positive, helping to provide meaning to the life of an excluded young person.

The SROI process involves engagement with 'material' stakeholders. This means that while an exhaustive list of stakeholders is initially drawn up, engagement only proceeds with those who are seen as most important to the activities and outcomes of the organisation. The 'materiality check' ensures that the scope of the consultation remains manageable and, additionally, that only information that will be useful to the analysis is collected.

How do I engage stakeholders?

There are many methods for engaging stakeholders. It can be as simple as phoning someone or as complex as holding a facilitated focus-group session. Here are some suggestions:

- Invite stakeholders to a workshop. You could have informal discussion or use a more structured approach, such as the **nef** storyboard tool (see www.proveandimprove.org).
- One-to-one interviews.
- Ask stakeholders to complete a form during a regularly scheduled meeting – for example, an Annual General Meeting of an organisation, or other set gathering.
- Postal, online or street survey.
- Ring representatives from key stakeholder groups, such as the local authority.
- Email a short form to representatives from key stakeholder groups.
- Have a social event and ask staff members to walk around and speak to stakeholders.
- Look at documents, such as annual reports or policy statements.

In general, it is important to be mindful of the sensitivities of individual stakeholders when asking them for information. Young people, for example, may feel embarrassed talking about certain things in front of their peers and so one-to-one interviews might work best.

When gathering information from service users, it is often helpful to ask staff for advice. For some groups, such as people with learning difficulties, you may need to modify the way you normally engage stakeholders.

Whichever method you choose, it is important that you adhere to the best practice guidelines around stakeholder engagement. These set out principles around confidentiality, how stakeholders are selected, independence, and transparency.

For more information about these principles and stakeholder engagement generally, see the **nef** SROI guide or visit the *Prove and Improve* website:

www.proveandimprove.org/new/getst/Stakeholders.php

What is the theory of change and why is it important?

The **theory of change** is an account of how an organisation makes a difference in the world. It describes how an organisation takes in resources (inputs) to do its work (activities) and how this then leads to direct results (outputs) and longer-term or more significant results (outcomes). It also considers what part of those outcomes the organisation can take credit for (impact).

At **nef**, we use a tool called the 'impact map' to develop and visually represent the theory of change. Essentially this is a table, like the one below, which is filled in through consultation with stakeholders. Sometimes we find it helpful to construct a separate impact map for each group of stakeholders.

Inputs	Activities	Outputs	Outcomes	Impact
Resources an organisation uses to carry out its activities and operations.	Things you do to meet objectives; one off or formalised.	Direct results of your activity, often countable e.g. number of people participating in training.	Change in people, communities, the economy or environment created wholly or partially by the organisation.	Outcomes after accounting for *attribution*, *deadweight, displacement.*

Developing a theory of change is important because it encourages the organisation to think beyond outputs – the direct results of its actions – to consider the broader changes (outcomes) they are trying to achieve for individuals, communities and society. The focus of SROI on outcomes means that the impact map is at the heart of the SROI process. During Stage 1, organisations construct an impact map through engagement with stakeholders and, in Stage 2, indicators are identified for each material outcome on the map and outcomes data is subsequently collected.

What is the calculation of the ratio all about?

The calculation of the SROI ratio is very simple and logical: add up the value of all the benefits and divide this by the total investment that was required to generate these benefits.

$$[\text{SROI}] = \frac{[\text{Net present value of benefits}]}{[\text{Net present value of investment}]}$$

Admittedly, to get to the point is a little more difficult, involving four steps:

1. *Adding up the inputs* – This is where you identify and add up all the investment, monetary and otherwise, that was required to deliver the benefits you are claiming. You will need to analyse your

organisation's accounts to see the income flow into your organisation and how it was spent. You will also want to include non-financial inputs like volunteer time. This is best done by tracking the amount of time spent by volunteers and multiplying it by an agreed unit of value for that time (e.g. in some areas, there are government valuations of volunteer time).

2. *Adding up the benefits* – Here you multiply the monetary value you've identified for each outcome by the number of occurrences. For example, if you find that four people gained full-time employment as a result of your training programme and the average salary was £13,500, then the value of that outcome is 4 x £13,500 = £54,000. Once you have done this for each outcome, you then sum up all the outcomes. The final task in this step is substracting any negative outcomes, taking account of deadweight and factoring in attribution (see page 15 for what these terms mean).
3. *Projecting into the future* – Outcomes often endure beyond the intervention. For example, in the training example above, some of the individuals will remain employed for many years after the training programme has ended. For this reason, we project benefits into the future – that is, we estimate for how long the benefits will endure (usually in number of years) and value the benefits across this period in our calculation. When projecting into the future in this way, we have to taken into consideration drop off (estimate for how many years the benefit will not endure) and the time value of money. The time value of money refers to the idea that £1 today is worth less than £1 in a year's time because of the effects of inflation. It requires us to 'discount' the value of future benefits. We normally use the official government discount rate, which in the UK was 3.5% in 2008.
4. *Calculate the ratio* – Done steps 1–3? Presto! You now have a sum of benefits and investments and can do the simple maths above…

Does the ratio enable comparisons between organisations?

The ratio on its own should not be used to compare organisations, especially where organisations differ in type, sector, and size. The ratio should instead be used as the starting point, rather than endpoint, of a conversation about value. Just as with headline financial figures, like profit, the ratio only makes sense when it is placed in the wider context of what the organisation is trying to achieve, how it is organised, and so on.

There is a danger, then, of SROI ratios being used to construct 'league tables'. This is especially problematic because ratios can differ between organisations even where there is not a difference in performance *per se.* For instance, data gaps can be a significant source of variation in the ratio. The value of a benefit can only be included in the final calculation if there is evidence – that is, outcomes data – to substantiate that the benefit has taken place and if we are able to generate a monetary value (direct or proxy) for it. When **nef** conducted an SROI for an environmental waste management organisation, data gaps around lifecycles assessment made it difficult to value the 'true' environmental benefit of the organisation. This meant that the ratio for the organisation probably underestimated the social value they were creating.

The waste management firm example illustrates the importance of seeing the ratio within the wider story that SROI enables you to tell about value creation. When viewed together, the story and ratio enable you to compare and contrast organisations. The ratio itself, on the other hand, is most useful as an indication of how an organisation is performing (and hopefully improving!) over time.

What about this monetisation? What do I do about 'intangible' benefits, such as increases in self-confidence, where there isn't a ready monetary value?

Sometimes monetisation is a straightforward process; for example, where it relates to savings to the State for which cost data is publicly available. This might be the case where the outcome you are interested in is an improvement in physical health and the indicator you have chosen is a reduction in GP visits. In the UK, data on the cost of GP visits is available from the NHS and you could use this as your monetised value.

For other indicators, monetisation requires a bit more creativity and digging around. In selecting financial values there is a trade-off between cost, data availability and accuracy. When data is unavailable or difficult to obtain, as with outcomes like 'increase in self-confidence', you may choose to use proxies. *A proxy is a value that is deemed to be close to the desired indicator, for which exact data is unavailable.* Proxies are very useful because they enable you to include in your analysis outcomes for which there is no direct monetary value.

How do I select financial proxies?

The selection of financial proxies is a subjective and creative process. For this reason, it is very important that your SROI report details exactly how you arrived at a given proxy. There are a number of different strategies for arriving at a proxy, which include:

- Finding something that is close to your indicator and traded in the marketplace. For example, if interested in how much an improvement in health is worth to individuals, you might want to use the cost of health insurance as a proxy.
- Looking at changes in behavioural and spending patterns that result from the intervention. For example, increased confidence might result in individuals going out more and you could use the increased spending on social activities as a proxy.
- Using the contingent valuation method (CVM), which asks people to place a value on hypothetical changes. For example, surveys have been conducted on how much preserving certain forms of wildlife, flora and fauna are worth to people, and you could use these as proxies if they are available for the outcome you are interested in.
- Asking stakeholders directly how much a given outcome is worth to them.

There are advantages and disadvantages to each of the strategies. For a more detailed discussion on proxies, see the **nef** Guide or consult page 42 of Scholten *et al.'s* (2006) *Social Return on Investment: A Guide to SROI Analysis.*

To get you thinking about proxies, the table below gives a few more examples of proxies that we have used at **nef**.

Stakeholder	Outcome	Indicator	Possible Proxies
Person with mental health problem	Improvement in mental health	Increase in time spent socialising Participants engage in new activities Reduced need for psychotherapeutic services	Cost of membership of a social club/network Percentage of income normally spent on leisure activities Value of counseling sessions
Local community	Improved access to local services	Take-up of those services	Savings in time and travel costs of being able to access services locally
Person with physical health problem	Improved physical health	Reduced visit to GP surgery Participant reports improvements in health Increase in exercise	Cost of visiting private GP clinic Cost of health insurance Cost of gym membership
Care-giver	Improved well-being	No. of hours respite/spent in leisure activities	Value of hours spent engaged in these activities (e.g. minimum wage)
The environment	Less waste	Increase in recycling Decrease in waste going to landfill Reduced carbon emissions	Cost of landfill charges Value of carbon

What if I don't have data on outcomes for my project or organisation?

If you've never collected outcomes data, you can still do an SROI but you'll have to factor in extra time to collect this data. You may also find that, in the first instance, you have to carry out a *forecasted SROI*, put in place data collection mechanisms and then return at a later point to carry out the *evaluative SROI.*

What do I do about negative consequences or outcomes that might be due to the involvement of other organisations?

SROI is concerned with valuing the positive difference made by your organisation or intervention. We understand this as *impact*. It means that any negative outcomes need to be subtracted from the positive benefits and, additionally, that you need to take into consideration the extent to which outcomes would have happened anyway (deadweight) or are the result of other interventions (attribution).

The impact mapping exercise in the first stage of the SROI is designed to uncover both positive and negative outcomes, which can then be taken forward to data collection and the calculation. Deadweight and attribution are investigated in the data collection phase and enter the SROI calculation in step 2.

For more information about determining impact, consult the **nef** Guide.

What about benefits that last over multiple years? Does SROI help me to value benefits for their whole duration?

Benefits often extend beyond the time period during which the organisation is directly involved with the beneficiary. For instance, a community rehabilitation programme working with ex-offenders will have an effect on the service users even after the 10-week intensive training programme has ended. For this reason, SROI analysis has a step that allows you to project value into the future. To do this, you first determine a realistic ‘benefit period’ (time over which you would expect benefits to endure) and then add up all the value that would accrue during that time. In adding up the future value of benefits, you need to be mindful of the **time value of money** and **drop off**.

The **time value of money** means that, in general, £1 now is worth more than £1 in a year’s time. This is something most of us are familiar with and as such, we hope our employers will adjust our salaries each year by inflation to compensate for how the value of money changes over time. We use a **discount rate** when projecting value into the future to take this into consideration. **nef** normally uses the HM Treasury recommended rate, which was 3.5 per cent in 2008.

The concept of **drop-off** recognises that benefits will not endure for all stakeholders over the entire benefit period. For example, the training programme with ex-offenders may reduce recidivism by 40% at the end of Year 1. It would be reasonable to expect that over subsequent years recidivism is also reduced. There will be some, however, who fall back into crime, meaning that the reduction in recidivism declines over each successive year. Drop-off adjusts the projected future benefits to take into consideration these cases where the benefit does not endure.

Criticisms and challenges

Isn't it all just subjective?

This is a criticism that is often levelled not just at SROI, but at social measures in general. Implicit in this criticism is an assumption that other forms of measurement, especially financial accounting, are objective. In fact, the conventions of financial accounting have evolved over more than hundred years and it is in the course of this evolution that these measures came to be regarded as objective.

At **nef**, we acknowledge that SROI is in part subjective. However, this is not the same as saying that SROI is without rigour or validity. There are a number of steps in the SROI process that are designed to ensure that results can be treated with confidence. For instance:

- SROI reports contain a detailed description of how decisions about data, indicators and proxies were arrived at and make explicit any assumptions about attribution and deadweight. This allows others to interrogate the findings.
- The SROI calculation includes a 'sensitivity analysis' step where key assumptions are tested by re-running the ratio calculation with different values. For example, if a projection of future benefits for an ex-offender training programme was based on the assumption that the annual drop off in recidivism is 10%, you would want to re-run the calculation using a drop off estimate of 20% and 5% to see how sensitive the ratio is to change if your assumptions were proved to be incorrect.

Monetising life makes me feel uneasy. Is it right to do this?

It is not unusual to feel some uneasy at trying to put a monetary value on things like an 'improvement in relationships with others'. The strength of SROI, however, is that it enables such social benefits, which are often left out of decision-making processes, to be considered alongside more conventional financial measures. In this sense, it pushes those who would normally ignore social outcomes to adopt a more holistic approach to value.

Of course, it could be argued that by monetising social outcomes we are feeding into a perception that only those things which can be monetised *actually* have value. To some extent this concern is valid and in the longer term we need to push for recognition of value beyond that which is monetisable (whether as a proxy or otherwise). SROI might be helpful with this longer-term agenda because it provides a means of starting conversations about value that can then enter into these sorts of debates.

Does it require a lot of resources?

Like other measurement and evaluation processes, SROI does require resources, particularly staff time. The amount of time and effort that will be required to do any given SROI depends on its scope and on the extent to which outcomes data and information about costs and proxies are already available. Usually the first time you undertake an SROI is a lot more resource-intensive than any follow-up SROI. For this reason, we recommend starting with a single project or intervention and then expanding the scope over subsequent years.

One of the best ways you can get an estimate of how much time and resources will be required for your organisation is to ask an experienced practitioner. If you have limited resources, they may also be able to suggest ways of making the process more manageable while still ensuring that it is meaningful and worthwhile.

I'm not particularly enthusiastic about numbers, ratios, financial figures etc. Do I need to be extremely competent in these things?

In our experience, anyone can learn how to do an SROI. The key thing is that you have a willingness to get to grips with the key concepts, numbers and with MS Excel (we use this to help us with our calculations). Attending a training course is a good way of finding out whether SROI is right for you and your organisation. And if you really find that the numbers aren't for you, there is always the option of bringing others in your organisation on board to help with the calculations.

Other questions

Is SROI a one-off process?

SROI can be used to provide a one-off snapshot of how an organisation is creating value. However, it is most useful when it becomes embedded in an organisation and is done repeatedly over time. When embedded, SROI can be used to monitor progress over time and help an organisation to improve the way it delivers its services.

Can we just get an external evaluator to do the SROI for us?

There are experienced practitioners who can carry out the SROI *with* you. The key point here is that even where external evaluators are brought in to carry out the SROI, the organisation still needs to make time available to participate in developing the theory of change, identifying stakeholders and collecting data. It is important, therefore, that there is organisational ownership and buy-in to ensure that these resources are made available.

I've come to the end of the booklet and it all sounds a bit difficult – is it really worth it?

Organisations that **nef** has worked with on SROI have described the process as challenging, but ultimately empowering and rewarding. The ability to communicate better with funders and stakeholders is identified as a key benefit, but many have also said that the process helped them to better understand how they were making a difference and, crucially, how they could do a better job of fulfilling their mission.

Where to go for more information

nef (the new economics foundation)
www.neweconomics.org

+44 20 7820 6300
info@neweconomics.org

The most comprehensive SROI resource from **nef** is the Guide, *Measuring Value: A guide to Social Return on Investment (SROI).* You can download this from the publication page on our website.

We also regularly offer SROI training courses and provide a full SROI consultancy services for organisations that would rather have the SROI done for them.

Finally, you may also find *Prove and Improve*, **nef**'s dedicated measurement and evaluation website, a useful resource:
www.proveandimprove.org

UK SROI Network
www.sroi-uk.org/

Membership-based organisation for SROI practitioners and those interested in measuring value.

European SROI Network
www.sroi-europe.org/

The European counterpart to the UK network

Alberta (CA) Network

An informal network has been created in Alberta to promote and advance the practise of SROI methodology in Alberta, to develop a database of indicators and financial proxies, to review and post case studies and to share information, resources and principles of practise. The network is called SROI-AB. There will be a website and contact information for the website at some point. In the meantime, contact Jenny Kain or Karen Kerr for further information. jenny.kain@edmonton.ca or karen.kerr@edmonton.ca

London Business School Online SROI Primer

http://sroi.london.edu

Developed in collaboration with **nef**, the online primer includes interviews with practitioners and trainers.

Roberts Enterprise Development Fund (REDF)
www.redf.org

REDF developed the original SROI model.

Other guides
Scholten P, Nicholls J, Olsen S and Galimidi B (2006) Social return on investment: A guide to SROI analysis. Utrecht, Netherlands: Lenthe Publishers. ISBN 90-75458282

Glossary

Attribution	The consideration of what share of an outcome is attributable to, or results from, the organisation.
Boundaries	Something that indicates or fixes a limit on the scope of your analysis.
Deadweight	The effect of what would have happened anyway (i.e. without your organisation's intervention). For example, a certain number of participants in employment training are likely to have obtained a job without the programme.
Displacement	A substitution effect that occurs when the benefits claimed by a programme participant are at the expense of others outside the programme.
Drop-off	The deterioration of an outcome-objective over time, such as the number of participants each year who lose a job gained as a result of the programme. See *durability of outcome*.
Impacts	Difference made by an organisation or project.
Indicator	Information that allows performance to be measured. This usually takes the form a statistical value which links an organisation's activities to its outputs and outcomes.
Inputs	The resources used to run the activity such as money, people, facilities, and equipment. This is the investment against which the value of the impact will be compared.
Materiality	The importance and significance of information. Information is material if its omission or misrepresentation could influence stakeholder decisions.
Monetise	To assign a financial value to an indicator. For example, jobs can be monetised through net change in participant income.

Net present value	The present (discounted) value of future cash inflows minus the present value of the investment and any associated future cash outflows.
Outcomes	Changes resulting from the activity for individuals, community, or other stakeholders. For example, a new job, increased income or community cohesion.
Outputs	The direct and tangible products from the activity - for example, the number of people trained.
Present value	The current value of one or more future cash payments, discounted at some appropriate interest rate known as the **discount rate**.
Proxy	A value that is deemed to give a close approximation of a desired indicator.
Scope	The range or extent of activity or influence.
Stakeholder	Those people or organisations that affect or are affected by your organisation.