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Social return on investment (SROI)

Training materials prepared for E-learning module – measuring impact of service (AlpSib platform)

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Motivation

Investor in the social impact bond (SIB) model reimburses his investment and earn a return only if predetermined results are achieved. The results, i.e. the social impact of the project, is evaluated by an independent evaluator at the end of the project. Social impact measurement is thus a crucial part of the SIB model.

There exist more than 150 methods to measure social impact in practice, however just some satisfy the general criteria to be used in the SIB model. The motivation of this presentation is **to first review the most widely used methods in practice and then to present the most useful one for the impact measurement in the SIB model.**

Going through this presentation, one would..

Be aware of **wide array of methods** used to measure social impact that are used in practice today.

Be aware of the **criteria that should be met by the method for measuring social impact in the SIB model** and know **why SROI is one of the most useful approaches**.

Understand **the main idea of the SROI**.

Understand **how SROI analysis is conducted** and be able to **design and conduct an SROI analysis**.

Measurement methodology

Social impact measurement methodology started to emerge in the 1990s. **The first comprehensive quantitative method – the Social return on investment (SROI)** was launched in 1997 (Florman et al. 2016)

Today **more than 150** impact measurement methods/approaches is used in practice (Foundation Center, 2015).

Surveys of impact measurement methodology:

- Catalog of approaches to impact measurement (Olsen and Galimidi, 2008).
- A critical evaluation of social impact assessment methodologies and a call to measure economic and social impact holistically through the External Rate of Return platform (Florman et al., 2016).

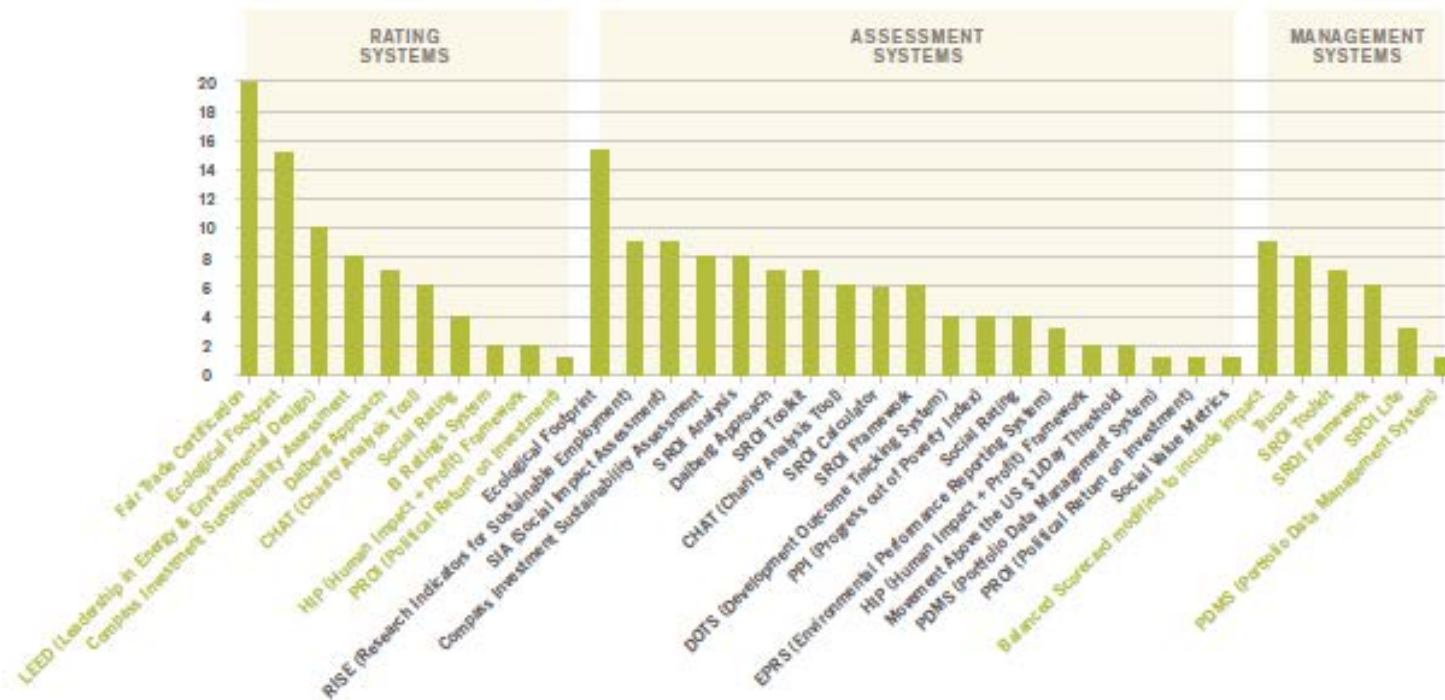
Olsen and Galimidi (2008) categorize methods as rating, assessment and management system

Rating system: the impact is summarized by a score or symbol.

Assessment system: evaluates characteristics, practices, and/or results of portfolio investments (but does not provide tools to manage the tracking of operational data by the organization over time).

Management system: provides tools for organizations to manage detailed operational information about drivers of impact.

Rating, assessment and management systems (Olsen and Galimidi, 2008)



Note: bar represents years since first implementation

Florman et al. (2016) classify methodologies in general and specific methods

General methods cover various aspects of impact beside financial impact. General methods were created mainly by investors and international organizations; investors (GIIN, REDF), international organizations (the U.N.) and private governance organizations (B Labs, GRI). As seen in the next slide these methods are employed by a number of users in different areas.

In contrast **specific methods** is used by a single entity or target particular areas, such as: environmental, social, etc.

- Environmental
- Social
- Etc.

General social impact measurement methodologies (Florman et al. 2016)

Name	Year launched	Areas of focus	Cost	Use	Institutional affiliation
Social Return on Investment (SROI)	1997	Economic, social and environmental	Free or paid	Broad array of companies employing adapted versions of the SROI	Originally developed by the Roberts Enterprise Development Fund
Social Rating	1998	Social and ethical financial	Free or Charge	Microcredit donors and investors	Micro-Credit Ratings International Ltd.
Social Impact Assessment (SIA)	1999	Economic, social and environmental	Free	Participants in the Global Social Venture Competition	Global Social Venture Competition (GSVC)
G4 Guidelines	2000	(G1 in 2000; G4 launched in 2013)	Economic, environmental and social	Free and Charge Launched as a free online tool	Global Reporting Initiative (GRI)
Human Impact + Profit (HIP) Scorecard	2006	Human, social, environmental, economic	Charge	HIP Investor Inc. clients (investors, companies, funds, governments, agencies, etc.)	HIP Investor, Inc.
Principles for Responsible Investment (PRI)	2006	Environmental, social and corporate governance	Fee or donation	From investors to NGOs, a variety of entities can become signatories after paying a fee or by making donations for this initiative	United Nations
GIIRS / B Rating System	2007	Social and environmental	Free and Charge	B Lab members (Business networks, supply chain managers, governments and other entities)	B Lab
IRIS Metrics	2009	Social, environmental, and financial	Free	Intended for Impact Investors as a free public good	Global Impact Investing Network (GIIN); founding partners: Acumen Fund, B Lab and The Rockefeller Foundation

Specific social impact measurement methodologies (Florman et al. 2016)

Name	Year launched	Areas of focus	Cost	Use	Institutional affiliation
Social Value Metrics	1999	Economic, social and environment	Free and Donations	Root Capital in order to evaluate credit risk and social impact of loan applicants	Root Capital
Accelerator / Compass Investment Sustainability Assessment	2000	Social, economic and environment	Free and Charge	For AtKisson's use to evaluate corporations, cities, communities, organisations, foundations and other entities	AtKisson, Inc
Dalberg Approach	2001	Social and financial	Charge	Dalberg's clients (companies and other entities)	Dalberg Global Development Advisors (driven by McKinsey and Bain approaches)
Financial, Impact, Innovation and Risk Management (FIIRM)	2009	Financial, social, environmental, development	N/A	Insurance, finance, healthcare companies in which LeapFrog invest	LeapFrog Investments
Product Social Impact Assessment (PSIA)	2013	Social	Free	Any company, entity or organisation	Roundtable for Social Product Metrics

Surveying the methods for impact evaluation, we found SROI as one of the most useful approaches to be used in the SIB model

SROI is one of the few standardized solutions available and most widely accepted approach in practice.

Despite different projects involve different stakeholders and seek different social impacts, SROI by calculating a social return on an investment allow comparison between them.

It is an approach that is more than an evaluation or monitoring tool. It is a tool for strategic planning and improving, for communicating impact and not least, attracting investment.

- As advised to be implemented, SROI analysis involves in the project at the very beginning. It engage all stakeholders in the development of a theory of change, force them to work together in planning and refining the activities, as well as, in defining the desired outcomes to be achieved.
- Agreement about the desired outcomes to be achieved at the beginning of the project, means that stakeholders agree also about what would be measured in the evaluation at the end.

What is SROI?

SROI is a framework for **measuring and accounting for broader concept of value**. It **measures change** in ways that are relevant to the people or organizations that experience or contribute to it. It **tells the story of how change is being created** by measuring social, environmental and economic outcomes and impacts.

SROI **uses monetary values**. However, SROI is about value, rather than money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value.

In contrast to the traditional cost-benefit analysis that is used primarily to compare different investment projects, **SROI is used more to evaluate general progress of the projects**. In additions, in contrast to the traditional CBA it incorporates financial, as well as social, environmental, etc. benefits.

The following presentation I is based on The SROI Institute (2015).

Two types of SROI

1. **Evaluative**; is done after the end of the project and it is based on actual outcomes that have been achieved.
2. **Forecast**; predicts how much social value will be created if the activities are conducted.
 - Forecast SROI is especially useful in planning stages. It helps to understand how investment can maximize impact. It is also useful for identifying what should be measured.
 - One of the main challenges when doing an SROI is a lack of good outcomes data. To enable an evaluative SROI to be carried out, you will need data on outcomes, and a forecast SROI will provide the basis for a framework to capture outcomes.
 - Thus it is recommended 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 appropriate data collection systems to perform a full analysis in the future.

The principles of SROI

SROI was developed is based on seven principles that underpin how SROI should be applied:

1. **Involve** stakeholders.
2. **Understand** what changes.
3. **Value** the things that matter.
4. Only **include** what is **material**.
5. Do not **over-claim**.
6. Be **transparent**.
7. **Verify** the result.

Conducting an SROI analysis involves six stages

- 1. Establishing scope and identifying key stakeholders.** First, it is important to define the boundaries of the SROI analysis, i.e. what the analysis will cover, who will be involved in the process and how.
- 2. Mapping outcomes.** Engaging with the stakeholders, we then develop an impact map (or theory of change), which shows the relationship between inputs, outputs and outcomes.
- 3. Evidencing outcomes and giving them a value.** This involves finding data to assess first whether outcomes have happened and then evaluating them.
- 4. Establishing impact.** Having collected evidence on outcomes and valuing them, one should adjust then for those aspects of change that would have happened anyway or are a result of other factors.
- 5. Calculating the SROI.** This involves summing up all the benefits, subtracting any negatives and comparing the result to the investment value or the inputs.
- 6. Reporting, using and embedding.** At the end, it is important to share the findings with stakeholders and responding their feedback and embedding good outcomes processes. This also a verification of the report.

Stage 1: Establishing scope and identifying stakeholders

Before we start with SROI analysis, we need to answer these questions:

- What are we going to measure?
- How we will measure?
- Why do we want to measure?

In addition to **establishing scope of the analysis and identifying stakeholders** in the first stage, we need to think about **how we will involve stakeholders**. Involving them help us to better understand the strengths and weaknesses of the activities planned in the project.

Establishing scope

In establishing scope we consider the following issues:

1. **Purpose;** What is the purpose of the analysis? Are there specific motivations driving the work, such as strategic planning or funding requirements?
2. **Audience;** Who is this analysis for?
3. **Background;** Consider the aims and objectives of the organization/project and how it is trying to make a difference (or its theory of change).
4. **Resources;** What resources are required? Are these available?
5. **Who will conduct the analysis;** Can we do it internally, or will we need external help?
6. **The range of activities on which we will focus;** Clearly describe what you intend to measure.
7. **The period of time of the intervention ;** SROI analysis is often annual, however this can vary.
8. **Whether the analysis is a forecast or an evaluation;** A SROI forecast will help to put in place a measurement so every analysis can start as a forecast.

Identifying stakeholders

Here we **list all those (people or organizations) who might affect or be affected by the activities** of the project/intervention, whether the change is positive or negative, intentional or unintentional.

We should be careful that the stakeholders have been included are expected to be affected by the planned activities of the project. A common mistake is to include stakeholders that are relevant to the organization but not to the activities set out in the scope of the project.

When groups of stakeholders, **groups should share enough common characteristics**. If members of these groups may experience and want different outcomes and if the differences are significant, we split stakeholders into subgroups.

Stage 2: Mapping outcomes

Here we build an “**Impact map**” in which we try to **define how certain resources (inputs) to deliver activities (measured as outputs) and the activities will result in outcomes** for stakeholders. Sometimes this relationship between inputs, outputs and outcomes is called a “**theory of change**” or a logic model – or the story of how an intervention makes a change in the world.

We gain the information from the stakeholders in the previous stage. By involving stakeholders in constructing the Impact map we ensure that the outcomes that matter to those who are directly affected will get measured and valued.

Starting on the Impact map

An example of the Impact map can be found in The SROI Network (2012), however, we can come up with our own logic.

Social Return on Investment –The Impact Map for the worked example					
Organisation	Wheels-to-Meals				
Objectives	Provide luncheon club for 30 elderly local residents with additional health and social benefits by bringing residents to meals				
Scope	Activity	30 places for eligible elderly and/or disabled local residents 5 days a week, 50 weeks of the year			
	Contract/Funding/Part of organisation	Local Authority Grant			
Stage 1		Stage 2			
Stakeholders	Intended/unintended changes	Inputs		Outputs	The Outcomes
		Description	Value £	Summary of activity in numbers	Description
Who do we have an effect on? Who has an effect on us?	What do you think will change for them?	What do they invest?			How would you describe the change?
elderly / disabled residents	residents use health services less	time	£0	luncheon club: - group activities (board games, craft, mild/therapeutic exercise, info and awareness sessions)	the mild/therapeutic group exercise sessions made residents fitter, they had fewer falls and ended up in hospital less
	residents get out of the house more				the nurse led group sessions helped residents manage their health and symptoms better and they were healthier
					residents made new friends and spent more time with others through the group activities
local authority	residents provided with nutritious meal	meals on wheels contract (annual)	£24,375		residents had nutritious meals with 3 (out of) 5-a-day and they were healthier
					material outcomes for residents only (not for local authority). All outcomes

Identifying and valuing inputs

We need to identify **what stakeholders are contributing** in order to make the activity possible. Inputs are used up in the course of the activity, for example money or time.

The value of investment in SROI calculation, refers to the **financial value of the inputs**. Thus, we have to assign the inputs values in monetary terms.

Be careful **not to double-count** the inputs. For example, we can approximate the value of inputs with funding we use for the project. But, we may not use all the funding for a project; this “surplus” relates to the amount of the finance that was not necessary for the activity to happen. If there is a surplus then either we should include the additional social value that would be generated with the surplus, or we should reduce the value of the input by the amount of the surplus.

Maybe we plan to use non-monetised inputs. These are inputs that we do not have to pay for, like volunteer time or contributions of goods and services in kind. If the activity would not go ahead to the same extent without them, then we put a value on them and include them in the calculation of the investment.

Clarifying outputs

Outputs are a **quantitative summary of an activity**. It is proposed to work through the list of stakeholders and to describe the outputs from the activity.

Describing outcomes

SROI is an outcomes-based measurement tool, as outcomes show changes for stakeholders.

We should be careful **not to confuse outputs with outcomes**. For example, if a training programme aims to get people into jobs then the training is an output, getting the job is an outcome.

Identifying outcomes is **not always immediately intuitive**, so we should work with the theory of change to ensure that we are measuring the right things.

We should relate outcomes to the right stakeholder and be careful not to double-count.

Make judgement on outcomes by considering factors, such as the organization's objectives, as well as the views of your stakeholders, that can affect their preference for particular outcomes.

Stage 3: Evidencing outcomes and giving them a value

In this stage, we **develop outcome indicators** and use them to collect evidence on the outcome that is being generated and assess their relative importance by valuing them.

Developing outcome indicators

Indicators are **measures of change** that we want to achieve. We choose or define indicators for each of the outcomes on our Impact map.

Stakeholders are the best source to help us identify indicators, so we ask them how they know that change has happened for them.

Sometimes we need to more than 1 indicator and we should try to **balancing subjective and objective indicators**.

At the end we should **check the indicators if they are measurable** and that we will be able to measure them within the scope and the resources we have.

Collecting outcomes data

Then we have to **collect data on the indicators**. This may be available from existing sources (internal or external) or we may need to collect new data.

If we are doing a forecast SROI, we **use existing data where available**. We can base the estimation on our own previous experience. If this is the first time we undertake the activity, then we estimate it using research or other people's experience.

If we are doing an evaluation SROI analysis, we use and review the data the organization already collects and what is available from other sources. It is more time-consuming and costly to gather data about impact after the event.

New data usually come from people directly involved in intervention – project participants. The **most commonly used techniques for primary data collection** include:

- Record keeping
- Interviews
- Focus groups

Establishing how long outcomes last

We need an estimate of **the duration for of the outcomes**. This could be determined by asking people. However, if information is not available on the durability of different outcomes, we use other research for a similar group to predict the benefit period.

The longer the duration, the more likely it is that the **outcome will be affected by other factors**, and the less credible the claim that the outcome is a result of the intervention.

Putting a value on the outcome

The purpose of valuation is to **reveal the value of outcomes** and show how important they are relative to the value of other outcomes. This process is often referred to as monetization because we assign a monetary value to things that do not have a market price.

Stage 4: Establishing impact

Here we **assess whether the outcomes we have analyzed result from the activities** of the project.

We estimate **how much of the outcome would have happened anyway** and what proportion of the outcome can be isolated as being added by the activities of the project.

Deadweight and displacement

Deadweight is a measure of the amount of outcome that would have happened even if the activity had not taken place. It is calculated as a percentage. When we calculate deadweight, reference is made to comparison groups or benchmarks. Perfect comparison is not possible (using the same group), thus measuring deadweight is **always an estimate**. The more similar the comparison group, the better the estimate.

Displacement is another component of impact and is an assessment of **how much of the outcome displaced other outcomes**. If displacement is relevant and the activities are displacing outcomes, there may be another stakeholder affected by the displacement. We could go back and introduce this new stakeholder into the impact map or we could estimate the percentage of the outcomes that are double counted because there is some displacement, calculate its amount and deduct it from the total.

Attribution

Attribution is an assessment of how much of the outcome was caused by the contribution of other organizations or people. As for the deadweight, it is difficult to get a completely accurate assessment of attribution. It is often more about being aware that the activities may not be the only one contributing to the change observed than getting an exact calculation.

If finding it important, we should reassess stakeholders, because most likely we have missing stakeholders in our analysis.

Drop-off

For longer projects, **the amount of outcome is likely to be reduciung in time**, if the same, will be more likely to be influenced by other factors. Drop-off is used to account for this and is only calculated for outcomes that last more than one year.

We usually calculate drop-off by deducting a fixed percentage from the remaining level of outcome at the end of each year.

Calculating the impact

These impacts are normally negative. Sometimes, impact can be positive as well, meaning that there is an increase in the value rather than a reduction. However, in the case of finding positive impacts, it is not recommended to increase impact as a result of considering these issues.

We calculate impacts following these steps:

- Financial proxy multiplied by the quantity of the outcome gives us a total value. From this total we deduct any percentages for deadweight or attribution.
- Repeat this for each outcome (to arrive at the impact for each).
- Add up the total (to arrive at the overall impact of the outcomes you have included).

Stage 5: Calculating the SROI

Then we need to **summarize the financial information** that we have collected and estimated in the previous stages. The idea is to **calculate the financial value of the investment and the financial value of the social costs and benefits**. This results in two numbers.

There are several ways of reporting on the relationship between the investment value and the amount of social costs and benefits. **Social return on investment literary means the ratio** between those two numbers.

Projecting into the future

We first **project the value of all the outcomes achieved into the future**. By estimating how long an outcome would last, we follow these steps:

- We set out the value of the impact for each outcome for one time period (usually 1 year).
- We copy the value for each outcome across the number of time periods it will last.
- Then we subtract any drop-off we identified for each of the future time periods after the first year.

Calculating the net present value

In order that the costs and benefits that are paid/received in different time periods are comparable, we need to calculate their present values, meaning we must discount them. **Discounting** recognizes that people generally prefer to receive money today rather than tomorrow because there is a risk that the money will not be paid as expected or because there is an opportunity cost. This is known as the “time value of money”.

This is a controversial area and one where there is ongoing research and discussion. The main problem with using discounting in SROI is that it encourages short-termism by discounting the future.

When present value of cost and benefits are calculated, we get net present value simply by calculating the difference between the present value of benefits and present value of costs (investment).

Calculating the ratio

SROI ratio refers to the ration between the benefits and costs (investment). Here we have two alternatives:

SROI ratio = Present value of benefits / Value of investment

or

Net SROI ratio = Net present value / Value of investments

Sensitivity analysis

After calculating the ratio, we would like to **assess the extent to which our results could change if we changed some of the assumptions we made in the previous stages.** The aim of such an analysis is to test **which assumptions have the greatest effect on your model and what are other returns on investment we could generate with the project.** Remember, our calculations uses forecasts that are only one of the possible values that will be realized.

The recommended approach is to calculate how much you need to change each estimate in order to make the social return become a social return ratio of £1 value for £1 investment. Doing this, we are basically calculate **break-even point.**

Stage 6: Reporting, using and embedding

Even though we have calculate SROI, the process is not complete. There is a **final, important stage: reporting to your stakeholders, communicating and using the results**, and embedding the SROI process in the organization.

You need to make sure that the way in which you communicate the results are **relevant to the audiences**. Final report should comprise **much more than the social returns calculated**. The report should include qualitative, quantitative and financial aspects to provide the user with the important information on the social value being created in the course of an activity. It should include **enough information to allow another person to be assured that the calculations are robust and accurate**.

Unless we do something as a result of carrying out SROI analysis, there was not much point in undertaking it in the first place. SROI analysis should **result in change**. Change refer to how investors understand and support the work, or how those that commission the services describe, specify and manage the contract with the investee. There are also implications for the organization.

Reference

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