Local Government Improvement and Development

Improvement

Making the case for community empowerment:

The connections between Social Return on Investment and the Community Empowerment Business Case Tool

About this document

This document is intended for councils considering using both Social Return on Investment (SROI) and a Business case tool for community empowerment[1], published by Local Government Improvement and Development (LG Improvement and Development) formerly the IDeA. *Social Return on Investment in community empowerment: a worked hypothetical example* is also available, which shows how SROI might be used to evaluate community empowerment initiatives[2].

The LG Improvement and Development business case tool and guidance relating to community empowerment may differ from other approaches to developing business cases used in the public sector. This document does not seek to compare SROI with these other approaches and is not a guide to undertaking an SROI analysis. Councils considering doing an SROI analysis to inform a business case should download guidance[3] and consider practitioner training.

[1] Business Case Tool for Community Empowerment, MacDonald and Barnes, Social Science Policy and Research Centre, University of Brighton, for the Network of Empowering Authorities and the IDeA (2010) www.idea.gov.uk/empowerment

[2] Social Return on Investment in community empowerment: a worked hypothetical example, Inglis and Nicholls, The SROI Network (2010) for LG Improvement and Development www.idea.gov.uk/empowerment

[3] A guide to Social Return on Investment, Nicholls et al, Cabinet Office (2009) available from www.thesroinetwork.org Further relevant guidance may include a guide on the use of SROI to inform commissioning of public services, due to be published in 2010 by the SROI Network through the National Programme for Third Sector Commissioning (the lead partner of this programme is Local Government Improvement and Development)

What is SROI?

SROI is:

- a framework for measuring the value and impact of initiatives
- designed to measure change that is relevant to the people and organisations experiencing it
- a way to analyse ‘value’ beyond its financial cost (although some of the value SROI captures may have been paid for).

SROI is based on seven principles, which are:

- involving stakeholders
- only including what is material
- understanding what it is that changes
- valuing what matters
- not over-claiming
- transparency
- verifying results.

Forecast and evaluative SROIs

There are two types of SROI analysis; forecast and evaluative. Both are based on the same principles, including involving stakeholders in deciding what impact to measure and how to measure and value it.

A forecast analysis of options is likely to be more appropriate for supporting a business case. When making a business case for proposed activity in general, SROI may be regarded as similar to a cost-benefit analysis, enabling an appraisal of all options.

If any of the options have already been tested in practice, then an evaluative SROI may be undertaken first and used to inform the business case alongside forecast analyses prepared for the other options.

The key difference between a forecast and an evaluative SROI is that forecast SROIs will make bigger assumptions about the quantity and impact of change because the stakeholders are less likely to have experienced the impact of the activity in question (and/or they may be harder to involve). Further, the impact that stakeholders anticipate may not be borne out in practice[4]. Despite this, involving stakeholders in forecasting what, and how much, might change for them is still likely to lead to a better understanding of the possible effects of an initiative than by basing assumptions on an analyst's view alone.

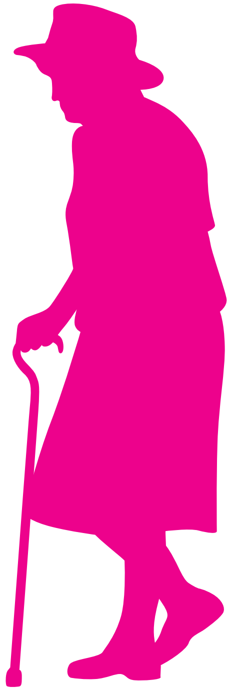
Why use a forecast SROI analysis to support a business case?

The SROI approach uses stakeholders to develop an understanding of the links between planned activity and their likely effect on those involved. This is a particular discipline that aims to be broader and deeper than other types of analysis.

It takes more account of what each affected stakeholder group might experience, rather than starting only from a policy perspective or organisational objective. It is more focussed as it tests for a causal link between activity and impact by focussing on significant and relevant change for each stakeholder group. It looks at the effects of the proposals, both the positive ones (known as benefits) and the negative effects (known as disbenefits).

SROI enables and promotes debate about the relative impact of changes for stakeholders by attaching financial approximations of value. It is a way of putting a value on the change that the different options might produce. This allows informed choices to be made between different options and is particularly important given that resources are usually limited.

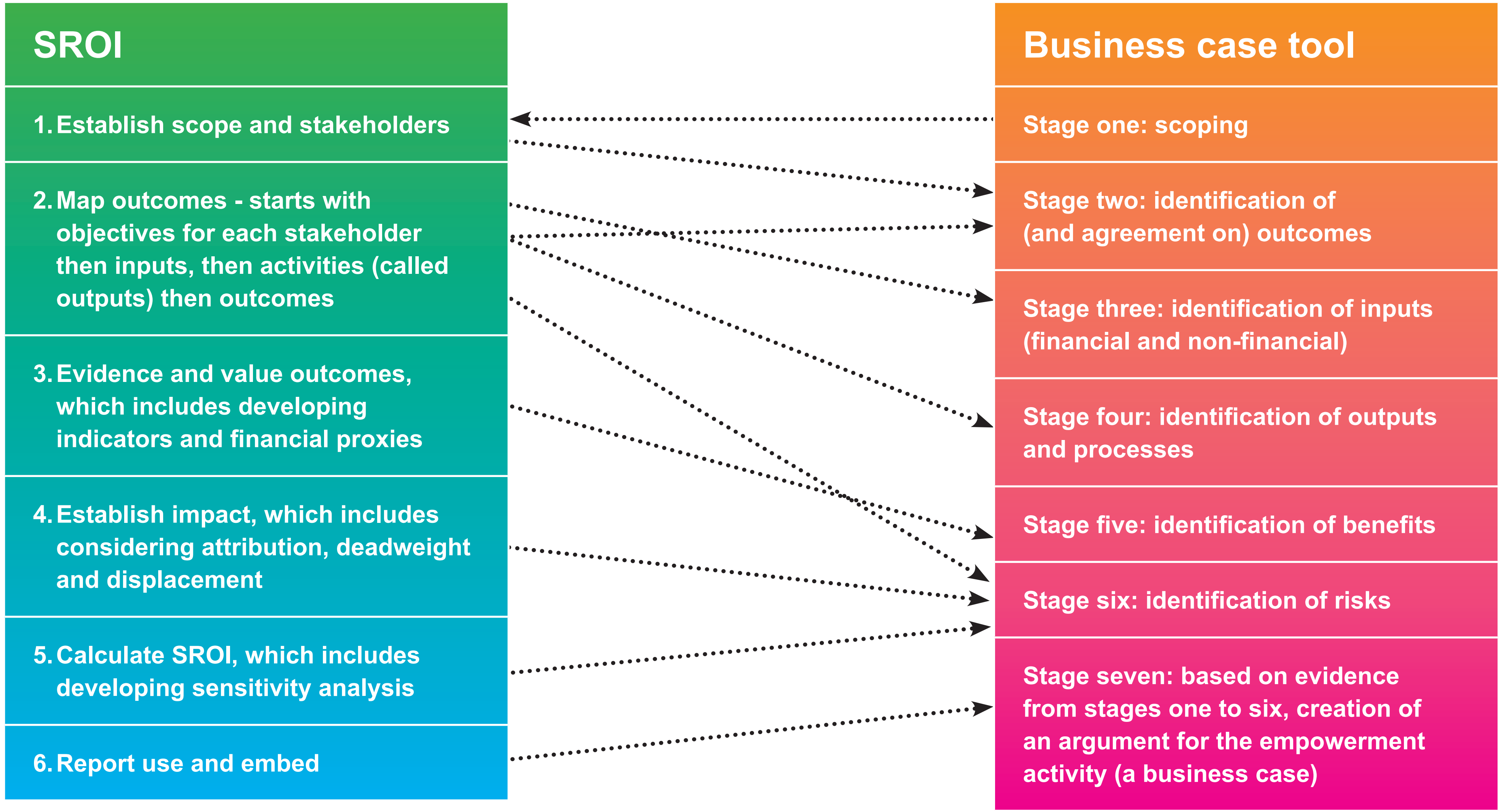
Applying the SROI framework well will ensure the business case is balanced as it helps to identify negative change, who contributes to change, and what would happen without the proposed initiative.



[4] Forecast SROIs may involve representatives of stakeholder groups to find out what might change for them (or other people like them) as a result of the proposals, even though they may not in all cases end up being directly affected by the initiative. This is like undertaking market research with potential customers when you develop a business plan, even though all those people you engage may not end up being customers.

A comparison of SROI and the Business case tool for community empowerment

The first diagram overleaf illustrates where the forecast SROI analyses for each option may be useful in the Business case tool. It illustrates where the Business case tool analysis feeds into SROI – choosing the scope(s) – and where SROI analysis may help in supporting the development of a business case using the Business case tool. The diagrams that follow (from page 7) consider each stage of the SROI in turn. Please refer to the glossary (see page 12) for an explanation of terms.


SROI
1. Establish scope and stakeholders
2. Map outcomes - starts with objectives for each stakeholder then inputs, then activities (called outputs) then outcomes
3. Evidence and value outcomes, which includes developing indicators and financial proxies
4. Establish impact, which includes considering attribution, deadweight and displacement
5. Calculate SROI, which includes developing sensitivity analysis
6. Report use and embed
Business case tool
Stage one: scoping
Stage two: identification of (and agreement on) outcomes
Stage three: identification of inputs (financial and non-financial)
Stage four: identification of outputs and processes
Stage five: identification of benefits
Stage six: identification of risks
Stage seven: based on evidence from stages one to six, creation of an argument for the empowerment activity (a business case)

1. If you have identified options as part of the scoping phase of the Business case tool, these may represent a number of SROI scopes. These scopes may be used to prepare a number of forecast SROI analyses which may be compared in order to select the most favourable solution.

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2. SROI identifies a specific set of stakeholders - defined as those groups who might experience a change as a result of an activity or affect the activity - and the Business case tool recommends stakeholders be involved in defining desired outcomes. Identification of stakeholder groups in the SROI process may therefore support the Business case tool process of identifying outcomes.

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3. During stage two of SROI you will have collected everything you need to know about inputs for the Business case tool.
NB Not all inputs are only valued using the standard approach to SROI.

4. Use of SROI will have collected everything needed on the subject of outputs for the Business case tool. The Business case tool recommends considering alternative courses of action at stage four. If you are developing a forecast SROI for a range of options then you will have already considered what courses of action you could take and are forecasting the results of each of these in order to make a choice between them.

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5. The forecast SROI for each option will need to identify the desired and likely outcomes for each stakeholder group, defined as what may change for them as a result of the activity. Both SROI and the Business case tool agree that stakeholders should be involved. Although, the SROI process focuses on developing a theory of change from an activity to an outcome or from a desired outcome back to what might cause that. Involving stakeholders in this way will improve the understanding of expected outcomes from each option.

6. SROI will identify some risks. In particular, it identifies possible negative and unintended outcomes which may signal performance and reputational risks.

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7. Benefits may be thought of as the value of positive outcomes. The SROI analysis will therefore have identified benefits in terms of the value of positive change and these will be captured in a common framework and valued using financial proxies. These benefits will be described in terms of the change from the perspective of each stakeholder group but may be classified according to other systems as required, such as the one outlined in the Business case tool.
NB SROI will also have identified and valued disbenefits; negative changes.

8. SROI will make opportunity-related risks - ie failure to take an opportunity that presents itself - more transparent by valuing all material outcomes.

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9. SROI may also identify opportunity, performance and reputational risks by systematically considering who else may contribute to the forecasted outcomes, whether activities might be displaced and what would happen if the proposed activity did not take place.

10. SROI may be used to identify financial and performance risks by considering the relationship between inputs, activities and outcomes within the sensitivity analysis.

11. SROI will have created a story of what is forecast to change for each option, an analysis of how change is expected to be created and who is affected, as well as valuing these changes. The forecast SROIs for each option may then be compared and the best solution identified. The rationale for the choice of this option and the benefits it is expected to produce, along with assumptions and judgements made, will be clearly documented.

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Glossary

Attribution	An assessment of how much of the outcome was caused by the contribution of other organisations or people.
Deadweight	A measure of the amount of outcome that would have happened even if the activity had not taken place.
Discounting	The process by which future financial costs and benefits are recalculated to present-day values.
Displacement	An assessment of how much of the outcome has affected outcomes happening elsewhere.
Drop-off	The deterioration of an outcome over time.
Duration	How long (usually in years) an outcome lasts after the intervention, such as length of time a participant remains in a new job.
Financial proxy	A monetary approximation of the value of the outcome.
Impact	The overall outcome for stakeholders, taking into account what would have happened anyway, the contribution of others and the length of time the outcomes last.
Impact map	A table that captures how an activity makes a difference: that is, how it uses its resources to provide activities that then lead to particular outcomes for different stakeholders.
Indicator	A piece of information that helps to determine that a change has taken place. It is a sign that can be measured. SROI is concerned with 'outcome measures' (such as the increased confidence in people who have been on a course) rather than 'output measures' (such as the number of people attending a course).

Inputs	The contributions made by each stakeholder that are necessary for the activity to happen.
Materiality	Information is material if its omission has the potential to affect the readers' or stakeholders' decisions.
Outcome	The changes resulting from an activity. The main types of change from the perspective of stakeholders are unintended (unexpected) and intended (expected), positive and negative change.
Outputs	A way of describing the activity in relation to each stakeholder's inputs in quantitative terms.
Outcome indicator	Well-defined measure of an outcome.
Revealed preference	An approach to approximating the value of an outcome to a stakeholder by inferring the value of an outcome that doesn't have a market price from something that does have a market price.
Scope	The activities, timescale, boundaries and type of SROI analysis.
Sensitivity analysis	An assessment of the extent to which an SROI model is affected by changes to assumptions about variables.
Social return ratio	Total present value of the impact divided by total present value of the investment.
Stakeholders	Groups of people or organisations that affect the activity being analysed or that experience change, whether positive or negative, as a result of the activity.
Stated preference	An approach to approximating the value of an outcome by asking stakeholders directly what it is worth to them; typically by asking how much they would be willing to pay (for a positive outcome) or willing to accept (as compensation for a negative outcome).

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