

## What is Social Return on Investment (SROI)?

Social Return on Investment (SROI) is a process of understanding, measuring and reporting on the social, environmental and economic value created by an organisation.

The SROI framework is an approach to measurement, developed from – and combining – cost-benefit analysis and social auditing. The approach captures social value by translating social objectives into financial and non-financial measures.

SROI is unique in its ability to bring the measurement of social and environmental value into the economic sphere. It provides a means to communicate social value in economic language. This is critical in today's marketplace where a growing number of philanthropic bodies display a preference for funding social organisations that also demonstrate economic sustainability.

The SROI ratio is a powerful, simple and clear indicator of the full return an organisation makes to the stakeholders it affects through its operations.

This tool is of particular value to these types of organisations as they respectively seek financing, and differentiate between competing requests for funding. For third sector organisations that already place social and environmental aims on a par with economic ones, SROI provides the means to demonstrate the value of these aims.

SROI measures the value of the benefits relative to the costs of achieving those benefits, which gives a ratio. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

An SROI ratio is a comparison between the value generated by an intervention and the investment required to achieve that impact. However, an SROI analysis is not restricted to just one number, a short-hand for expressing value. It presents a framework for exploring an organisation's social impact, in which monetisation plays an important, but not an exclusive, role.

## Make it Happens Approach to SROI

Make it Happen Consultancy have been trained and are supported by Nef Consulting ([www.nef-consulting.co.uk](http://www.nef-consulting.co.uk)).

The methodology of Nef Consulting's SROI is rooted in the principles laid out by the European SROI network. SROIs are conducted in four principal phases:

- 1) Parameter Setting and Impact Mapping
- 2) Data Collection
- 3) Modelling and Calculation
- 4) Reporting and Recommendation.

## Phase 1: Setting Parameters and Impact Map

### **Boundaries**

- Create the framework for the analysis – what part of the organisation, or individual project is to be measured – and prepare background information.
- Describe how the project or organisation works and decide the time period for measurement.

### **Stakeholders**

- Identify the stakeholders whose costs and benefits – associated with the investment or organisation – are to be measured.
- Prioritise key stakeholders and objectives. Materiality – the accountancy term for ensuring that all the areas of performance needed to judge an organisation's performance are captured – is used in the selection of stakeholders and objectives.
- Identify common or overriding objectives.

### **Impact Map**

- Conduct stakeholder engagement to assist in the creation of an impact map that describes how the organisation/investment affects key stakeholders.
- An impact map demonstrates how an organisation's inputs and activities are connected to its outputs and how in turn these may affect stakeholders' outcomes. Impacts can then be derived from the identified outcomes.

## Phase 2: Data Collection

### **Indicators**

- Identify appropriate indicators to capture outcomes and identify monetised equivalent values for those indicators. Where monetary values for indicators are not obvious, a selection of approaches is used to determine financial proxies for intangible impacts.

### **Data Collection**

- Use tried and tested sources to gather the data – required by the impacts laid out in the impact map – for accurate measurement of identified costs and benefits.

## Phase 3: Model and Calculate

### **Model and Calculate**

- Create a cost-benefit model using gathered data and projections:
- Calculate the present value of benefits and investment, total value added, SROI ratio and payback period.
- Use sensitivity analysis to identify the relative significance of data.
- Account for the displacement, attribution and deadweight of the organisation/investment under review.

## Phase 4: Report and Recommendation

### Report and Recommendation

- Consider and present the SROI produced by the organisation/investment.
- Identify how the benefits are divided between stakeholders.
- Identify the key factors that affect the SROI ratio.

## SROI Features

**Triple bottom-line:** A measurement tool for comparing not only the economic costs and benefits of an organisation/investment, but also its social and environmental costs and benefits.

**Ratio:** The SROI ratio is a powerful, simple and clear indicator of the full return an organisation makes to the stakeholders it affects through its operations.

**Consistency:** A tried and tested methodology, based on solid principles, allows the comparison of different investment opportunities.

**Change Management:** Use of stakeholder engagement to help create a theory of change – a clear framework that outlines the relationship between an organisation’s investment and its impact.

**Forward & Backward Looking:** The methodology employed by SROI permits it to be used both as an evaluative as well as a predictive measurement tool.

**Rigour:** By including assessments of deadweight, attribution and displacement, SROI ensures that organisations do not over claim for the benefits that they are achieving and that the relationship between investment and impact is well understood.

## SROI Principles

### 1. **Involve stakeholders: Inform what gets measured and how this is measured and valued by involving stakeholders.**

Stakeholders are those people or organisations that experience change as a result of the activity and they will be best placed to describe the change. This principle means that 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.

### 2. **Understand what changes: Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.**

Value is created for or by different stakeholders as a result of different types of change; changes that the stakeholders intend and do not intend, as well as changes that are positive and negative. This principle requires the theory of how these changes are created to be stated and supported by evidence. These changes are the outcomes of the activity, made possible by the contributions of

stakeholders, and often thought of as social, economic or environmental outcomes. It is these outcomes that should be measured in order to provide evidence that the change has taken place.

**3. 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.

**4. Only include what is material: Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.**

This principle requires an assessment of whether a person would make a different decision about the activity if a particular piece of information were excluded. This covers decisions about which stakeholders experience significant change, as well as the information about the outcomes. Deciding what is material requires reference to the organisation's own policies, its peers, societal norms, and short-term financial impacts. External assurance becomes important in order to give those using the account comfort that material issues have been included.

**5. Do not over-claim: Only claim the value that organisations are responsible for creating.**

This principle requires reference to trends and benchmarks to help assess the change caused by the activity, as opposed to other factors, and to take account of what would have happened anyway. It also requires consideration of the contribution of other people or organisations to the reported outcomes in order to match the contributions to the outcomes.

**6. Be transparent: Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.**

This principle requires that each decision relating to stakeholders, outcomes, indicators and benchmarks; the sources and methods of information collection; the difference scenarios considered and the communication of the results to stakeholders, should be explained and documented. This will include an account of how those responsible for the activity will change the activity as a result of the analysis. The analysis will be more credible when the reasons for the decisions are transparent.

**7. Verify the result:**

**Ensure appropriate independent assurance.**

Although an SROI analysis provides the opportunity for a more complete 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.



## SROI Assurance Process

The SROI Network oversees the SROI Assurance Process.

The SROI Network is a membership organisation and a company limited by guarantee.

The objectives are:

- To ensure the principles and standards of SROI are adhered to
- To develop the methodology
- To disseminate information on indicators and proxies for use in SROI analyses
- To train SROI practitioners and provide peer support.

The assurance process seeks to ascertain whether or not a report complies or does not yet comply with SROI principles.

Make it Happen Consultancy Ltd are a member of the SROI Network and Richard Dickins (Director at MIHC) currently sits on the Methodology and Assurance Board at the SROI Network.

You can read more about the SROI Network here <http://www.thesroinetwork.org>.