# Social Return on Investment (SROI)

**Measuring your wider impact helps you understand and promote your real value.**

**nef consulting realises the consultancy potential of nef's (new economics foundation) twenty-year history as an innovator in social and economic analysis.**

**nef consulting delivers nef's vision of new economics with innovative and proven solutions to economic, environmental, and social development. These integrate what are often regarded as 'soft' outcomes, such as well-being measurement and community engagement, with 'hard' socio-economic analysis and outputs.**

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## An Investment's True Return

The days when businesses need only measure the financial impact of their actions are fast disappearing. The UK is the first country to require companies[1] to report on environmental matters, employees, social and community issues and risks down company supply chains, where they are necessary to understanding the company's business[2]. Going forward, the performance of organisations will be evaluated on their triple bottom line – economic, social and environmental.

Similarly, the third and public sectors are also operating in a climate that increasingly demands higher standards of accountability with respect to social, environmental, and economic impacts. It is often no longer sufficient for third sector and public organisations to simply say they are doing 'good work': they must provide proof that this is the case.

To meet the growing demand to measure the social and environmental, as well as the economic impact of an organisation's activities, **nef consulting** offers a practical socio-economic analysis tool that provides organisations with a transparent way of incorporating the measurement of otherwise intangible impacts in the calculation of their effectiveness.

The tool – SROI (Social Return on Investment) helps an organisation both measure the true impact of its activities and compare these to its investment. It also allows organisations to better understand the process by which their actions affect their stakeholders.

To date, **nef** has delivered 25 Social Return on Investments for use mainly by third sector organisations and private sector investment funds. 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.

## About nef

**nef** (the new economics foundation) is an independent 'think and do' tank that combines research, consulting and advocacy to develop practical initiatives and tools to build an economy that is socially inclusive and environmentally sustainable. **nef** has an exceptional record of social innovation and has established itself as the leading UK research and policy organisation. **nef** was voted Think Tank of the Year in 2002/3.

**nef** has been at the forefront of SROI development in the UK since 2003. The development work led to a tool based on social accounting methodologies, making it comparable to organisations' existing accounting procedures.

**nef consulting** – **nef**'s formal consultancy arm, which financially supports its charitable objectives and mainstreams its vision of new economics – brings together two main areas of strength:

- **nef**'s blend of tested experience, influential personnel, and established tools that offer innovative and proven solutions to economic and social development. These tools integrate what are often regarded as 'soft' outcomes, such as well-being and community engagement, with 'hard' socio-economic analysis and outputs.
- **nef**'s pioneering work in developing the SROI methodology and extensive experience of working in measurement and evaluation for a wide range of economic sectors.

SROIs have provided actionable recommendations to both guide economic and social sustainability in existing as well as new investments.

## Introduction to 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.

**nef consulting**'s 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 measures the value of the benefits relative to the costs of achieving those benefits:

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

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.

## Why SROI Matters

### To Third Sector Organisations:

The value that third sector organisations provide goes beyond the financial. Conventional forms of economic performance measurement are unable to capture the added social and environmental value generated by such organisations. At the other end of the scale, tools such as social audits measure only how well organisations are meeting their mission statements. They do not turn the experiences/views of users into a value understood within economic circles. Nor do they compare the perceived benefits with the costs of an organisation i.e. the return.

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.

### To Philanthropic Funding Bodies:

Limited in their ability to access conventional forms of financing, a greater number of social enterprises are looking to socially orientated capital funds for support. Funding bodies need an effective tool to accurately compare competing requests for investment in the face of growing demands for such financing. SROI is that tool.

A methodology based on clearly identified principles allows for the accurate measurement of the total – economic, social and environmental – return of an investment. A change in an organisation's ratio gives a short-hand indication of whether an investment is having the desired impact.

### To Private Sector Companies:

After twenty years of CSR (Corporate Social Responsibility), companies are still limited in the tools available to them to fully measure (and therefore understand) the economic, social and environmental effects they have on stakeholders. SROI provides the private sector with a means of understanding the (intended/unintended) effects they have on their surroundings, placing those effects in a language they understand. SROI does this through use of a rigorous methodology, based on accounting principles. This allows for complementarity with existing performance recording procedures.

SROI helps the private sector to connect with those stakeholders that their operations affect. This provides the organisation with a powerful tool to either demonstrate its current economic as well as social and environmental sustainability, or, in the event of a sub-optimal evaluation, plot a route toward a sustainable future.

**To Commissioners and Procurers in the Public Sector:**

The pressure on the public sector to show 'value for money' continues to grow. SROI makes it possible to measure a far wider range of outcomes than conventional measurement tools. This enables public sector commissioners to more accurately demonstrate the value of their projects. This is important, as **nef**'s research on efficiency drives within the public sector has shown that an incomplete account of the full range of costs and benefits of a project can lead to a poorer return in the long run. As the role of the voluntary and private sectors in delivering public services grows, commissioners also need better information on which to base procurement decisions. With limited resources, SROI can help the public sector negotiate the trade-offs between social, environmental and economic objectives, and ensure that publicly funded interventions achieve the greatest public benefit.

## 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.

## Methodology

The methodology of **nef consulting**'s SROI is rooted in the principles laid out by the European SROI network[3].

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.