
Summary sheet

THE SOCIAL RETURN ON INVESTMENT METHOD (SROI)

Abstract

The social return on investment (SROI) is a method that provides a framework for analyzing social, economic and environmental impacts. It involves measuring the change that can be attributed to the intervention under study and then assigning a monetary value to it as a common measure of the social value created.

History

Inspired by cost-benefit analysis and social reporting (ESSEC IIES, 2011, p. 8), the method was first developed in the early 2000s by the Roberts Enterprise Development Fund (REDF) in San Francisco. The idea was then taken up by British think tanks, in particular the New Economics Foundation (NEF), and promoted by the SROI Network, now known, following a merger with the Social Impact Analysts Association (SIAA), as Social Value International (SVI, 2015). The method was officially endorsed by the UK government when the UK Cabinet Office for the Third Sector published an official guide to the SROI method in 2009 (Community Sector Council NL, 2013). As of 2017, this guide is still used as a reference.

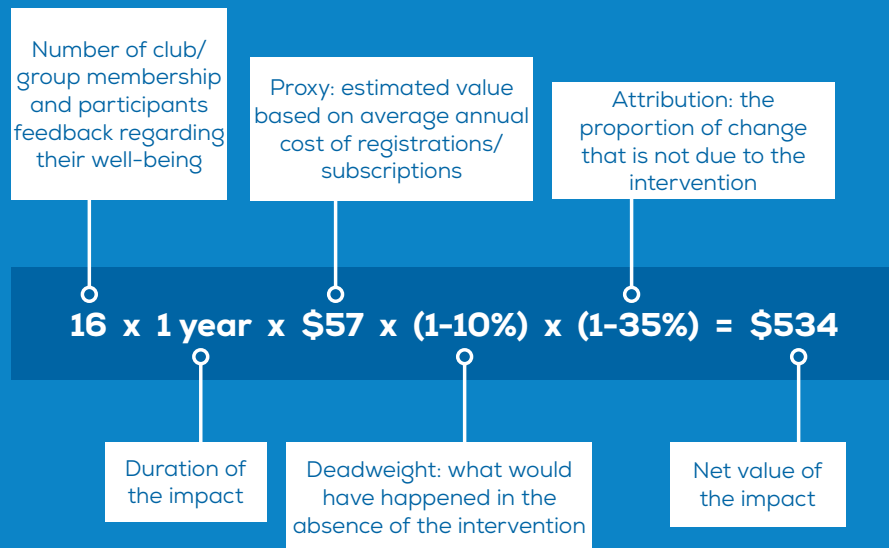


Method

These are the six steps defined by the UK Cabinet Office (2009) for carrying out an SROI analysis:

- 1** **Establishing scope and identifying key stakeholders.** It is important to have clear boundaries about what your SROI analysis will cover as well as who will be involved in the process and how.
- 2** **Mapping outcomes.** Through engaging with your stakeholders you will 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 stage involves finding data to show whether outcomes have happened and then valuing them.
- 4** **Establishing impact.** Upon having collected evidence on outcomes and monetized them, those aspects of change that would have happened anyway or are a result of other factors are eliminated from consideration.
- 5** **Calculating the SROI.** This stage involves adding up all the benefits, subtracting any negatives and comparing the result to the investment. This is also where the sensitivity of the results can be tested.
- 6** **Reporting, using and embedding.** Easily forgotten, this vital last step involves sharing findings with stakeholders and responding to them, embedding good outcomes processes and verification of the report.

Example of steps 3 and 4 of the SROI method cited above.



(example taken from pages 64-65 of Stievenart's SROI Guide, 2012)

Scope and limitations

Over the past decade, the SROI method has been the subject of much discussion that has identified the scope and limitations of the technique (Maier, Schober, Simsa, & Millner, 2015). It is important to keep in mind, however, that many of these criticisms can also be applied to other methods of measuring social impact.

Scope

Legitimacy: SROI analysis allows social service organizations, and those who fund them, to legitimize their actions by assigning a monetary value to their contribution, thus allowing them to **“speak the language of the traditional business community”** (Maier et al., p. 9).

Optimize resource allocation: Conducting an SROI study generally leads the organization to clarify its objectives and be more explicit about its assumptions, deadlines, capital requirements, risks and so on, allowing for more transparent decision-making (Maier et al., p. 12). SROI analysis also helps to focus attention on outcomes rather than outputs and to highlight the mechanisms that link them (Community Sector Council NL, 2013, p. 8). **However, the SROI method is often too cumbersome to form the basis of a practical information management system** (Maier et al., 2015, p. 13).

Limitations

Fundamental criticisms:

- **The SROI method is linked to utilitarianism.** The method assumes that an action is desirable when it maximizes collective wellbeing, understood as the aggregate of individuals' wellbeing within a society.
- It also assumes that it is possible to compare different entities based on a common unit of measurement (in this case, money). This premise has been questioned, for a variety of reasons (Maier et al., 2015, p. 16). The critique addresses, in particular, **the stage of monetization, which consists in assigning a monetary value to certain things that generally do not have a monetary value** (Community Sector Council NL, 2013, p. 5).

Inherent, but not fatal, limitations of the method:

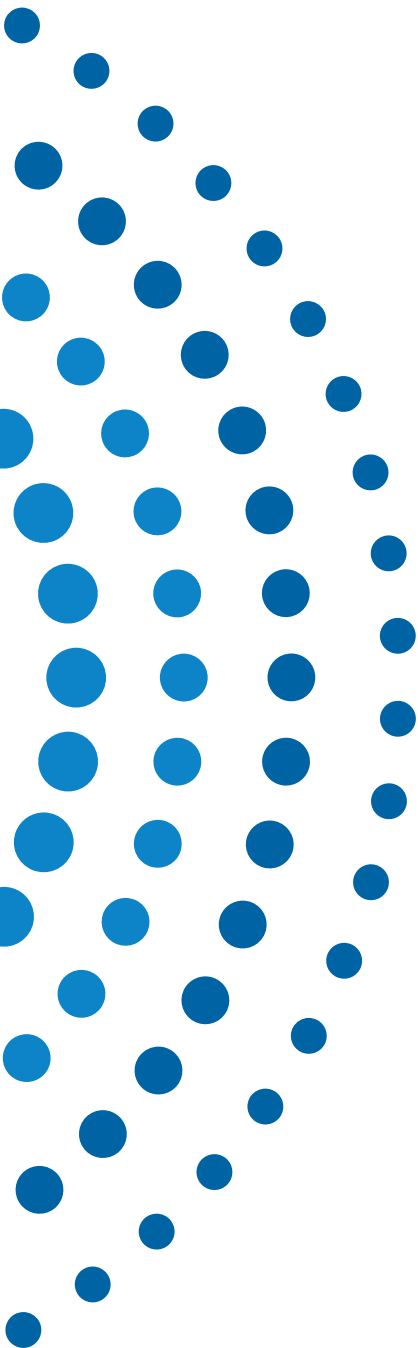
The SROI method cannot grasp the whole story, especially in complex intervention contexts, requiring it to be complemented by additional qualitative information.

- Despite the use of a common unit of measurement (in this case, the dollar), the huge variation in contexts and the uneven application of certain technical details make it difficult to compare SROI studies (and, in particular, the ratio obtained) with one another. This renders the method inadequate as the sole basis for investment decisions (Arvidson et al., 2010, p. 13; Maier et al., 2015, p. 19).
- Further, throughout the process, evaluators will invariably be called upon to make subjective judgments (Maier et al., 2015, p. 21). In that context, they may well be prone to select only those outcomes that shed a positive light on their organization rather than considering all the outcomes (Community Sector Council NL, 2013, p. 5), especially in a competitive context of scarce resources (Arvidson et al., 2010, p. 15).

- Finally, the SROI method tends to be costly. Maier et al. (2015, p. 22), in their literature review, refer to the equivalent of 20 to 40 days of work for the evaluation of a small non-profit organization. In addition, the organizations studied often have limited capacity to access or generate the required data (Community Sector Council NL, 2013, p. 5).

Technical limitations, which may eventually be overcome:

- Demonstrating a causal relationship is a difficult exercise. It often requires more rigour and resources (e.g., a quasi-experimental method with a control group) than what is done in most SROI studies (e.g., asking participants how their lives were affected by the program being evaluated) (Maier et al., 2015, p. 25; Fujiwara, 2015, pp. 11-13). **Caution should therefore be exercised against an overly simplistic interpretation of the results.**
- Economic concepts derived from cost-benefit analysis—such as opportunity cost, deadweight loss, estimated monetary values (proxies), allocation and replacement rates (displacement) and discounting—are concepts that are sometimes very complicated to put into practice. The estimates used in SROI studies can often be highly questionable (Maier et al., 2015; Mertens, Xhaufclair, & Tide, 2015, pp. 26-27).
- Despite a recognized brand and clearly defined steps, many choices are left to the discretion of the evaluators. In order to reduce the risks associated with uneven application of the principles of SROI, there is an insurance mechanism involving accredited peers, although this service is subject to a fee. In short, the use of this method does not exempt readers from a critical analysis of the assumptions and results of the study thus produced.



Uses

- From 2010 to 2013, the Community Sector Council of Newfoundland and Labrador conducted a pilot project that supported 13 social sector organizations in using the SROI method to assess the impact of their own activities.
- In 2014, the Social Sciences and Humanities Research Council of Canada (SSHRC) funded a pan-Canadian research project to identify the social impact of several activities using the SROI method. The case studies thus produced can be found in volume 26(2) of the scientific journal *Nonprofit Management & Leadership*.
- In Canada, coaching and accreditation to the SROI method is offered by Simpact Strategy Group, based in Calgary and Toronto, which acts as the Canadian branch of the Social Value International Network. A list of estimates of proxies of selected activities can be accessed free of charge by sending them an email request.
- In Quebec, Humanov.is (formerly CLIPP) developed some expertise in the field of SROI coaching.
- The British branch of the Social Value Network, Social Value UK, remains the most active organization in the promotion and support of the SROI method.
- The series of case studies carried out by ESSEC IIES (École supérieure des sciences économiques et commerciales – Institut de l’innovation et de l’entrepreneuriat social) between 2010 and 2011 with work insertion enterprises has led to the production of a very refined guide on the application of the SROI method to this sector of activity (Stievenart, 2012).

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This series of summary sheets is produced by Territoires innovants en économie sociale et solidaire (TIESS) as part of a project on evaluation and impact measurement for social economy organizations. Each summary sheet presents a brief description of a tool or method in circulation in the field of social impact measurement in Quebec and elsewhere in the world.

www.tiess.ca

June 2020

Contributions

This summary sheet was originally produced in French.

Find the original version at: <https://tiess.ca/methodes/>

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This project received financial support from the ministère de l'Économie, de la Science et de l'Innovation du Québec (MESI).

The translation was funded by Employment and Social Development Canada as part of the Investment Readiness Program.

