



SROI: Myths and Challenges

SOCIAL VALUE UK

SROI: Myths and Challenges

Introduction

The aim of SROI is to provide information to inform resource allocation decisions and reduce social inequality and environmental degradation. It does this by revealing a broader value of an organisation's work. It's an approach that argues that organisations should be accountable for the effects of their work and that inequality means that some groups are excluded from determining those effects and from holding organisations accountable for them. It is a flexible framework that can be used for different audiences which does not come with a predetermined list of outcomes. But it does require organisations to answer the same fundamental questions. To reduce inequality it is not enough to know that we have made a difference, we need to know how much of a difference, and to consider whether more of a difference could have been made. And once there is any complexity, and different types of difference, we need a common yardstick to integrate qualitative and quantitative information.

Over the last couple of years there have been a number of reports written about SROI. Very often these repeat misunderstandings and sometimes misrepresentations of what SROI is all about. Perhaps in part this is our responsibility, for not ensuring that the information we provide as a Network is clear enough. Until now we haven't responded but because people want to have a way of answering the question 'are we creating as much value as we can?' because SROI is designed to help people answer this and because reports on SROI are reaffirming misunderstandings, we've decided it is time to respond.

Many of the reports about SROI that we have seen have been written from one perspective about how we can 'know' things. SROI is primarily about accounting for value (our strapline is accounting for value) and our mission is to change the way the world accounts for value. So as well as working on better ways to account, we are also working to raise the debate with mainstream accountancy and to improve resources and open the debate for all through the [Global Value Exchange](#).

So, let's try and dispel a few myths if we can.

1. Those financial proxies

Despite what you may have heard, the purpose of SROI is not to put a financial value on things and leave it at that. As above, the purpose is to reduce inequality and environmental degradation. In a world in which currently resources are limited, choices have to be made and allocated based on market prices and the political decisions of those to whom resources are readily available; we need a consistent way to account for a wider more inclusive value. Without this, the voices of those lacking in resources will remain unheard and decisions will not take the value they lose or create into account.

2. It's all assumptions and estimates

There is a view that financial proxies are subjective, random, made up and so on. There is also a view is that there are other parts of an SROI analysis, which are equally full of assumptions.

If we go down the route of scientific evidence for impact then a different critique, that SROI is time consuming and expensive, will certainly be true. If we go for an approach which allows us to make those resource allocation decisions, decisions to reduce inequality, with a lower test of 'truth' then yes, there will be estimates and assumptions. We prefer to call these professional judgements, which

is after all what accountants use to describe their estimates and assumptions. Look closely at a balance sheet and you will find lots of these. In fact, all business decisions require similar estimates and judgements.

What makes these judgements reasonable is a process of audit and assurance and one of the SROI principles is to verify your results – for the very reason that your judgments should be reviewed; this is why we have developed an assurance process.

3. SROI is Cost Benefit Analysis in disguise

There is an argument that SROI is a form of cost benefit analysis (and nothing more).

Ironically this can come from both economists whose experience is based in cost benefit analysis and from those who argue that CBA is fundamentally flawed and so, by definition, SROI must be.

Both supporters and detractors of CBA often miss the fact the SROI has its roots in sustainability accounting as well as in CBA. Although there is no standardised approach to CBA, it is informed by welfare economics which requires scientific method to determine 'truth'. Sustainability accounting and reporting has its roots in financial reporting and relies on principles, judgment and audit for its form of 'truth'. SROI needs to be understood from both perspectives. The critique that SROI requires judgments is actually its strength; one of the important debates in the Network is determining the best balance between the two approaches. A comparison of SROI and CBA is available [here](#).

4. Valuation might be useful but it is difficult and comes at the end of the process so we can ignore it until later

The valuation issue can also be misunderstood by those who focus on the social objectives of not for profit organisations or who focus on reporting and not on decision making.

For those that focus on the social objectives the decision of what is important to measure has been made. But SROI is about accountability, accountability for what happens as a result of pursuing objectives. This quickly leads to a realisation that there are many outcomes for

different stakeholders, some negative and some conflicting. And this means there needs to be a way of deciding which of these are important or, in SROI, which are material. Valuation is a way of weighting outcomes in order to help make this decision and cannot be left until the end of the process if used this way. Value isn't an end it's a beginning.

If you are reporting on your impact you may not feel the need to value outcomes. But for any management team that wants to make a choice between different services creating different outcomes there needs to be a way of aggregating the outcomes with a single yardstick. This will be the starting point for the debate on which services to provide or on how changes to a service will increase the value created. We use financial proxies for this yardstick, which has the added advantage of relating the outcomes to their cost and allows managers to use the power of excel to consider alternatives.

5. SROI is a tool

Although we don't describe SROI as a tool, there are those who do and who can then conclude that SROI may not be the appropriate tool for them. The Demos report 'Measuring Social Value: the Gap between Policy and Practice' states 'So SROI may be neither practical nor useful for all organisations'. This misses the fundamental nature of SROI. It's a set of principles applied in a framework. It is difficult to see how some consideration of the principles won't be useful to any organisation that is seeking to make a difference in peoples' lives.

If you get a group of people to consider what questions they would need to ask in order to know how much of a difference they have made, they generally come up with things like:

- Who has been affected or changed?
- What were the effects or changes?
- How did we decide which effects or changes to account for (and so manage)
- How much change occurred that can be attributed to our activities?
- What common measure will we use in order to aggregate the difference and so start discussions about how we can make more of a difference
- Who answered these questions?

with answers that are good enough to inform the decision.

SROI helps answer these questions. In answering these questions a reflection on how the difference has been made will be required and the information generated will be critical in thinking about how to make more of a difference in future.

6. SROI is a ratio

‘One of the biggest challenges identified by our research is the gap between what SROI seems realistically able to do at this stage and the ambitions that many people have for it. Those who have promoted SROI have warned against its use as a comparative tool. However, our research shows that embarking on a comprehensive social impact assessment is most often motivated by a need to strengthen competitive advantages. We may therefore assume that SROI is, and will be, used in a comparative context.’

Whilst there are issues with comparing ratios just as there are with comparing financial returns in different markets and contexts, it is the analyses that are comparable. This is one of the strengths of SROI. The application of principles in a framework makes it comparatively easy to see how people have analysed the value they create and to then compare that with others.

7. SROI is very expensive

Any process of accountability, of gathering information to make decisions will require time and resources. And there may be an initial investment that is not required in future years. That said there

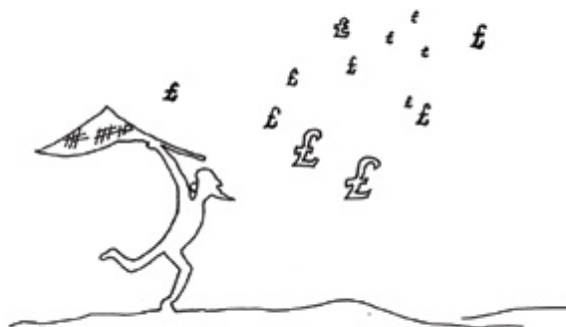
is sometimes a tendency to apply the principles of SROI at a level of rigour that is more than necessary for the decisions that are being based on the analysis. Whether it’s a business planning exercise or research to inform government policy, the same principles apply but the amount of time and resource required will vary. It is important to be clear about the expected benefits of an SROI analysis when considering the cost. It is possible and maybe preferable to start on the journey, learning as you go.

But there are some challenges.

8. Good practice and misuse

SROI is open source, and we believe it should remain that way. The advantage is that people can experiment and learn. The disadvantage is that practice can be quite variable. Unless readers consider consistency with the SROI Network principles and whether the report has been assured, the variation can be confusing.

Perhaps inevitably there is still a focus on the ratio and therefore a risk that ratios will inflate. Despite what we say about the ratio, any general inflation of results could still be damaging. One of the reasons we have an assurance process is to mitigate against this risk but not everyone takes advantage of this. Our challenge is to encourage those wanting analyses of social returns to build in assurance as part of the process and to ensure that the assurance process is responsive to users.



9. Doing no more than required

Whilst on one hand there are examples of SROI that have not done enough the reverse is also true. Some believe that more work is required to complete analyse their social returns than they can afford. This either means they don't start or they spend more time and resource than was required. The analysis should be commensurate with the audience and purpose. The SROI Network recognises that more guidance is needed on levels of rigour for different audiences and for guidance on people starting out thinking about social returns.

In conclusion

As interest in SROI is increasing, we need to respond to the challenges. But misinformation about SROI is important as the criticism can become reasons used by organisations not to become more accountable. People whose lives are being changed deserve more, more information and more involvement, and organisations that are bringing about change increasingly want frameworks that help them, which provide enough information to have a debate and to help make decisions.

The mantra that 'there are many approaches to impact measurement and we can't pick one' is damaging. A quick reflection of what would happen in financial markets if there were not a recognised and standardised approach that allows different activities to report on value created unilaterally bears this up. Investment would collapse.

So let's have a debate about principles and how we slowly (but not too slowly) standardise their application. And if you are out there and thinking about writing something about the issues with SROI then give us a call along the way. Who knows, the discussion may be useful.

An abstract graphic on the right side of the page, composed of several overlapping, semi-transparent geometric shapes in various shades of teal, light blue, and purple. The shapes are arranged in a way that creates a sense of depth and movement, with some shapes appearing to be layered on top of others. The overall effect is a modern, layered composition that complements the purple background.

About

Social Value UK is a national membership organisation for those interested in measuring, managing and accounting for their social value. We believe that by coming together and providing support, training, networking opportunities and representing our members, we can achieve our mission of changing the way society accounts for value. Join us and help us to create a movement for change.

www.socialvalueuk.org | [@socialvalueuk](https://twitter.com/socialvalueuk)