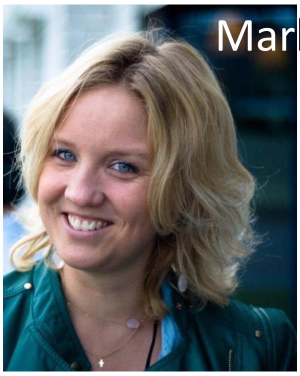
The Beginners Guide To Social Return On Investment

Learn more about SROI and how you can measure your impact

Sinzer
Value what matters



Marlon van Dijk - Managing Director

We all make choices in our life, whether as an individual or in our professional role as investor, manager, commissioner, or whatever other position you may hold. But when we make these choices, we are also accountable for the consequences. Especially when your choices affect the lives of others.

Many organisations today are trying to create change in the lives of people. Corporations wish to do good with their CSR strategies, institutional investors are applying new investment techniques to create an impact on society and high net worth individuals are giving away increasing amounts of their money to change the world. And let us not forget about the usual suspects such as government programs, foundations, NGO’s and social enterprises. I do not doubt the intensions of the individuals working in these organisations. I do think, however, that it’s necessary – before setting up activities to improve the lives of others – to think before you act.

SROI is a framework that can facilitate this process for you: it helps you involve your stakeholders, understand what changes and value what matters. And perhaps most importantly: it shows you whether you are indeed creating impact for those you are trying to help.

If you are serious about creating change, take a few minutes to look at this quick guide and learn how SROI can help you make better decisions and be accountable to stakeholders. After all, if you do not value what matters, how can you be sure you’re doing the right thing?

This guide is all about Social Return On Investment (SROI). As the title suggests, it is meant as a beginners guide, in order to help you get familiar with the basics of SROI and how you can measure your impact. To help you get started with your SROI analysis, this guide will cover the following topics.

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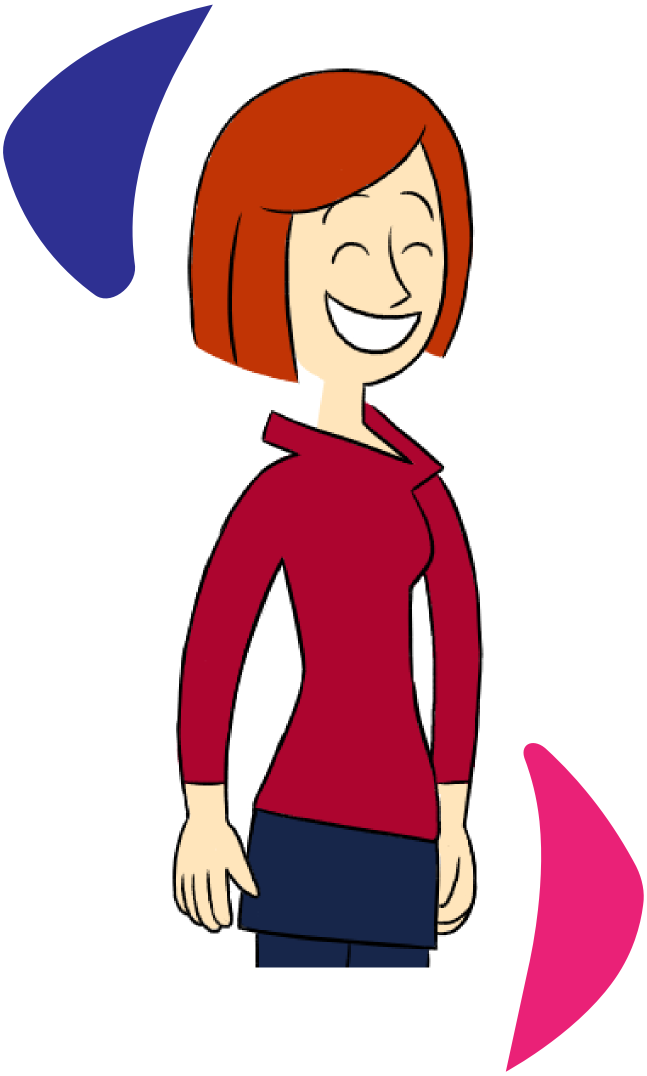
For setting up this Beginners Guide to SROI we have used A Guide to Social Return on Investment, first published in 2009 and updated in 2012 by one of our partners, The SROI Network.



Introduction

Learning more about Social Return on Investment will give you a better understanding of how to measure your impact and be accountable to your stakeholders. To start off this guide and understand the concept of Social Return on Investment, it is important to give a brief explanation of what is meant by 'impact measurement' and what we mean when we talk about 'value'.

What is impact measurement?

Impact measurement has broad applications and while there is a focus on investors and government requirements, service providers have also called for their needs and those of their beneficiaries to be reflected in measurement We feel, therefore, that the social and environmental performance needs to be measured with the same level of robustness as financial performance – which is very common in all different kinds of businesses. Measuring financial performance can offer important insight, but did you know there are also many benefits of measuring your impact?

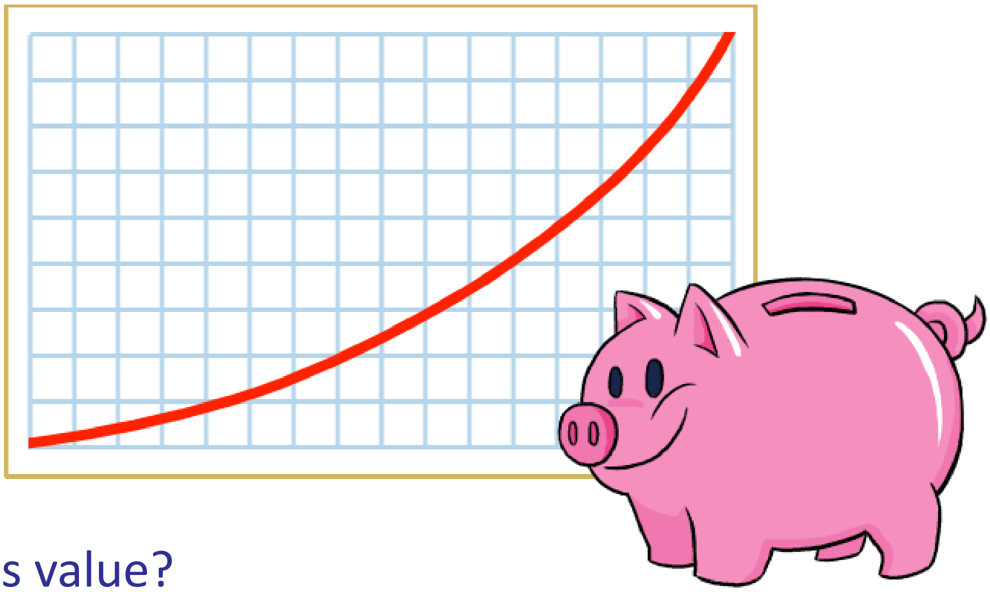
There are three main benefits of good impact measurement:

1. The ability to generate value for all stakeholders. This impact goes beyond a simplistic focus on the needs of a potential investor and instead drives at ensuring value creation for investors, investees and beneficiaries.

2. The potential mobilisation of greater capital into areas of positive social impact creation.

3. Increased transparency and accountability for delivering on the intended area of impact.

Reading this brief explanation only, you can understand that every day our actions and activities create and destroy value – they all change the world around us. Let's take a closer look at what we mean by 'value'.



What is value?

The full concept of value is not captured when we talk about financial capital alone. Value is a broader concept including human, intellectual and natural capital. Up until now, organizations have mostly been accountable for the financial capital they create or destroy. With the growing notion of a wider definition of value however, the “old” way of looking at value no longer suffices. Many organizations are currently working on a new vision of value. At Sinzer we create solutions to measure, report and communicate these values. And since our pay off is “Value what matters” we would like to share our vision of value with you.

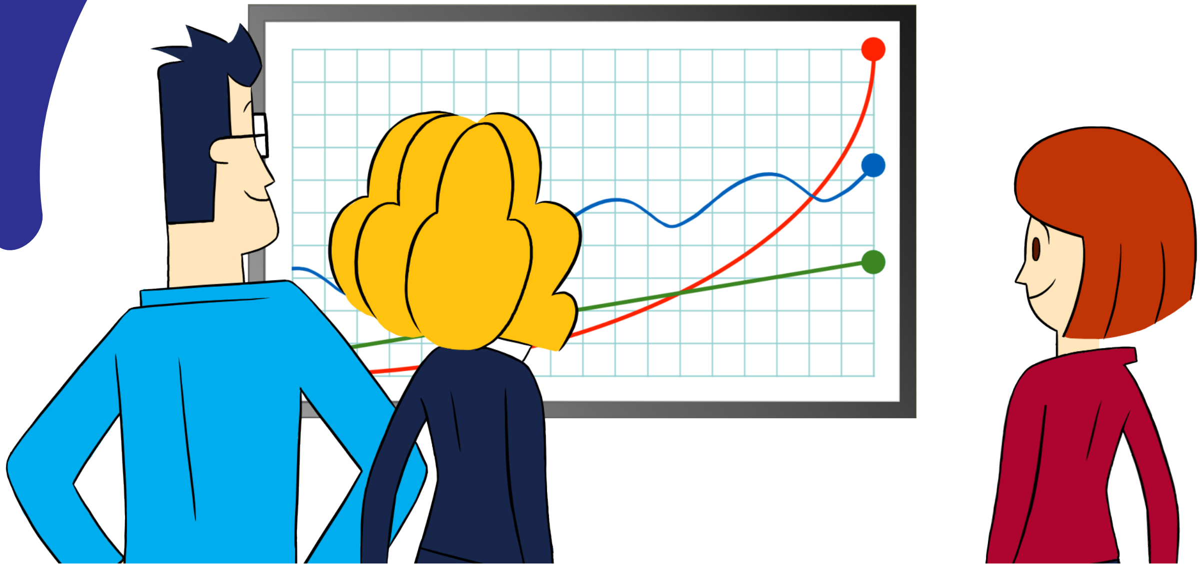
Although many organizations are trying to capture value behind their desk, we believe that ”Value is in the eye of the stakeholder, like beauty is in the eye of the beholder”. With this statement we mean to emphasize the importance of involving stakeholders, understanding what changes for them (positive or negative change, intended and unintended change) and understanding how important these changes are for them. A question often raised in this regard, is: how objective is this? The answer is simple: value is always subjective!

Value is about how important things are for a person. Often the most important things don’t have a market price, for example a change in your self-confidence, security or the environment you live in. A change in self-confidence can be really important for a person who lacks self-confidence and therefore valued higher compared with a person who already has a lot of self-confidence and therefore valued much lower.

The same is valid for products and services that do have a market price. Let’s take high-heeled Valentino shoes for example. There are certain people (for example high-income female managers) who are willing to pay the market price, about € 500, for these shoes. This price represents the value that these shoes create for them: style, sophistication and ambition. And therefore they are willing to pay this amount. If you would ask a middle-income nurse, she wouldn’t value these shoes the same way. On the contrary! The shoes would probably create negative value (painful feet) since she can’t work on those during her shifts as a nurse.

Value can also change over time. Some things can be really important for you at a certain time. Gloves are important when you are biking in the winter and a swimsuit is important when you are at the beach. But gloves are worthless at the beach, as is a swimsuit in the winter while you are riding your bike. Therefore it is necessary to understand for whom you are delivering products and services, what changes because of these products and services, when these changes take place and how valuable this is for these stakeholders.

No matter which valuation technique you use, involving your stakeholders is crucial to fully understand what value you create.



What is Social Return on Investment?

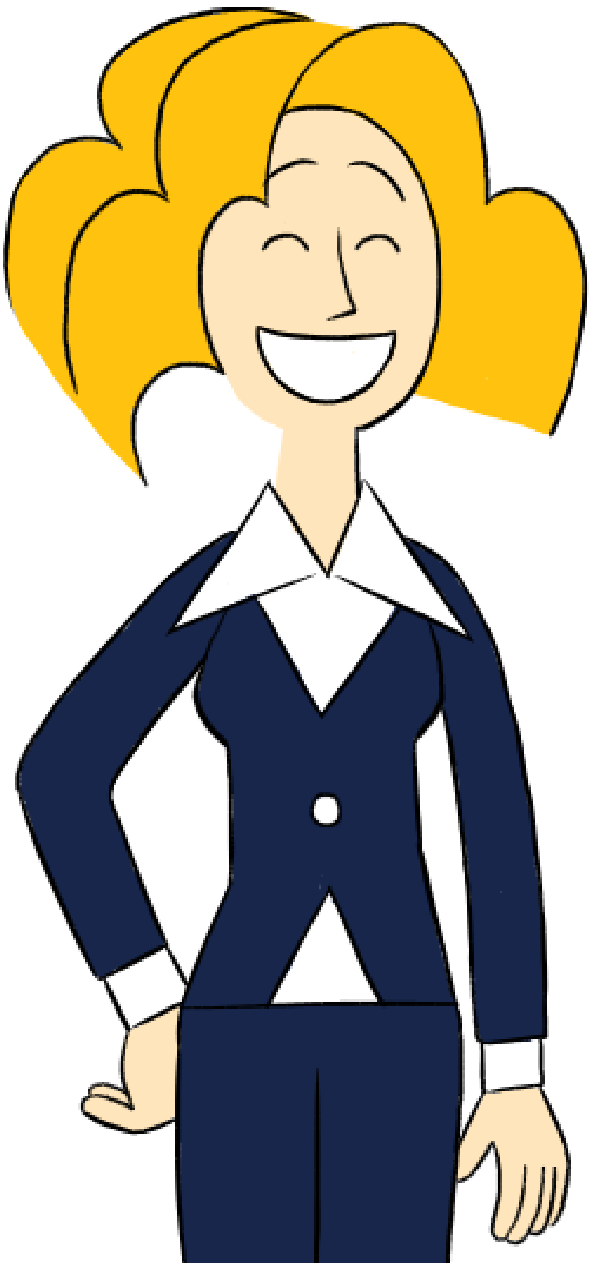
So, up until now we have learned that Social Return on Investment (SROI) is a framework for measuring and accounting for this much broader concept of value. SROI measures change in ways that are relevant to the people or organizations that experience or contribute to social value.
This shows how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them. This enables a ratio of benefits to costs to be calculated. For example, a ratio of 3:1 indicates that an investment of € 1,- delivers € 3,- of social value.

SROI is all about value. And not so much about money. Money is simply a common unit and is as such a useful and widely accepted way of communicating value. But in the same way that a business plan contains much more information than (future) financial expenses of a business, an SROI analysis is much more than just a number. It is a story about change, on which you can base decisions that includes case studies and qualitative, quantitative and financial information.
There are two types of SROI:

1. Evaluative, which is conducted retrospectively and based on actual outcomes that have already taken place.
2. Forecast, which predicts how much social value will be created if the activities meet their intended outcomes.

Forecast SROIs are especially useful in the planning stages of an activity. They can help show how an investment can maximize impact and are also useful for identifying what should be measured once the project is up and running. A forecasted SROI can be followed with an evaluative SROI to verify the accuracy of the predictions.

A lack of good outcomes data is one of the main challenges when doing an SROI for the first time. You will need data on outcomes to enable an evaluative SROI to be carried out, and a forecast SROI will provide the basis for a framework to capture outcomes. It is often preferable to start using SROI by forecasting what the social value may be, rather than evaluating what it was, as this ensures that you have the right data collection systems in place to perform a full analysis in the future.



The 7 principles of SROI

SROI was developed from social accounting and cost-benefit analysis and is based on seven principles. These principles underpin how SROI should be applied.

1. Involve stakeholders – involve stakeholders by informing them what gets measured and how

2. Understand what changes – articulate how change is created and evaluate this

3. Value the things that matter – use financial proxies in order that the value of the outcomes can be recognized

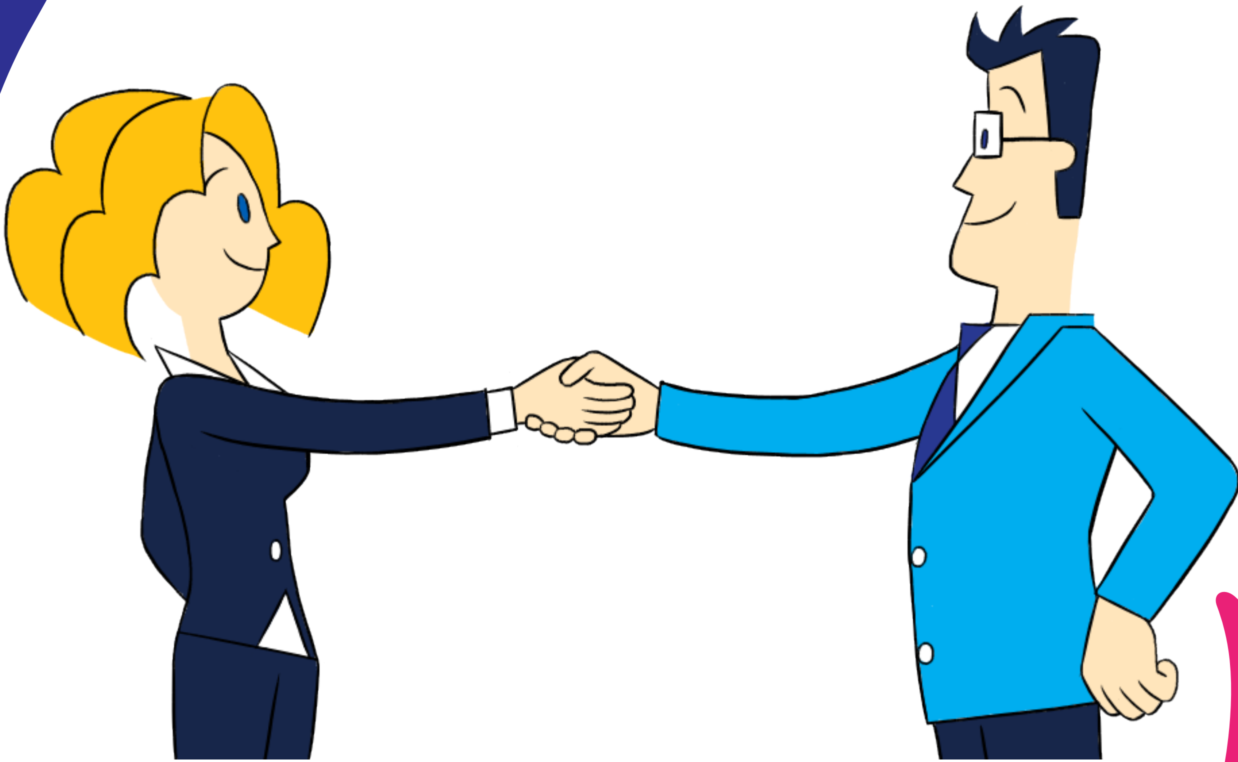
4. Only include what is material – determine what information and evidence must be included

5. Do not over-claim – only claim the value that you are responsible for creating

6. Be transparent – demonstrate the basis on which the analysis is considered

7. Verify the result – ensure appropriate independent assurance to show decisions made are reasonable

SROI, like any research methodology, requires judgement to be used throughout the analysis. This guide flags up points in the process where judgements are required, and where decisions need to be taken. You can find more detailed information about this in our Step by Step Guide. One area in which judgements are of utmost importance, are decisions about materiality. This is a concept that is borrowed from accounting. In accounting terms, information is material if it has the potential to affect the readers' or stakeholders' decision. A piece of information is material if missing it out of the SROI would misrepresent the organization's activities. For transparency, judgements about what is material should be documented to show why information has been included or excluded in the analysis. We encourage you to become familiar with the concept, among other concepts, as they will inform your decisions throughout the process.



How SROI can help you

You're investing your money, your time and your reputation in worthwhile causes, but are you really making a difference? The pressure and importance to answer these questions has never been greater. SROI helps you make better decisions, improve your impact and be accountable to stakeholders. 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 also help guide choices which managers face when deciding where they should spend time and money.

So, you can use SROI as a planning tool, for communicating impact to your stakeholders, for investment decisions and to help you decide on what to spend time and money on. Besides that, it has been mentioned that SROI generates value for all stakeholders, mobilizes capital into positive social impact creation and creates increased transparency and accountability, remember?
OK, but how exactly can SROI help you to improve your services? This is how:

a. Facilitating strategic discussions and helping you understand and maximize the social value an activity creates

b. Helping you target appropriate resources at managing unexpected outcomes, both positive and negative

c. Demonstrating the importance of working with other organizations and people that have a contribution to make in creating change

d. Identifying common ground between what an organization wants to achieve and what its stakeholders want to achieve, helping to maximize value

e. Creating a dialogue with stakeholders that enables them to hold the service to account and involves them meaningfully in service design

Who can use SROI?

Social Return on Investment can be used by a range of organizations across the not for profit (or voluntary), public and private sectors - small, large, new and established. The level of detail required of the SROI will depend on the purpose of your SROI; a short analysis for internal purposes will be less time-consuming than a full report for an external audience that meets the requirements for verification.

Not for profit organizations and social enterprises

Not for profit organizations and social enterprises can use SROI as a management tool to improve performance, inform expenditure and highlight added value. These may be start-up organizations developing business plans or established organizations. It can be used for analysing value arising from trading activities whether the organization is selling to the general public, to the public sector or to other businesses.

Private businesses

Both large and small businesses can use SROI to assess risks and opportunities arising from the impact of their products and services on their stakeholders e.g. employees, suppliers, customers, the environment and their local communities. Businesses can also use SROI to assess risks arising from the impact of the business on stakeholders and to identify ways to align their business objectives with wider societal objectives, which may result in opportunities for new, or improved products or services.

Funders

Funders that invest to create social value can use SROI initially as a way to help them decide where to invest, and later to assess performance and measure progress over time. Funders that are operating under responsible investment criteria can use SROI to ensure that the businesses in which they invest are managing the most material social, environmental and economic risks. Other funders can use SROI to assess social, environmental and economic risks that will, or may occur, as a result of an investment and which could affect the returns.

Commissioners

Public service commissioners are in the business of securing social value that is delivered by third parties. The mechanisms by which that value is secured may differ but, by measuring that value, better decisions can be made. SROI can be used at three points in the commissioning process:

1. Program/pre-procurement – forecast SROI analyses can be used at the strategic planning stage to decide how to set up a program, for market testing and to determine scope and specification of contracts.

2. Application/bidding – forecast SROI analyses can be used to assess which applicant or bidder is likely to create the most value.

3. Monitoring and evaluation/contract management–evaluative SROI analyses can be used to monitor the performance of a successful contractor

Using SROI to inform public sector commissioning decisions is in line with value for money appraisals. Value for money assessments are generally based on the 'optimum combination of whole-of-life costs and quality (or fitness for purpose) of the goods or service to meet the user's requirement'. These costs and benefits must include 'wider social and environmental costs and benefits for which there is no market price'.

For developing policy

SROI can be used by organizations that develop public policy, for which recognition of social value is important. For example, it has been used to compare the value of investing in support-focused community penalties for women offenders as opposed to sending them to prison and to assess the value (or costs) of an additional runway at Heathrow airport.

How to carry out an SROI analysis

Carrying out an SROI analysis requires a mixed set of skills. It will be helpful if you have prior experience of engaging stakeholders, outcomes measurement or evaluation and basic accounting skills. Even if you have experience in these areas, it may still be helpful to attend a training course. Sinzer, in collaboration with the SROI Network, organizes the SROI practitioner training in Amsterdam. If you lack time and SROI experience within your own organization all-together, it is also an option to outsource the analysis to SROI experts.

Giving exact guidance on timescales is difficult because it is contingent on many factors, including scope, skills level and data availability, and whether you will be using the report for internal management or external reporting purposes. All new measurement systems take some resources to implement. However, there are ways to keep the resources you require to a minimum. You could start with a project or contract rather than the whole organization, or you could start with a forecast SROI analysis, especially when looking at a new business or a new activity. A forecast SROI analysis for internal management purposes, for example to help design information systems, would not need to be as detailed as a report you were planning on making public. With our software tool you will be guided through all the steps necessary for how extensive your analysis needs to be. This way reducing the resources and expertise you require.

An evaluative SROI analysis will be more time consuming than a forecast SROI. Doing a forecast SROI analysis first can help you plan and prioritize the introduction of new information. Also, the time required is much reduced if the organization already produces good outcomes data as it can take time to introduce systems to assess outcomes. Outsourcing your SROI analysis or using a software tool can also help reduce the timeframe in which an analysis can be completed.

You now know the basic principles of Social Return on Investment and have a better idea of how SROI can help you measure and maximize your impact.

If you would like more information, have questions or would like advice on how to carry out your own SROI analysis or impact measurement in general, feel free to contact us via http://www.sinzer.org or info@sinzer.org.

Our mission is to support our clients by making impact measurement better accessible, cost-efficient and enabling organizations to manage and report about impact in a consistent way via consultancy and impact measurement software. Value what matters!

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