Social Return on Investment: An exploratory study of Concept, Principles and Approaches

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The perspective

Social return on investment (SROI) is a method for measuring values that are not traditionally reflected in financial statements, including social, economic and environmental factors. They can identify how effectively a company uses its capital and other resources to create value for the community. While a traditional cost-benefit analysis is used to compare different investments or projects, SROI is used more to evaluate the general progress of certain developments, showing both the financial and social impact the corporation can have. Social Return on Investment (SROI) is an outcomes-based measurement tool that helps organisations to understand and quantify the social, environmental and economic value they are creating.

Developed from traditional cost-benefit analysis and social accounting, SROI is a participative approach that is able to capture in monetised form the value of a wide range of outcomes, whether these already have a financial value or not. An SROI analysis produces a narrative of how an organisation creates and destroys value in the course of making change in the world. Social Return on Investment (SROI) is a systematic way of incorporating social, environmental, economic and other values into decision-making processes. By helping reveal the economic value of social and environmental outcomes it creates a holistic perspective on whether a development project or social business or enterprise is beneficial and profitable. This perspective opens up new opportunities and forms the basis for innovative initiatives that genuinely contribute to positive social change. SROI places the perspectives of the different stakeholders at the centre of the valuation process.

SROI originated in the USA from social enterprises interested in new ways to value the contributions they were making to society. It later arrived in Europe, where there is an increasing interest in the methodology as noted by recent publications by Context international cooperation in the Netherlands, the New Economics Foundation in the UK and the SROI Network headquartered in the UK.

What Is SROI ?

SROI is the acronym for Social Return on Investment, a relatively new and exciting tool for communicating your non profit benefits to the community. According to The New Economics Foundation, SROI "captures social value by translating outcomes into financial values." SROI is similar to ROI but shows the double bottom line: the financial impact AND the social impact of an organization's work.

According to SROI guide SROI is a framework to measure and account for the value created by programme initiatives, beyond financial value. It incorporates social, environmental and economic costs and benefits. SROI puts a value on the amount of change (impact) that takes place as a result of the programme and looks at the returns to those who contribute to creating the change. It estimates a financial value for this change and compares this value to the investment required to achieve that impact, resulting in an SROI ratio. SROI method is a participatory, beneficiary-led approach which uses financial values defined by programme beneficiaries to represent social, environmental and economic outcomes. One of the most important aspects of the process is the development of an impact map demonstrating the impact value chain for each stakeholder group [3]. It links a stakeholders' objectives to inputs made into the programme, to outputs, through to the outcomes. It then identifies indicators of achievement of outcomes which are capable of being quantified by applying financial proxies. The next step in the process is to estimate how much of the outcome would have happened anyway and what proportion of the outcome the programme is responsible for. This is achieved by looking at four filters, namely: Deadweight, Displacement, Attribution and Drop off [4]. In the end, comparison of net programme impact (converted in monetary terms) with investment value required to achieve thee impact yields a ratio of benefits to costs.

Social Return on Investment (SROI) is an organizational method of accounting for value creation, primarily social or environmental value. SROI enables organizations to measure how much change is being created by tracking relevant social, environmental, and economic outcomes. The key difference between SROI and other methodologies is the assignation of monetary values to the amount of change created. When someone invests money in a company, he/she expects that the benefits resulting from the investment will be greater than the amount of the investment. In the case of a for-profit company, this is readily measured using conventional accounting methods. However, a company creates more value than is shown in its financial statement. Its employees receive value in many forms, including: wages, benefits, increased feelings of self-worth, and camaraderie with other employees. Customers receive value from the goods and services provided by the company. Society receives benefits from the company because people who are gainfully employed pay taxes that can be used to provide services for the entire community, and do not require welfare and other social service assistance.

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Most managers run their businesses based on financial value and overlook the social and environmental impact their businesses create on society and human being. However, the past decade has seen increasing interest in measuring the social impact of projects, programs, organisations, businesses, and policies. SROI is useful to corporations because it can improve program management through better planning and evaluation. It can also increase the corporation's understanding of its effect on the community and allow better communication regarding the value of the corporation's work (both internally and to external stakeholders). Philanthropists, venture capitalists, foundations and other non-profits may use SROI to monetize their social impact, in financial terms.

Elements needed to measure SROI

While the approach varies depending on the program that is being evaluated, there are four main elements that are needed to measure SROI:

- Inputs or resources investments in your activity (such as the costs of running, say, a skill development program)
- Outputs or the direct and tangible products from the activity (for example, the number of people trained by the program)
- Outcomes or the changes to people resulting from the activity (i.e., new jobs, better income, improved quality of life for the individuals; and reduced support from, the government)
- Impact measurement efforts can be logically grouped into four key measurement objectives : Estimating impact: Conducting due diligence pre -investment,

Planning impact: Deriving metrics and data collection methods to monitor impact, Monitoring impact: Measuring and analysing impact to ensure mission alignment and performance, Evaluating impact: Understanding post-investment social impact of an intervention or investment

Principles of SROI

- **Involve stakeholders:** This principle means that stakeholders need to be identified and then involved in consultation throughout the analysis, stakeholders need to be identified and then involved in consultation throughout the analysis, in order that the value, and the way that it is measured, is informed by those affected by or who affect the activity.
- **Understand what changes:** This principle requires consideration of how the changes are created , stated and supported by evidence. These changes are social, economic or environmental outcomes. It is these outcomes that should be measured in order to provide evidence that the change has taken place.
- **Value the things that matter:** Use financial proxies in order that the value of the outcomes can be recognised. Many outcomes are not traded in markets and as a result their value is not recognised. Financial proxies should be used in order to recognise the value of these outcomes and to give a voice to those excluded from markets but who are affected by activities. This will influence the existing balance of power between different stakeholders.
- **Only include what is material:** Identify key indicators , information and evidence such that stakeholders can draw reasonable conclusions about impact. Deciding what is material requires reference to the organisation's own policies, societal norms, and short-term financial impacts. External assurance would improve the comfort of the that material issues have been included.
- **Do not over-claim:** This principle requires measurement and disclosure of changes brought in as a result of the impact of the program as opposed to other factors, that would have happened anyway.
- **Be transparent:** This principle requires that each decision relating to stakeholders, outcomes, indicators and benchmarks; the sources and methods of information collection; the different scenarios considered and the communication of the results to stakeholders, should be explained and documented. The analysis will be more credible when the reasons for the decisions are transparent.
- **Verify the result:** Although an SROI analysis provides understanding of the value being created by an activity, it inevitably involves subjectivity. Appropriate independent assurance is required to help stakeholders assess whether or not the decisions made by those responsible for the analysis were reasonable.

Approaches to SROI

There are primarily two approaches to working out SROI

Forecast: As the name suggests, this type of SROI analysis is

implemented before the program or activity itself has been implemented. It is used as a predictive tool to determine the amount of social value that might be created as a result of the desired and expected outcomes. This approach is most useful when the planning process of a program or activity is being worked out because it encourages organizations to put in place the infrastructure needed to adequately measure change viz. relevant indicators, data collection processes.

Evaluative: This approach of SROI analysis is implemented after a program or activity has already had time to impact and bring about change. In other words, there are already outcomes to be measured. This approach is useful when an organization is already tracking outcomes data or at least has a process already in motion that is accounting for the social value of currently running programs or activities.

Stages in measurement of SROI

There are different stages that are followed (not necessarily in a linear or chronological order) for measurement of SROI

- **Defining the boundaries (objective and scope):** Depending on the nature of the project, programme or initiative, Its objectives and desired impact within a specific geographic area needs to be carefully defined

- **Identification and selection of key stakeholders:** identification of individuals, groups, communities who either will be affected by the activities within the scope of the program or who would likely influence the project (either positively or negatively) is critical.
- **Developing the Business Plan/Theory of Change:** Participation of stakeholders in developing the business plan or program profile will enhance collective ownership and encourage learning from and about different perspectives and realities. It provides clarity regarding the key actors for whom the intention is to create value; reduce poverty, improve health, etc. This is one of the most important steps within the SROI framework: it tells the story of how stakeholders were (are) involved in the project and their perception and belief of how their lives have changed or will change.
- **What goes in (identifying inputs for each outcome) and what comes out (identifying results):** For each intended outcome there are different investments or 'costs' linked to the realisation of the specific outcome. There may be unintended outcomes (or investments), which can also be measured; these can be positive or negative. A clear delineation of inputs and outputs / outcomes will help develop a structured focus on the program.
- **Attaching monetary values to the outcomes:** Framework and indicators must be developed to turn the articulated benefits and costs into a monetary value. Some benefits and costs are easy to monetarize, for example when an intervention saves time, which can be used for productive work. Other benefits, like a higher status in the society are more difficult to attach a value to.
- **Calculation of the SROI ratio:** The SROI ratio enables a comparison between investments (inputs) on the one hand and the financial, social and environmental returns (outcomes and impact of an intervention) on the other. SROI= Tangible + Intangible Value to the Community. In its simplest form, the SROI ratio can be calculated by: SROI ratio= (Present Value of Impact)/ (Value of Inputs) It can take the form of a % ROI, a ratio, or a Net Present Value (NPV) number. A lot of people try to get to a number for SROI Ratio and it misses the truth. The point of SROI calculation isn't necessarily to justify capital investment, it's to understand value creation through capital allocation."- Jed Emerson.
- Verification is done throughout the analysis: Verifying the stories/narratives as well as the quantitative data from different stakeholder perspectives is an important aspect of the SROI analyses By going through all these stages and collecting both qualitative and quantitative data, an SROI report can be created, which provides the opportunity to communicate to all stakeholders regarding the initiative, its progress, impact and the next stage development context.

Usefulness of using monetary proxies

It makes it easier to align and integrate performance management systems with financial management systems;

It aids communication with internal stakeholders, especially those responsible for finances and resource allocation

It induces transparency since it provides the details of which values have been included and which have not been included;

It permits sensitivity analysis to reflect which factors are more important and which the im-act the results more result than others;

Why use SROI

An SROI analysis can fulfil a range of purposes. It can be used as a tool for strategic planning and improving, for communicating impact and attracting investment, or for making investment decisions. It can help guide choices and help improve services.

- **Strategic Management:** Facilitate strategic discussions and help understand and maximise the social value an activity creates.
- **Resource Management:** Helps to target appropriate resources for managing unexpected outcomes, both positive and negative.
- **Building Stakeholder Relationships:** Demonstrates the various stakeholders involved in creating change and enables stronger communication of social value.

- **Identifying Needs:** Assists to recognise the needs of the stakeholders and help align with the organisations vision to maximise social value.
- **Accountability:** Creates a formal dialogue with stakeholders which promotes accountability and transparency.

Who can use SROI

SROI can be effectively used by a range of organisations across the not for profit, public and private sectors including those that are small or large in size, or are new and/or established.

- **Not for profit organisations and social enterprises:** SROI can be used as a management tool to improve performance and measure added value for not for profit organisations and social enterprises irrespective of their size.
- **Private sector:** Large and small businesses in the private sector can use SROI to assess risks and opportunities as a result of their products and services on their stakeholders e.g. customers, suppliers , employees, the environment and local communities. This can further help identify ways to support their business plans with wider societal objectives.
- **Funders:** Funders that invest to create social value can use the SROI framework to help decide their investment preferences, assess project performance and measure progress over time.
- **Public Sector:** Public sector is responsible for securing social value in the community. SROI can be used for strategic planning, scoping of programmes, understanding the needs of the stakeholders and monitoring performance of the programmes.
- **Policy Development:** Social value is an important aspect while developing public policy, which can be facilitated by the use of SROI framework.

Potential Limitations

- **Benefits that cannot be monetised:** There will be some benefits that are important to stakeholders but which cannot be monetised. It should be taken as an obstacle rather SROI analysis should be seen as a framework for exploring an organisation's social impact, in which monetisation plays an important but not an exclusive role.
- **Focus on monetisation:** One of the dangers of SROI is that people may focus too much on monetisation without following the rest of the process. For example, if an organisation seeks to monetise its social and environmental impact without having considered its vision and mission and stakeholders expectations, then it risks choosing inappropriate programs and projects.
- **Needs considerable capacity:** SROI is time- and resource-intensive. The measurement of input and outputs / outcomes requires special skills and thus capacity building is essential for effective adoption of SROI approach.
- **Some outcomes not easily amenable to monetary measurement:** Some outcomes and impacts (for example, increased self-esteem, improved family relationships) cannot be easily associated with a monetary value. In order to incorporate these benefits into the SROI ratio proxies for these values would be required.

Why You Should Care about the SROI

Today the competition for seeking and obtaining grants is very intense. Calculating SROI can provide a competitive edge. How the four facets of the organization that are important to any donor or grant maker are :

- **Your credibility** – your non profit knows how to communicate its impact
- **Your capacity** – to invest resources in calculating the SROI
- **Your evidence** – the SROI proves that you collect and manage data and know how to interpret that information to sustain your work
- **Your sustainability** – the SROI is a phenomenal communication tool for fundraising.

Conclusion

Social Return On Investment (SROI) is a principles-based method for measuring extra-financial value (such as environmental or social value not currently reflected or involved in conventional financial accounts). It can be used by any entity to evaluate impact on stakeholders, identify ways to improve performance, and enhance the performance of investments. Finally, it must be remembered that some desirable outcomes may actually increase social costs in the short term. For instance, a program dedicated to helping the homeless may encourage homeless people to register for welfare assistance, use public health care programs, and make use of other available public services. Each of these desired

outcomes will have a measurable cost, decreasing the calculated socio-economic value of the program. Thus, it is important to understand the objectives of the program, to have a set of metrics that address these objectives, and to interpret SROI results in the appropriate program context.

Measuring impact, rather than outputs, marks a fundamental shift in understanding how positive change occurs and whether an organisation's activities contribute to reaching set goals. Impact measurement is important for mission focused organisations and those who invest in them; it helps gauge the progress towards achieving social goals, as well as, helps communicate more effectively with stakeholders and funders.

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