

Context,
international cooperation



Social Return on Investment: An introduction

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Abbreviations

NEF	New Economics Foundation
REDF	Roberts Enterprise Development Fund
ROI	Return on Investment
SROI	Social Return on Investment

Abstract

The measurement of results measurement of organisations both inside and outside the international development sector has increasingly become subject of discussion. Several new methodologies for measurement have been development; a relatively new approach is Social Return on Investment (SROI). So far SROI has mainly been used in social enterprises.

This paper is an introduction to SROI. It first provides core issues and describes how SROI was designed out of dissatisfaction with prevailing approaches to measurement. Subsequently it is shown how SROI works and which steps should be taken to perform an SROI analysis. Furthermore challenges that have been encountered while conducting SROI analyses and potential benefits of the methodology are dealt with.

The SROI analysis is still under development and until now its use in the international development appears to be limited. The paper concludes with some issues for consideration in investigating the applicability of SROI in this sector.

Social Return on Investment: an introduction

1. Introduction

During the last decade the measurement of results of organisations has received growing attention, both inside and outside the international development sector. This paper explores a relatively new approach to measurement: Social Return on Investment (SROI). So far SROI has mainly been used for measuring the results of social enterprises. This paper deals with the core issues, origins, framework, potential benefits and challenges of SROI and may serve as a basis for further discussions on the possibilities of using SROI in the international development sector.¹

2. Core issues: what is social return on investment?

a. *Valuing what matters*

There is an increased understanding that economic activities generate social and environmental outcomes, either positive and/or negative, and that social and environmental activities can also generate economic outcomes.² This is illustrated by the recent interest from both practitioners and policymakers in the concept of social enterprise and in methods such as social return on investment.

The SROI analysis is a process of understanding, measuring and reporting on the social, environmental and economic values created by for-profit companies, non-profit organisations and government institutions.³ Conventional financial return methods like cost-benefit analysis do not capture the social and environmental benefits of such organisations, whereas SROI recognises their full economic, social and environmental ‘value’. SROI broadens the ‘who’ a return may accrue to and expands the ‘what’ that can be considered part of organisations’ return. Conducting an SROI analysis is a way of making the invisible value of things that are essential to quality of life both visible and measurable – in short, of valuing what matters.

b. *SROI analysis and ratio*

SROI is one of the approaches used to understand and measure the value created by organisations. Such approaches seem to have a number of core steps in common: (1) identifying sources of value; (2) finding indicators of this value; and (3) developing qualitative and quantitative expressions for these indicators. SROI goes one step further and also monetises these indicators by assigning financial equivalents to social and environmental returns. Examples of such returns are more jobs, increased life expectancy, decreased sickness absence from work, a cleaner environment, lower crime rates, higher tax returns and reduced public health expenditures.⁴

SROI analysis is a way of reporting on value creation. It bases its understanding of value on the views of stakeholders, finds indicators for what has changed and tells the story of this

¹ This paper is based on a desk study of literature and information available through the Internet.

² New Economics Foundation (NEF), 2004-a: 2.

³ In this paper ‘social’ in SROI refers to both social and environmental impacts of organisations.

⁴ Raat, 2005.

change, and where possible uses monetary values for these indicators. An SROI analysis consists of (a) a specific process to calculate the SROI ratio calculated; (b) context information in quantitative, qualitative and narrative terms to enable accurate interpretation of that ratio; and (c) additional information on values which could not be monetised during the analysis.⁵

The process of SROI analysis leads to the so-called SROI ratio. This is the ratio between the value of the benefits and the value of the investment. For example, a ratio of 3:1 indicates that for every €1 invested by an organisation €3 of value (economic, social and/or environmental) is delivered to society. However, data about similar organisations are needed to be able to assess whether a SROI ratio of 3:1 is good, expected or below average.⁶ Using the SROI ratio is only useful when (1) comparing an organisation against its previous performances; and (2) comparing organisations that work in a similar area with similar contextual restraints.

c. Purposes

Organisations in the profit and non-profit sector face increasing demand to prove their social and environmental impacts. From the point of view of such organisations, this information is not only invaluable in illustrating to the outside world the effectiveness with which they achieve their goals. It also helps them to improve their performances through tracking and measuring outcomes and impact. In this light the SROI methodology is currently being used for a number of purposes:⁷

- Investment selection;
- Budgeting;
- Scenario planning;
- Performance monitoring;
- Evaluation of past performances.

3. Brief history of SROI

a. Pioneering work by the Roberts Enterprise Development Fund

The SROI methodology was designed by the Roberts Enterprise Development Fund (REDF) between 1996 and 2001. REDF is a charitable organisation in San Francisco, USA whose mission it is to help people move out of poverty. It based the SROI methodology on its experiences with support to non-profit organisations in the area of providing employment and training to disadvantaged individuals. Dissatisfaction with prevailing approaches (or lack of them) prompted REDF to design the SROI framework. REDF felt it could not tell whether their work – and the work of their portfolio agencies – was improving the lives of the people they intended to help.⁸

The SROI framework REDF designed comprises six stages and uses standard investment analysis tools adapted to encompass the expanded concept of social, environmental and economic value. The first three stages focus on measuring and monetising the values which are created by an organisation and returned to the community. This results in an organisation's 'blended value', consisting of the 'enterprise value' (i.e. financial returns) and

⁵ Scholten et al, 2006: 6-7 en 15.

⁶ NEF, 2004-a: 20-21.

⁷ Scholten, 2006: 18.

⁸ REDF, 2005: 2.

‘social purpose value’ (i.e. improvements in lives of individuals and society as a whole). In stage four to six these values are compared to the investments required for each of them. The resulting ‘blended value index of return’ shows whether the investment lost, maintained or created value. This index and the process of the SROI analysis are presented in an SROI report.

b. Refinement by the New Economics Foundation

The New Economics Foundation (NEF) in the UK has done important work to further develop REDF’s SROI methodology. NEF is an independent think-and-do tank that aims to improve the quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environmental and social issues. The organisation feels that SROI has ‘great potential to improve the way organisations work and how resources are allocated, as well as illustrating the value of social and environmental impacts’.⁹

The main differences between the SROI approaches of REDF and NEF are:

1. NEF puts substantially more emphasis on involving stakeholders of the organisation to identify value and its indicators;
2. NEF added impact mapping to the SROI analysis. This consists of analysing the steps from inputs to outputs to outcomes leading to impacts, thereby providing organisations with a framework to understand how their work may result in impacts; and
3. NEF introduced the so-called ‘deadweight analysis’ to take account of the extent to which outcomes would have happened without the intervention.¹⁰

In 2003 NEF conducted a pilot study with four social enterprises to test its version of the SROI approach. The SROI analysis focused on training programmes for women and labour market programmes for unemployed and for people with mental health and learning difficulties. During this pilot SROI analysis NEF succeeded in capturing the returns to the state through reduced welfare payments and increased taxes, and through reduced health and social services expenditures. For participants the pilot succeeded in capturing the benefits of increased income and a small element of benefits relating to future employability.

There were also potentially significant effects not captured in the SROI analysis. These included the indirect benefits of education (such as empowerment) and effects on health, well-being, crime rates and the environment. This resulted from the fact that the pilot tended to focus on activities within the organisations where data was most readily available and valuation possible. In most cases this led to a focus on employment objectives only rather than the full range of objectives of the entire organisation. For example, it became clear that data in the areas of crime and health needed for comparisons between the project’s target group and the general population were not available.¹¹

c. Drafting an SROI framework for broader use

In 2004 a group of practitioners from the USA and Europe who had been using and improving the SROI methodology drafted the SROI Framework Paper. This paper builds upon the work

⁹ NEF, 2004-a: 23.

¹⁰ For example, a number of participants in an employment project would have probably also found a job without this specific project. This can be estimated by looking at the success ratio of the overall population of unemployed people with similar characteristics as the participants.

¹¹ NEF, 2004-a.

done by REDF and NEF. It focuses on creating a shared and consistent approach to SROI analysis and broadens its usefulness to other sectors. The framework has been used by entrepreneurs and consultants, and by members of groups such as the International Social Return on Investment Network (ISROIN) in Europe, the International Social Entrepreneurs' Alliance (ISEA) in Latin America and the Schwab Foundation for Social Entrepreneurs.

In 2006 this informal working group of practitioners updated the above-mentioned framework in order to reflect developments in the SROI approach since 2004. According to the working group the previous methodology was 'not easy to use, was time-consuming and expensive'.¹² The revised framework is aimed at a wider audience as a guide to SROI and is presented in the first international book on SROI published late 2006.¹³ The next section of this paper will describe this framework in more detail.

4. SROI: how does it work?

a. Building blocks

The SROI methodology is founded upon a set of building blocks, which include:¹⁴

1. Stakeholder involvement

Stakeholders can have different perceptions of value desired by them or created for them by organisations. They need to be consulted about these values and corresponding effects and indicators, and the results of the SROI analysis should be communicated to them.

2. Theory of change or impact strategy

Behind every organisation's objectives is an (often implicit) theory about how its activities are expected to contribute to the desired changes. Through its systematic consideration of each important impact, SROI analysis makes this 'theory of change' or 'impact strategy' explicit.

3. Scope and materiality

The boundaries of the SROI analysis need to be defined in order to make it informative and implementable. Asking all stakeholders to describe all effects of an organisation would be very time-consuming and result in an unmanageable list. Therefore a selection is made of the most important effects to be included in the SROI analysis. The SROI report should be transparent about effects not included and the rationale behind the selection.

4. Base case scenario

The SROI analysis should establish to what extent impacts would have occurred in case the subject organisation did not exist. The same impacts might be caused by a similar organisation ('displacement') or because other factors such as government policies would have resulted in their occurrence ('deadweight'). Displacement and deadweight together represent the so-called 'base case scenario'. By making estimates

¹² Scholten et al, 2006.

¹³ Scholten et al, 2006. According to the authors, SROI analysis is 'more than a methodology, it is an emerging discipline. It addresses a gap in the toolkit of management disciplines, like accounting, finance and economics, taught by schools of management. We envision that eventually it will be widely taught in management schools'.

¹⁴ Ibid: 12-15.

about displacement and deadweight, the SROI analysis helps to ensure that claims about the impact are credible.

b. SROI framework

The revised SROI framework drafted by the working group of international practitioners (see section 3.c) is the most elaborate and up-to-date SROI framework currently available. A summary of that framework is presented in Box I; for a more elaborate description of the framework see Annex I.

Box I: Summary of the SROI framework¹⁵

Stage 1 - Planning

Activities at this stage define the scope of the analysis.

Activity 1 - Understand your goals for the analysis

Activity 2 - Understand your organisation

Activity 3 - Identify the subject organisation's stakeholder groups

Activity 4 - Determine the scope of the analysis

Activity 5 - Map the impact value chain

Activity 6 - Decide on indicators and sources of information

Activity 7 - Develop resource plan

Stage 2 - Implementation

Activities at this stage focus on data collection and analysis.

Activity 8 - Collect data on outcomes

Activity 9 - Collect data to estimate the base case scenario

Activity 10 - Monetise indicators of outcome

Activity 11 - Decide on type of investment

Activity 12 - Analyse income and expenditure against activities

Activity 13 - Analyse income and expenditure in relation to stakeholders

Activity 14 - Create projections

Activity 15 - Calculate monetary social return

Stage 3 - Reporting

Activities at this stage focus on internal and external communication of the results of the SROI analysis.

Activity 16 - Drafting SROI report

Stage 4 - Embedding

This stage integrates the SROI analysis into an organisation's operations.

Activity 17 - Monitoring

This revised version of the framework begins to broaden the early methodological focus of SROI on monetisation to incorporate additional types of information to account for aspects of value for which monetisation is not sufficient and/or possible. This includes exploring the use of quantitative information (i.e. size, magnitude and degree), qualitative information (i.e. kind, type and direction) and narrative information (i.e. stories). In addition this framework puts more emphasis on ascribing value to unintended consequences and negative impacts next to intended and positive ones. In this way the full spectrum of value can be more clearly measured and communicated.

¹⁵ See Scholten et al, 2006: 19-34.

5. SROI: for whom and by whom?

a. Use of SROI analysis: for whom?

According to the working group which drafted the above-presented SROI framework, an SROI analysis can be used by organisations that are:¹⁶

- Creating social, economic or environmental value: as a management tool, to track projections, improve performance, inform expenditure and highlight added value in competitive tendering.
- Procuring social, economic or environmental value: as a way to objectively assess contract criteria relating to this value.
- Investing in the creation of social or environmental value: as a way to assess performance and to provide due diligence
- Seeking to influence policy: for whom recognition of social or environmental value is important.

Both REDF and NEF have been looking into the issue of whether organisations can begin SROI measurement from whatever their starting point is in terms of capacity and resources. Organisations with limited resources or experience with measurement could begin with measuring value for money, like costs per unit of output. Furthermore they could start with calculating and monitoring a limited number of relatively simple indicators and/or focus on only a few stakeholders. For such organisations it could also be useful to initially apply SROI to individual programmes where data is already available instead of focusing on all their programmes. This way they can work towards more complex ways of measurement as incorporated in an SROI analysis.¹⁷

b. Use of SROI analysis: by whom?

In the past SROI analysis was mainly used for organisations focusing on the creation of employment opportunities for disadvantaged groups. Apart from the fact that the SROI methodology was designed for such activities in the first place, their social value can relatively easily be captured in monetary terms, in short: savings on social welfare expenditure and increases in income taxes.¹⁸

From the literature available for this desk study it appears that conducting SROI analysis is currently taking place on a relatively small scale in a limited number of sectors. In several European countries, including England, Belgium and The Netherlands, pilot projects have been initiated. Conferences and training sessions on SROI have been organised in Belgium and The Netherlands, and a European SROI Network has been established. Annex II provides a list of leading individuals, organisations and publishers in the field of SROI. A recently published book on SROI presents case studies from Europe, the Middle East, Latin America

¹⁶ Scholten et al., 2006: 8-9.

¹⁷ NEF, 2004-a; REDF, 2005. NEF (2004-a: 27) also refers to 'SROI Light', a version of SROI that could be used very simply by a wide range of organisations: 'it would trade to the rigour of a full SROI analysis for speed and hence is going to be more applicable for internal use'. From the available information it is not clear whether NEF has actually developed such a 'SROI Light'.

¹⁸ Raat, 2005. This issue was also discussed in section 3 in relation to NEF's pilot study for social enterprises.

and Australia.¹⁹ A case study is presented in Box II to illustrate the process and outcomes of an SROI analysis.

Box II: Case study SROI analysis: Valid Express²⁰

Valid Express is a social enterprise founded in Amsterdam, The Netherlands in 1999. It provides courier services and in 2004 employed 27 people who had little employment opportunities due to disabilities or chronic illnesses. Early 2004 Valid Express conducted an SROI analysis for the period 2004-2008. With regard to Valid Express' strictly economic/enterprise value (i.e. financial returns), total income minus total expenditures for that period was calculated at € 402,000.-.

The SROI analysis also calculated the social value created by Valid Express. This social value consisted of two elements:

1. Creating employment for people with disabilities or chronic illnesses; it was calculated that for each full-time employee an annual social value of € 20,000.- applied, consisting of savings on social welfare spending (WAO) and increased taxes plus income for employees. Deadweight was calculated based on average percentages of unemployed people with disabilities or chronic illnesses who found a job on their own; and
2. Being a role model for other social enterprises with similar plans; this was calculated by monetising the publicity Valid Express received in newspapers, magazines, radio and TV programmes, based upon the costs for advertising which would have been necessary to generate this kind of publicity.

A discount percentage based upon the interest rate for state bonds was used to make projections of Valid Express' social value for the period 2005-2008. All in all the social value created by Valid Express for the period 2004-2008 was calculated at € 2,242,000.-, in addition to its economic value of € 402,000.-. Based upon these calculations Valid Express requested and received loans for a total amount of € 395,000.- from Start Foundation, Doen Participaties and the Rabobank.

Nevertheless SROI analysis still seems to be in its infancy and the methodology (such as the SROI framework) is still under development. It is not clear whether this is related to some of the challenges which have been encountered while conducting SROI analysis. These challenges are presented in the following section, together with potential benefits of SROI.²¹

6. SROI: potential benefits and challenges

a. Potential benefits

The SROI methodology has a number of potential benefits:²²

¹⁹ Scholten, 2006.

²⁰ Scholten, 2005: 58-63; Raat, 2005. This SROI analysis was made early 2004, using an earlier version of the SROI framework.

²¹ An approach for measuring the return on investment (ROI) of training and human resource programmes is called the Philips ROI methodology. It was developed in the 1970s and like SROI converts results in monetary value. See Philips et al, 2006; Philips, 2005; and www.roiinstitute.net. Furthermore Boyd Hendriks, a Dutch consultant, uses a similar approach to establish ROI for information and knowledge centres; see Hendriks & Wooler, 2006 and www.informatieland.nl.

²² See Kluis, 2005; NEF-a, 2004; Scholten, 2005; Scholten, 2006.

1. SROI assists organisations in identifying not only economic but also social and environmental impacts of their work. By using monetised indicators, management can analyse the consequences for these impacts of changes in strategy.
2. It can enable organisations to assess their performance either over time or to benchmark against similar organisations. It can also stimulate discussions in organisations on their added value to society and motivate employees through providing more clarity on impacts.
3. The concept of social return helps people understand that any grant or loan for an organisation can be regarded as an investment rather than as a subsidy. Organisations can show potential investors what they have to offer in return for their investment.
4. SROI provides a common language for communicating social, environmental and economic value, facilitating communication between funders, investors, implementing organisations and other stakeholders.
5. An SROI analysis can demonstrate savings for other stakeholders which occur as a result of an organisation's activities. For example, employment generating activities may lead to a decrease in social welfare spending or health expenditures of governments.
6. Presenting the financial value created by social and environmental benefits can be particularly important in justifying investment in activities that do not generate a direct financial return. SROI can demonstrate the value to society of social or environmental returns of organisations that from a strictly economical viewpoint may look unviable.
7. The results of SROI analysis can be used to advocate for policies which recognise the importance of social and environmental values.

b. Challenges

While conducting SROI analyses in recent years, practitioners have encountered several difficulties. These include:²³

1. Selection of main stakeholders and their most important values/impacts can be challenging in view of different and sometimes contradictory interests within organisations and among stakeholders.
2. Lack in organisations of clearly defined indicators for success.
3. Limited availability of required data needed to establish the outcomes of an activity as well as the base case scenario ('what would have happened if the organisation did not exist?').
4. Attaching monetary value to social and environmental impacts has proven to be difficult. For many sectors monetisation of such impacts is more or less a new phenomenon for which guidelines or benchmarks are not in place. The latter are needed to enable the required comparison with other organisations in the same sector.
5. Significant financial and human resources are needed to conduct an SROI analysis, e.g. in the area of accountancy and investment principles. Integrating SROI analysis in organisations requires training of staff and investments in information systems.
6. SROI analysis appears to be based on the assumption that change processes have a highly linear character, with a high level of order and predictability. However, such change processes in reality often appear to be more chaotic and non-linear. This makes projecting outcomes and determining the base case scenario a rather challenging exercise.

²³ See Communities Scotland, 2006; NEF, 2004-a; Raat, 2005; REDF, 2005; Scholten, 2005 and 2006.

7. Way forward

This paper deals with SROI as a method for understanding, measuring and reporting on social, environmental and economic values created by organisations. It highlights the potential benefits as well as challenges for conducting SROI analysis. It also provides a basis for further discussions on the applicability of SROI within the international development sector for both funding agencies as well as implementing organisations. Currently the use of SROI analysis in this sector appears to be very limited or even non-existent. In investigating the applicability for SROI in the development sector the following issues might be useful:²⁴

1. *Scoping*

It is important to identify the organisations and sectors for which SROI will be most useful and/or applicable, and then start with pilot projects in these organisations and sectors. Ideally several organisations in the same sector, both funding and funded agencies, invest in conducting SROI analysis and developing indicators.

2. *Developing the method*

Once the level of demand has been established within a specific subsector, organisations should be able to compare results across organisations and ultimately across sectors. Rules and tools are required, which are probably best developed by try-outs in practice rather than in theory. Examples of rules include guidance on how to select time periods over which to collect data and on how to present impacts not captured in the SROI ratio. Examples of tools include spreadsheets, step-by-step guides, proxy indicators and data tables.

3. *Building a body of data*

A body of data is needed to facilitate comparison and benchmarking, and to avoid reinventing the wheel each time an organisation sets out to conduct an SROI analysis.

²⁴ NEF, 2004-a: 26-27.

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Annex I: Social Return on Investment (SROI) Framework²⁵

Stage I – Planning
Activity 1 – Understand your goals for the analysis
<ul style="list-style-type: none"> - Determine your internal objectives for doing the SROI analysis - Determine whether the analysis is forward-looking (projection of results) or backward-looking (assessment of results completed)
Activity 2 – Understand your organisation
<ul style="list-style-type: none"> - Review business and strategic plans of the organisation in order to analyse and/or make explicit how the organisation aims to create change (i.e. how outputs generate immediate and longer-term changes)
Activity 3 - Identify the subject organisation’s stakeholder groups
<ul style="list-style-type: none"> - Identify the stakeholder groups affected by the organisation or programme - Define the objectives of these groups in relation to expected gains from organisation or programme <p>Guidance These steps can be taken either with or without consulting stakeholders. It is recommended to develop a formal system for understanding stakeholder value and identifying their important objectives.</p>
Activity 4 - Determine the scope of the analysis
<ul style="list-style-type: none"> - Determine whether the SROI analysis will focus on all or only some activities of the organisation - Determine which stakeholder issues will be included in the analysis <p>Guidance Often it is necessary to limit the scope to part of the organisation, because of time, capacity and data availability. In that case an appropriate share of overhead expenditures needs to be calculated for a specific part of the organisation. Again stakeholders might be involved in these steps.</p>
Activity 5 - Map the impact value chain (logic model)
<ul style="list-style-type: none"> - Identify inputs, outputs and outcomes of the activities being analysed - Define a formal analysis of change in relation to the objectives of different stakeholders - Determine for each outcome the base case scenario (i.e. what would have happened if the organisation's activities had not taken place?) <p>Guidance The fact that outcomes might not or only partially be attributable to the organisation's activities has to be taken into account in the analysis. Furthermore there is the probability that outcomes would have taken place as a result of similar activities of other organisations ('displacement') or because different causes would effect the same outcome ('deadweight'). In the SROI analysis impact is being defined by deducting the estimate of the (expected) effects of displacement and deadweight from the (expected) outcomes of the organisation’s activities. Assessing outputs, outcomes and impacts can be done through stakeholder involvement (i.e. interviews or surveys) and/or internal sources of information. Attention has to be paid to both intended and unintended as well as positive and negative outcomes and impacts.</p>
Activity 6 – Sources of information and indicators
<ul style="list-style-type: none"> - Identify the indicators and sources that can be used to report on the value being created <p>Guidance</p>

²⁵ Summarised by Context, international cooperation from Scholten et al. (2006). See Scholten et al. (2006: 37-47) for more specific information on key terms, identifying and monetising indicators, calculating the discount rate and for additional resources available through the Internet for some of the activities in the framework.

Types of information that may be needed include quantitative information, qualitative information and narrative information (i.e. stories). Information can be found in internal systems and through stakeholder surveys, but also in external information systems (like national or regional survey data).
Activity 7 – Develop resource plan
- Prepare a plan indicating the financial and/or human resources needed for the SROI analysis
Stage II – Implementation
Activity 8 – Collect data on outcomes
- Collect primary data from the organisation and from stakeholders on each of the outcomes
Guidance Information is required on the magnitude of the changes, the linkage between activities and changes, and the accuracy of these linkages. If data are not available, either reasonable alternatives are required or the scope must be reduced.
Activity 9 – Collect data to estimate ‘what would have happened anyway’- base case scenario
- Collect data from relevant existing literature and experiences/benchmarks
Guidance The ability to take account of what would have happened anyway will depend on the availability of benchmarking data about the wider population of the stakeholders to which the benefit is accruing. Use best available estimates if benchmark data is not available for the specific population segment.
Activity 10 - Monetise indicators of outcome
- Identify the financial proxies for outcomes and monetise indicators
Guidance For outcomes with quantitative indicators, a financial proxy for each indicator needs to be identified. When market prices are not available, monetisation methods are used such as the Travel Cost Method, Prevention Cost Method (based on costs avoided by activities) and Contingent Valuation Method (based on willingness to pay for changes/activities).
Activity 11 - Decide on type of investment
- Develop statements of the income and expenditure associated with the activities being analysed
Guidance When reviewing an organisation’s financial accounts and determining the investment, we need to understand if we are looking at the investment in terms of one-year and part of normal operations, or a multi-year investment for a specific purpose. This determines the timeframe on which the SROI analysis focuses.
Activity 12 - Analyse income and expenditure against activities
-Develop statements of the income and expenditure associated with the activities being analysed
Guidance If only part of the organisation's activities are included in the SROI analysis, income and expenditure related to those specific activities need to be identified. Allocation of overhead costs like rent and general management may vary for each type of cost.
Activity 13 - Analyse income and expenditure in relation to stakeholders
- Create overview of costs and benefits for the activities that will be analysed
Guidance In the Profit and Loss-statement a differentiation can be made between costs of meeting stakeholder objectives and costs of meeting business objectives. In addition income and expenditure can be further analysed into a social, economic and/or environmental income and expenditure.

<p>Activity 14 - Create projections</p> <ul style="list-style-type: none"> - Determine a time horizon over which to project future impact - Create projections of future outputs, outcomes and impact, and their monetised value <p>Guidance Projections can be made into infinity using a terminal value or for a specific number of years. Assumptions have to be made and reported on how the monetary values for outputs, outcomes and impact have been estimated for future years.</p>
<p>Activity 15 – Calculate monetary social return</p> <ul style="list-style-type: none"> - Perform the actual calculation of social return relative to investment and calculate present value <p>Guidance Present value is the value in today’s terms of future financial income and expenditures, determined by using a discount rate. This is an interest rate which usually accounts for the effects of inflation, growth and risk; calculation of the discount rate needs to be reported. A sensitivity analysis can be carried out to test the SROI for sensitivity to certain factors (like variations in the number of people benefiting). The social return on investment is the present value divided by the investment.</p>
<p>Stage III – Reporting</p>
<p>Activity 16 – Reporting</p> <ul style="list-style-type: none"> - Develop a report summarising the social return on investment analysis - Have results verified or audited by a third party if feasible and desired for additional credibility <p>Guidance It is very important to set the calculations of an SROI analysis into context. The report should include subjects such as information relating to the organisation (mission, goals, activities and financial analysis), a description of the SROI process followed (in particular the scope and restrictions, the impact value chain and indicators selected), clarification of assumptions and descriptions of areas which have not been measured or monetised.</p>
<p>Stage IV – Embedding</p>
<p>Activity 17 – Monitoring</p> <ul style="list-style-type: none"> - Continually track data to inform management on progress being made towards desired outcomes and the possible unintended consequences. This may result in revisions to assumptions. <p>Guidance Integration of data collection for the SROI analysis into the standard accounting system of an organisation can make that collection less resource intensive. Some aspects of data collection or analysis may be outsourced to increase credibility and/or manageability for the organisation.</p>

Additional resources and references

Resources and references that may be useful for the activities included in the SROI framework are:

Activity 3 - Identify the subject organisation’s stakeholder groups

AccountAbility, a UK based non-profit consultancy, has developed the AA1000, a social accounts implementation process standard based on stakeholder accountability and engagement. It includes a comprehensive set of accounts for financial, environmental and social impacts of operations. In 2005 it published the *Stakeholder Engagement Standard*, focusing on steps to identify stakeholders and ensure quality stakeholder engagement. See www.accountability21.net.

Activity 4 - Determine the scope of the analysis

In 2006 AccountAbility published *The Materiality Report*, which provides an elaborate materiality framework to assist in determining the critical issues ('material') for long-term successes and sustainability of organisations. The framework contributes to limiting the number of critical issues in a SROI analysis. See www.accountability21.net.

Activity 5 - Map the impact value chain (logic model)

The W.K. Kellogg Foundation has published the *Logic Model Development Guide*. The 'Logic Model', another term for Impact Value Chain, helps to clarify what organisations are doing – the expected short, intermediate, and long-term outcomes – and identifies how the project's activities will contribute to achieving these outcomes. This guide can be ordered through the website www.wkkf.org.

Activity 6 – Sources of information and indicators

The Global Reporting Initiative (GRI) network continuously improves and builds capacity around the use of a sustainability reporting framework, including the sustainability reporting guidelines. This reporting guidance provides principles and indicators, including indicators for social performances of organisations in different sectors. See www.globalreporting.org.

Activity 11-13 - Analyse income and expenditure

REDF used True Cost Accounting Analysis, which allows non-profit organisations running a business enterprise to more accurately track progress on their financial and social goals. This is done by separating subsidy revenue from business revenue, and social operating expenses from business expenses. See REDF's SROI Methodology Guide on www.redf.org.

Activity 14 - Create projections

The website of Solution Matrix LTD (www.solutionmatrix.com) provides information on creating financial projections and calculating return on investment. See also REDF's SROI Methodology Guide on www.redf.org.

Activity 15 – Calculate monetary social return

Guidelines for calculating social return in monetary terms can be found in the NEF paper *Social return on investment. Valuing what matters*. (www.neweconomics.org) and in REDF's SROI Methodology Guide on www.redf.org.

Annex II: Leading organisations and individuals in the field of SROI

a. The Netherlands

Leading individuals, organisations and publishers in the field of SROI in The Netherlands include:

1. *Peter Scholten* (www.scholtenfranssen.nl / www.sroi.nl)
Co-founder of Scholten&Franssen; author of three books on SROI; member of the international working group which designed the SROI framework presented in this paper; conducted workshops and presentations on SROI throughout Europe; organises training courses on SROI in The Netherlands, Belgium and Germany. Also working for Nyenrode Business School, Department for Social Venturing.
2. *Gert Rebergen* (www.izare.nl)
Rebergen has a his own consultancy firm (Izare) and conducts SROI analysis as one of his activities. During an SROI conference in October 2006 in Brussels he gave a presentation on the use of SROI as a strategic instrument.
3. *FM – Tijdschrift over filantropie & bestuur* (www.fm-platform.nl)
Magazine that has published several articles on SROI, including interviews with Scholten en Rebergen and an article on the before-mentioned conference in Brussels. FM is published by Lenthe Publishers, which has also published the SROI books by Scholten in its FM State of the Art series.
4. *Start Foundation* (www.startfoundation.nl)
Start Foundation supports initiatives focusing on disadvantaged persons with no or limited access to the labour market. The support consists of financial resources, contacts and expertise. Together with FM, NIVRA-Nyenrode and Scholten&Franssen, Start Foundation organised a seminar on SROI in December 2005. In 2003 Start Foundation financially supported a pilot project for SROI analysis in several Dutch social enterprises. In 2006 the organisation supported an SROI analysis of an employment project for Sinti youth in Nuenen.
5. *VSB Fonds* (www.vsbfonds.nl) and *Stichting Doen* (www.doen.nl)
Staff members of both organisations participated in SROI training organised by Scholten&Franssen. Furthermore VSB Fonds and Stichting Doen, together with Start Foundation, co-financed Scholten's book on SROI in 2005. From the available information it is not clear whether the organisations are actually using SROI in their operations.
6. *Nyenrode Business University – Netherlands Institute for Social Venturing & Entrepreneurship (NSVE)* (www.nyenrode.nl/socialventuring) and *NIVRA (Nyenrode School of Accountancy and Controlling – www.nivra-nyenrode.nl)*
Nyenrode-NIVRA together with Start Foundation organised a seminar on SROI in December 2005; Peter Scholten in working for the Netherlands Institute for Social Venturing and Entrepreneurship at Nyenrode University. In the available documentation no further information is provided on Nyenrode's current use and/or involvement in SROI development.

b. *Internationally*

Outside The Netherlands, the following organisations and individuals are leading in the field of SROI:

1. *Roberts Enterprise Development Fund (REDF – www.redf.org)*
REDF is based in San Francisco, USA and designed the SROI methodology (see section 3). On its website REDF indicates that it no longer utilises SROI without mentioning the background of that decision or the methods it is currently using instead of SROI. REDF's website still presents documents on the SROI methodology.
2. *New Economics Foundation (NEF – www.neweconomics.org)*
NEF, based in London, further developed the SROI methodology (see section 3).
3. *Working group on SROI (no contact address or website)*
This informal working group with practitioners from both the USA and Europe has built on REDF's and NEF's work, and has developed an elaborate SROI framework (see section 3 of this paper; and Scholten et al, 2006). The members of this working group, who appear to be the leading international practitioners in the area of SROI, are: Jed Emerson (former director of REDF), Stephanie Robertson (London Business School), Robert Tolmach, Jeremy Nicholls (NEF), Sara Olsen (SVT Consulting USA), Betsy Biemann (Maine Technology Institute), Sheila Bonini (Hewlett Foundation) and Peter Scholten (Scholten&Franssen).
4. *London Business School (sroi.london.edu)*
In consultation with NEF, The London Business School has set up a specific website on SROI. This website includes a 24 minute video presentation with an introduction to SROI and refers to further sources on SROI.
5. *Hefboom (www.hefboom.be)*
Hefboom is an organisation in Brussels, Belgium providing financial support and advisory services to companies and organisations in the social sector. In 2005 Hefboom launched a pilot project to test the SROI analysis in six social enterprises in Vlaanderen. In 2006 Hefboom has started to organise short SROI introductory courses, facilitated by Sigrid Ramault (Hefboom) and Peter Scholten. Also in October 2006 Hefboom organised a conference on SROI in the Vlaams Parlement in Brussels.
6. *University of Leuven – Hoger Instituut voor de Arbeid (www.hiva.be)*
Ides Nicaise (Head Sector Education and Labour Market) was involved in Hefboom's pilot study in 2005 and has also carried out activities in the area of measuring the results of employment projects.
7. *European SROI Network (www.sroi-europe.org)*
The European SROI Network consists of SROI practitioners from England, Germany, Scotland, Ireland, Belgium and The Netherlands. Its website which is still under construction. In due course it should provide information on its members, resources, events and country-specific information.

8. *Global Social Venture Competition* (www.socialvc.net)

The Global Social Venture Competition (GSVC) is a worldwide business plan competition for graduate students. Business plans must include a financial analysis as well as an SROI analysis. In this way SROI analyses have been conducted for businesses such as providing personal assistance to HIV/AIDS organisations in southern Africa (Human Services Fellowship, winner of the 2005 GSVC) and developing environmental-friendly products for agricultural production in India (Eco-Friendly Agricultural Products, winner GSVC in 2004). Through introducing SROI analysis in new sectors, GSVC have assisted in the further development of the SROI methodology.

Other publications in this series

- Van der Velden, F. Capacity Assessment of Non-Governmental Development Organisations: Beyond the logical framework approach.
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