

Fact Sheet 16 – Social Return On Investment

Grant funding is becoming more competitive, which means organisations are beginning to measure and quantify the benefits they generate. As such measurement of outcomes is now increasingly commonplace in the third sector.

Social Return On Investment (SROI) allows organisations to demonstrate to funders and commissioners that their products and services are making a difference, which can help to secure grant income and contracts.

What is SROI Analysis?

SROI analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. The SROI framework is an approach to measurement – developed from cost-benefit analysis, social accounting and social auditing – which 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. It is a ratio of the net present value of benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value. SROI may be shown as:

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

The New Economics Foundation (nef) is leading on the current approach to undertaking SROI analysis, and it has produced a guide “Social return on investment: A guide to SROI analysis” which sets the standard for a complete and rigorous SROI process and report, that details what SROI analysis is, who SROI is for, and the benefits of SROI. In addition, the SROI Network has been established to continue to develop the methodology, distribute relevant information on indicators and proxies and to train SROI practitioners.

Who is SROI For?

SROI can be progressed by a number of types of organisation, including:

- Third-sector organisations and others that create social value
- Public sector and private organisations that procure social value
- Bodies that invest in the creation of social value
- Organisations that develop policy for which recognition of social value is important

What are the Benefits of SROI?

SROI has a number of distinct benefits that are being realised by the third sector, as follows:

- **Triple Bottom Line.** SROI provides a comprehensive approach to value that includes economic, environmental and social factors.
- **Accountability.** By providing both numbers and the story to support those numbers, the SROI process makes the creation of social value transparent.
- **Change Management.** When used for planning purposes, information highlighted by the analysis can provide important feedback on the effectiveness of existing activities.
- **Cost and Time Effectiveness.** By focusing on critical impacts, SROI can be a time and cost effective way to learn about the change a project or organisation creates.
- **Ratio.** The SROI ratio is a simple and clear indicator of the value an organisation creates for its stakeholders.

Principles of Good Measurement

nef identifies seven principles of good measurement, summarised as follows:

For further details about how Pulse Regeneration can help, please contact us.

Pulse Regeneration Limited, The Corn Exchange, Fenwick Street, Liverpool L2 7RB
 t 0151 475 7000 f 0151 475 3000 e info@pulseregeneration.co.uk w www.pulseregeneration.co.uk

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1. **Measure for social, economic and environmental well-being.** nef believes that measures should provide meaningful evidence about the extent to which a contribution is made to a better, fairer and more sustainable society.
2. **Measure with people.** Measurement should, as far as possible, involve the people closest to or most affected by an organisation, policy or service.
3. **Measure outcomes.** Putting things in terms of outcomes – rather than the more easily measured outputs, resources or activities – is more meaningful as it allows the assessment to which a change has occurred in people’s lives, communities and in society.
4. **Develop a learning and responsive culture.** Effective measures will provide evidence that can be used to inform future implementation and decision-making.
5. **Measure the difference made.** Measures should identify the difference made, and how much of that difference can be attributed to the specific intervention being evaluated.
6. **Be transparent about priorities and values.** Decision-makers should be able to justify why they have chosen the measures used.
7. **Measure assets, strengths and opportunities as well as risks, failures and deficits.** Measuring people’s assets, rather than focusing solely on what people lack and why they fail, can make abilities and strengths visible.

Steps to Undertaking SROI

The nef approach includes six main steps, as summarised in the table:

Stage	Process Steps
Stage 1, Establishing Scope and Identifying Stakeholders	<ul style="list-style-type: none"> ● Establishing Scope ● Identifying Stakeholders ● Deciding how to Involve Stakeholders
Stage 2, Mapping Outcomes	<ul style="list-style-type: none"> ● Starting the Impact Map ● Identifying Inputs ● Valuing Inputs ● Clarifying Outputs ● Describing Outcomes
Stage 3, Evidencing Outcomes and Giving them a Value	<ul style="list-style-type: none"> ● Developing Outcome Indicators ● Collecting Outcomes Data ● Establishing How Long Outcomes Last ● Putting a Value on the Outcome
Stage 4, Establishing Impact	<ul style="list-style-type: none"> ● Deadweight and Displacement ● Attribution ● Drop-off ● Calculating Your Impact
Stage 5, Calculating the SROI	<ul style="list-style-type: none"> ● Projecting into the Future ● Calculating the Net Present Value ● Calculating the Ratio ● Sensitivity Analysis ● Payback Period
Stage 6, Reporting, Using and Embedding	<ul style="list-style-type: none"> ● Reporting to Stakeholders ● Using the Results

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