Briefing: Social Return on Investment

Andy Bagley explains what Social Return on Investment (SROI) is all about, and how it can help you.

What is Social Return on Investment?

Social Return on Investment (SROI) is a way of measuring an organisation's full social, economic and environmental impact. It identifies and measures the changes experienced by everyone the organisation has an effect on - service users and others. It then uses financial equivalents to value these outcomes, even where these reflect changes not normally considered in financial terms such as health and well-being. This enables a the calculation of a ratio of benefits to costs, so that for example a ratio of 4:1 indicates that £4 of social value is delivered for every £1 invested.

To clarify some of the terminology:

- ***Outputs*** are what you produce or provide: services, activities, facilities or other support
- ***Outcomes*** are the differences you make. They are how your work affects people's lives, and how you create positive change for clients, communities and wider society
- ***Impact*** is used to describe all of the outcomes attributable to a specific project or course of action, usually long-term

Put simply, it's about the real value of what you do, not just counting numbers. SROI is most commonly applied to particular projects or services, but can be used to assess the value of a whole organisation.

With changes in funding regimes, the public and voluntary sectors are seeing a significant shift in how their work is evaluated. Instead of measuring outputs or levels of activity, the emphasis is increasingly on outcomes and impact, and hence SROI becomes ever more important.

How Will it Help Us?

SROI can help in two ways:

- It can demonstrate how effectively your organisation works, and the value of what it achieves. This may help to diversify your income streams by securing funding from commissioners or other sources – although there is no guarantee of this (funders do not generally use SROI as an exclusive criterion). It will however demonstrate to potential funders the impact of the work your organisation does, and that you understand how to improve that impact further.

The 2012 Social Value Act is particularly relevant in this context. It requires public bodies to consider the social and environmental impact of services they purchase or procure. It does not require them to use SROI to do this, but this is certainly one approach they could take.

- Perhaps more important, it gives your organisation a greater understanding of how it generates social value, and hence how to improve its effectiveness further. This understanding lies at the heart of SROI analysis, and no report should conclude simply with an SROI ratio. There should always be ideas, advice, and recommendations on how the organisation can do better still.

What Does an SROI Analysis Involve?

SROI analysis is a systematic approach comprising the following basic steps:

1. Clarify the scope of the assessment, identify the stakeholder groups involved, and decide which of these are most important for the SROI analysis

2. Establish the outcomes for these stakeholders – what are the inputs and what changes for them as a result? What practical benefits can the various groups or individuals expect (and are there any negatives)?

3. Identify an appropriate way of measuring these outcomes – indicators that show the extent of change and how many people/situations they apply to.

4. *Put a financial value on these outcomes*. This is the critical step: what are these outcomes worth to people/organisations? Sometimes this may be obvious; in other instances some form of proxy indicator may be needed. This can be done in various ways, but must be realistic.

5. Apply appropriate modifiers to these figures, for example:
   - 'Deadweight': Is all of the difference is due to the action you have taken, or would some of it have happened anyway?
   - 'Displacement': Have we just moved the problem elsewhere rather than solving it?
   - 'Attribution': How much of the change is due to what we have done, and how much to the efforts of others?
   - 'Drop-off': Does the change last indefinitely or does it reduce over time?

   Finally, a sensitivity analysis is applied to test the effect of varying any assumptions included.

6. Calculate the return. Based on the previous two stages, the value of your impact can be compared with the cost of the input required. This is known as the SROI ratio.

7. Report and implement the conclusions – take action that turns those numbers into real improvements.

Can We Really Give Financial Values to 'Intangibles' like Health and Well-Being?

Many public authorities do this already. The National Institute for Health and Care Excellence (NICE) uses Quality Adjusted Life Years (QALYs) to put a financial value on added years of life, in order to assess the efficacy of particular drugs or treatments. The Department for Transport (DfT) calculates the value of road safety schemes by judging them against the full economic cost of the injuries and deaths that they prevent. A similar calculation is used by the Department of Health to calculate the full economic cost of suicides.

This is not to say that such calculations are easy. Robust SROI analysis requires sound understanding of the changes being evaluated, and the ability to identify the most appropriate financial equivalents (proxies) from many options that may be available.

There are a number of ways in which these financial proxies can be derived. Space precludes going into detail here, but some examples include:

- Direct financial benefits – known cost savings or financial gain (e.g. the amount of money a project raises for charity)
- Willingness to pay (or avoid) – how much would the user or organisation pay for the service (or pay to avoid something worse happening) if they had to?
- Revealed preference – what does people's behaviour say about how they value goods or services (e.g. how much more will people pay for housing close to a good school?)
- Equivalent valuation ('life satisfaction') – how much money might compensate someone for loss of life satisfaction from their situation or disadvantage?

These valuation methods are also relevant to commissioning, because they can show how much third sector organisations save other public services (such as the NHS or Local Authorities), through the work that they do.

How Reliable is It?

The SROI Network (http://www.thesroinetwork.org) manages the SROI process in the UK, and is very conscious of the need to make it as reliable and credible as possible. Detailed guidance is provided through a Guide to Social Return on Investment, and this is continually being revised and improved.

The Network lays down seven guiding principles that should apply to any SROI analysis:

- Involve stakeholders
- Understand what changes
- Value the things that matter
- Only include what is material
- Do not over claim
- Be transparent
- Verify the result

The SROI Network can also provide assurance for SROI reports, certifying that they follow SROI principles. It also maintains a list of Accredited Practitioners – people who have been fully trained and had SROI reports assured.

Ultimately, SROI ratio figures will always be an estimate, and are often expressed as a range (e.g. between £4 and £7 of social value per £1 invested) rather than a precise figure. In this respect, we believe they are at least as accurate as normal methods of financial cost benefit analysis.

Can We Do it Ourselves, or Do We Need External Help?

You can do it yourself if you feel you have the skills and capability – training run by the SROI Network is open to all. Some people feel that external analysis by an Accredited Practitioner provides more credibility, particularly if external funding is an issue, but the decision is entirely yours.

If you go for an external study, it need not be expensive. It is impossible to quote guideline costs as these depends on many factors such as the scope of the study, the size of the organisation and the range of services being reviewed – as well as who does it. But we have heard some figures that are greatly exaggerated, and we strongly recommend you get some quotes before making any assumptions on affordability.

And any external study will be done with you, not to you. The guiding principles (see above) ensure that you will be closely involved, to reach robust and realistic conclusions.

Where Can I Find Out More?

The SROI UK website (http://www.thesroinetwork.org) provides a wealth of information, much of it on open access. This includes a:

Guide to SROI: http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide

Guide to Commissioning for Maximum Value:
http://www.thesroinetwork.org/publications/doc_details/224-guide-to-commissioning-for-maximum-value

Database of indicators and financial proxies: http://www.globalvaluexchange.org/

Some of the case studies on my web site give examples of SROI evaluations.

Alternatively just contact andy@real-improvement.com, and I will be pleased to talk to you in more detail.