

Social Return on Investment Analysis - A Brief Overview

Social Return on Investment (SROI) analysis (also known as social benefit cost ratio) is a method for understanding, measuring, and reporting on both the social and financial value being generated by an organization or program relative to investments. SROI analysis builds on other approaches to determining non-financial value by quantifying and monetizing indicators of value. The monetized values or social benefits are converted to net present value and divided by monetary investments to arrive at a SROI ratio. The SROI ratio tells you that for every dollar invested in an organization or program it will generate x dollar in social benefit.

SROI is based on traditional cost-benefit analysis, which measures the economic impact of a project or program and compares alternatives. Typically the objective of a cost-benefit analysis is to translate the effects of an investment into monetary terms and to account for the fact that benefits generally accrue over a long period of time while capital costs are incurred primarily in the initial years. SROI is a practical management tool, designed to inform decision-making on a regular basis. In contrast, traditional cost-benefit analysis is used periodically, usually at the onset of an investment or retrospectively to determine the least expensive way to produce benefits or reduce negative impacts to key stakeholders, or determine whether the investment was worthwhile. SROI enables managers to maximize both social and economic benefits whereas cost-benefit analysis typically frames benefits and costs as trade-offs.

There are two primary SROI methodological models. The first was developed the REDF (formerly Roberts Enterprise Development Fund) to try and ascertain the value created by social purpose enterprises. REDF developed a six-stage framework to measure value from three perspectives: economic, social, and socio-economic. A limitation of the REDF model is that it focuses specifically on identifying direct cost savings and revenue contributions associated with an individual's employment in a social purpose enterprise. The second model was developed by the New Economics Foundation (NEF) but was built on the REDF methodology. The distinctive features of the NEF model include: a stakeholder approach, an impact map, and deadweight and sensitivity analysis. The NEF model captures economic value and social benefits by translating social objectives into financial measures.

The SROI methodologies require an understanding of the following topics: performance measurement, evaluation, stakeholder analysis, logic models, impact maps, financial statements, financial analysis and cost-benefit analysis. The following two tables give an overview of two SROI methodologies calculation steps.

Further resources on SROI

- From the REDF website: www.redf.org
 - *A Report from the Good Ship SROI*
 - *SROI Methodology*
- From the NEF website: www.neweconomics.org
 - *Social Return on Investment: Valuing What Matters*
- Both websites also have SROI case studies

REDF Social Return on Investment Calculation & Analysis Steps		
1	Enterprise Value	<ul style="list-style-type: none"> • Create cash flow statement proformas usually for a 10-year period • Calculate a terminal value • Discount the free cash flows using the weighted average cost of capital (calculated by using the cost of equity, cost of debt, and debt-equity ratios)
2	Social Purpose Value	<ul style="list-style-type: none"> • Calculated based on four key elements: the projected number of target employees; the average public cost savings per target employee; the average incremental increase in income taxes per target employee; the projected social operating expenses of the enterprise
3	Blended Value	<ul style="list-style-type: none"> • Add together the enterprise value and the social purpose value then subtract any accrued long-term debt
<p>Steps 4-6 focus on social purpose enterprise returns. Enterprise and Social Purpose Values are compared to the investment required for each. The “return” is articulated in the Index of Return. The index tells us whether the investment lost, maintained, or created value.</p>		
4	Enterprise Index of Return	<ul style="list-style-type: none"> • Summarizes a social purpose enterprise’s financial performance (Enterprise Value) compared to the investment made in it • The Enterprise Value is divided by the investment to date to derive this index
5	Social Purpose Index of Return	<ul style="list-style-type: none"> • Summarizes a social purpose enterprise’s monetizable social impact (Social Purpose Value) compared to the investment required for this portion of the enterprise • Social Purpose Value is divided by the investment required to date to derive this index
6	Blended Index of Return	<ul style="list-style-type: none"> • Compares the Blended Value of the social purpose enterprise to the total investment to date • It shows the return on both business and social mission activities
<p>Adapted from the <i>REDF SROI Methodology</i> available at www.redf.org</p>		

NEF - SROI Process		
Stakeholder Approach		<ul style="list-style-type: none"> • The NEF approach makes explicit a process of identifying key stakeholders and considering their respective goals and objectives • This process provides a checklist of the social and economic values that are relevant to stakeholders • It shifts decisions on identifying value and indicators of value away from the researcher and towards the stakeholder
Impact Map		<ul style="list-style-type: none"> • The impact map consists of four distinct levels - inputs, outputs, outcomes, and impacts • It provides a framework for program partners to better understand how their work creates impacts and adds value • The clarity given by the impact map also helps in the selection of key indicators
Sensitivity and Deadweight Analysis		<ul style="list-style-type: none"> • How much of the intended benefits would have happened anyway (without the program or activity) • Sensitivity analysis is used to determine the extent to which outcomes vary as assumptions and other critical factors change
NEF Social Return on Investment Analysis Steps		
1	Boundaries	<ul style="list-style-type: none"> • Define the organization or program and its boundaries • The scope of the project or organization, geographic area and time period • Explain how income and expenditures are broken out into social and economic elements
2	Stakeholders	<ul style="list-style-type: none"> • Identify stakeholders and their goals and objectives • Prioritize key stakeholders and objectives • Identify common or overriding objectives
3	Impact Map	<ul style="list-style-type: none"> • Identify how the program works and how the program affects key stakeholders (linking this to stakeholders' objectives) • Capture this through an analysis of input, output, outcome, and impact
4	Indicators	<ul style="list-style-type: none"> • Identify appropriate indicators for capturing inputs, outputs, outcomes, and impacts • Identify monetized equivalent values for the indicators • This leads to a series of levels of indicators building up from inputs and costs through to impacts and benefits; in some cases using averages and estimates where information is not available • Use deadweight analysis to take account of the extent to which outcomes would have happened without the intervention
5	Data Collection	<ul style="list-style-type: none"> • Collect data relating to indicators
6	Create a Model	<ul style="list-style-type: none"> • Create a model to calculate final measures based on present value of future costs and benefits using a discounted cash flow model and using the principles of cost-benefit analysis
7	Calculate and Consider	<ul style="list-style-type: none"> • Calculate value added, SROI, internal rate of return, and payback period • Use sensitivity analysis to identify the relative significance of data • Consider and present the results in a way which brings out the subtleties and underlying limitations and assumptions
Adapted from <i>Social Return on Investment: Valuing What Matters</i> available at www.neweconomics.org		