

Briefing Paper 49

The ambitions and challenges of SROI

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With the growing interest in measuring the social impact of third sector activities, there has been a range of approaches developed. One of these, Social Return on Investment (SROI) has received particular attention. This paper examines the position and origins of SROI before identifying some emerging challenges. We draw out implications of these challenges for those using impact tools and those interpreting the results of SROI exercises. We also identify a future research agenda that can strengthen the method. While the issues raised here are essential to developing SROI further, they are also valid for more general discussions regarding the proving and improving of the social value added by organisations.

Introduction

Social and environmental values are hard to include in impact measurements and such important benefits risk becoming subordinated to economic indicators that are more straightforward to identify and that claim greater rigour in terms of data quality. In response to such challenges, approaches are being developed for measuring value other than financial, including the Global Reporting Initiative guidelines (GRI), Social

Impact for Local Economies (SIMPLE), different types of social accounting and auditing and Social Return on Investment (SROI). Often such approaches share an understanding of impact assessment as being both a means to demonstrate achievements and to help improve organisational operations; they try to explore how social change is achieved, and how change can be demonstrated and illustrated with the purpose of proving that value has been created. Among these, SROI has received much attention due to a combination of its ambitious and sometimes controversial approach; it claims to be holistic and comprehensive, and it uses a monetised language, combined with qualitative narratives, to express the different types of value created.

There is a range of approaches to SROI but for the basis of this paper we use 'A guide to Social Return on Investment' (Nicholls, Lawlor et al. 2009) published by the UK Cabinet Office, Office for the Third Sector (hereafter referred to as 'the Guide'). Research done on the use of SROI in the UK context (or, indeed, in any other context) is limited. The usage of SROI has, of course, been more extensive than the lack

of research publications imply. Still, writing on SROI is often done in a context of policy commentary (by charities and think-tanks) rather than pure academic research. A credible measurement tool needs both practice-based and academic scrutiny.

There is therefore a need to examine how SROI is being used by third sector organisations, commissioners, funders and the public sector. The role of the academic community is to work to understand how impact assessments are framed, data collected and analysed, and how results are presented and used. This can then lead to recommendations for the strengthening of approaches.

What is SROI?

SROI is described as a framework that identifies and appreciates social, economic and environmental value created. It involves reviewing the inputs, outputs, outcomes and impacts made and experienced by stakeholders in relation to the activities of an organisation, and putting a monetary value on the benefits and dis-benefits created. In order to estimate the positive (or negative) social value of non-traded, non-market goods the use of financial proxies is one important attraction of the SROI approach. The outcome, i.e. the value created, can also be related to the investments made, and is expressed through a ratio; an SROI that is 3:1 means that for every pound invested the organisation generates a social value of three pounds (net of cost). Although using monetary terms, the SROI ratio does not express financial value as such, but should be seen as a comprehensive way of expressing the 'currency of social value'. SROI measurement should be matched by qualitative evidence based on stakeholder inquiry, wherein the 'stakeholder' is defined

as 'people or organisations that experience change, whether positive or negative, as a result of the activity being analysed' (Nicholls, Lawlor et al. 2009: 20).

SROI and cost-benefit analysis

SROI is an adjusted cost–benefit analysis (CBA) that takes into account the various types of impact, including social and environmental benefits. From a technical point of view, we argue there is not much difference between classical cost–benefit analysis (CBA) and SROI. As the traditional CBA, SROI combines, in the form of a cash flow, the ratio of discounted costs and benefits over a certain period of time. The SROI UK model is based on a series of guidelines which includes a strong emphasis on stakeholder engagement throughout the assessment process. This is a distinctive feature of SROI and sets SROI apart from CBA (although CBA does not exclude stakeholders' involvement). This degree of stakeholder involvement in SROI leads to a diverse range of indicators and measurements that makes comparing organisation with organisation or activity with activity difficult. The guide to SROI warns of such dangers and advises against using SROI for comparisons. In contrast, CBA is designed to be comparable.

To what extent can we say that SROI and CBA are different techniques, or whether one is an adaptation of the other? There seems to be some controversy on this point. Cost-benefit analysis is a long-established technique that is routinely used by economists, and others, in a very wide range of fields, in different countries. There are possibly thousands of published accounts that have appeared in the academic literature, in addition to a much

larger volume of Government analyses that may remain unpublished. By contrast, the technique of SROI is much more recent, and the context of its use, i.e. the third sector, is new. Hence, SROI presents us with, on the one hand, well known challenges of assessments of this kind, but with its new territory it may be difficult to predict how these challenges will be, and can be, dealt with.

SROI UK: challenges and limitations

As with any framework or tool for evaluation and impact assessment, SROI has its limitations. Some of these are related to the context in which it is being introduced, others relate to challenges that are inherent to any assessment of social impact. We identify some of the main challenges below with the view to encouraging more rigour in research, helping users of SROI reports with interpretation and identifying areas that would warrant further research.

1. Judgement and discretion in setting indicators

The mapping of impact involves defining outcomes and expected impact of a project intervention. Identifying indicators is based on choice and there can be diverse views on preferences within an organisation, with different stakeholders emphasising the importance of different activities of different groups of beneficiaries. **Decisions regarding indicators are shaped by prior assumptions and preferences, and they may also be shaped by the cost of the SROI and the extent to which there is data already available to support the measurement of certain indicators. Impact assessments therefore have to be seen as a social construct; they reflect preferences as well**

as pragmatic aspects of what is do-able and affordable for an organisation. Although this is not a challenge exclusively faced by the SROI model, it remains a significant issue. It is not clear how some SROI exercises have managed to resolve the risk of preferences and practicalities leading to a bias in the choice of indicators and values to be included in the assessment.

2. Quantifying the value of benefits and volunteering

There are obvious challenges in attributing monetary values on outcomes and impacts. Some within the third sector are uncomfortable with summing a range of social values into a single financial value. Such quantification, it is believed, has to distil the impact and can do little to recognise outcomes that refer to some elements of quality of life, feelings and other similar type of outcomes that are vague to identify and quantify but nevertheless are essential goals of a project intervention. There are also questions relating to the use of proxy indicators based on the cost of government services. Furthermore, it is not only outcomes that present a challenge to quantification: it is also difficult to put an appropriate value on inputs such as volunteering. The question of how to value volunteering in SROI is debated and remains problematic both conceptually and practically.

3. Using and reporting SROI results: ambiguities and temptations

The ratio of inputs to outcomes is presented as one of SROI's strengths; it provides a consistent and tangible way of illustrating created value. While an SROI ratio can be useful for tracking progress over time within the same organisation, the SROI Guide warns against comparisons between

organisations. The SROI ratio is specific for each organisation and hence does not lend itself to cross-organisational comparison. However, findings from a recent study looking into social impact measurement in third sector organisations (Lyon, Arvidson et al. 2010), and suggested in a recent paper published by New Philanthropy Capital (NPC 2010), indicates that the main motivation for organisations to carry out an SROI is to strengthen their position in relation to others in a competitive environment. This occurs despite very different approaches and measurements being used.

Concluding remarks

The three challenges identified above are but a few discussed in the adjacent TSRC Working Paper 49, which also describes aspects related to deadweight, displacement and attribution; focus on impact at the expense of understanding process; the problem with competing organisational principles and targets identified by evaluation frameworks; the role of evidence and monitoring systems; and the high cost of conducting a full SROI assessment. Part of the critique raised in this paper comes not only from a scrutiny of SROI as a tool, but also from the view that SROI aspires to deliver not only fair measurement of social, environmental, and financial value created, but the added value of enlightening and educating organisations and stakeholders alike through stakeholder participation; it is not only a tool, but a project with visions and goals in itself.

It is through understanding the context in

which SROI is promoted that we can assess the relevance and impact of these challenges. Third sector organisations are under pressure to demonstrate their value in an environment which emphasises 'value for money' and where competition for resources is characterising their relations to both fellow third sector organisations as well as to stakeholders who provide resources. This context does present an incentive for organisations to inflate the value of their interventions. The extent to which this is happening needs further investigation, and means of reducing such a risk needs to be developed drawing on forms of external auditing that are cost-effective. This paper aims to encourage greater rigour and attention to how SROI principles are applied. As a result of this analysis, we propose further research into technical aspects, and methodological aspects that relate to the use of SROI and the dynamics surrounding stakeholder engagement.

References

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