nef
economics as if people
and the planet mattered

INVESTING FOR SOCIAL VALUE

Measuring social return on investment for the Adventure Capital Fund

nef is an independent think-and-do tank that inspires and demonstrates real economic well-being.

We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environmental and social issues. We work in partnership and put people and the planet first.

nef centres for:

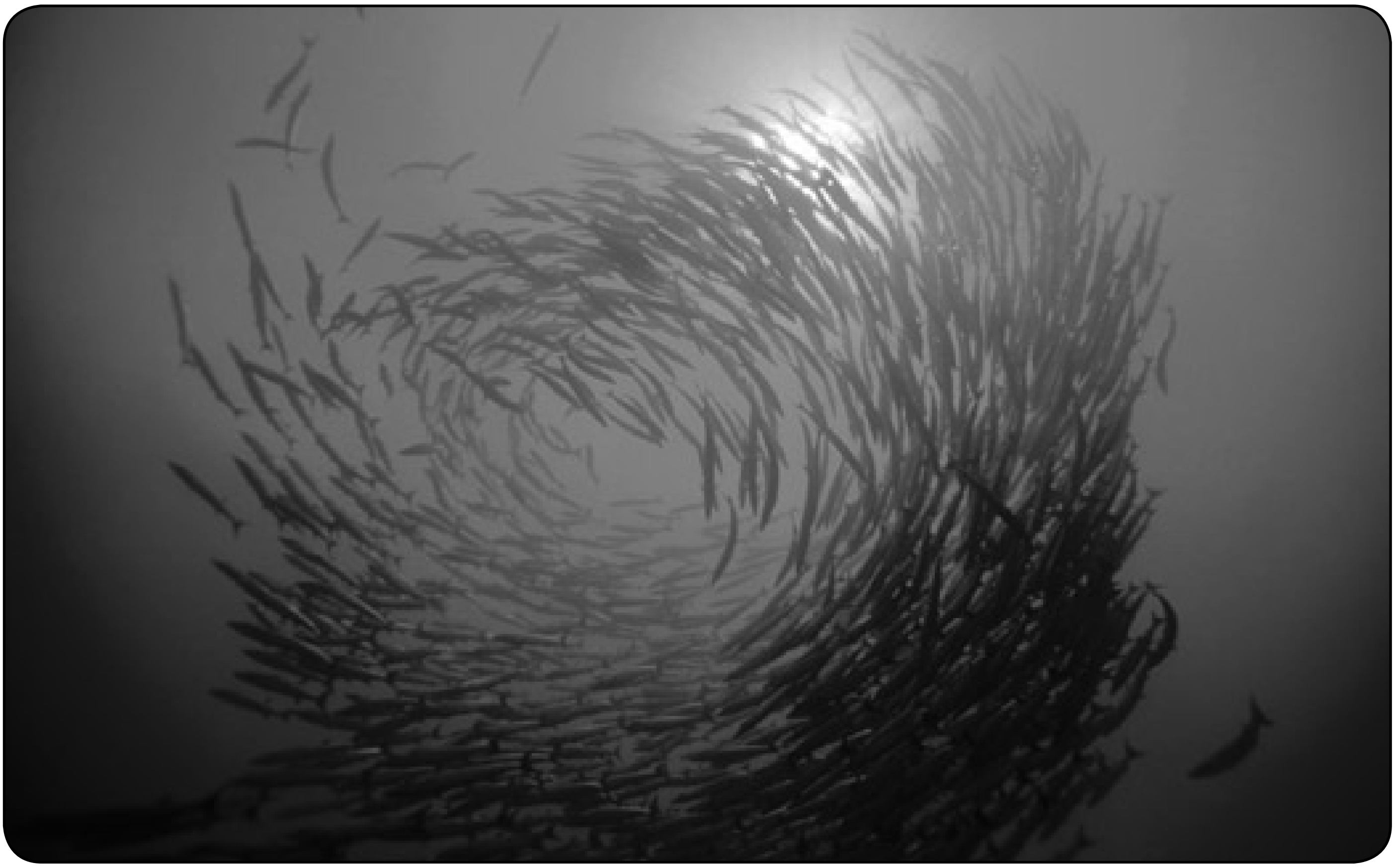
global interdependence

thriving communities

well-being

future economy

nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.



Social return on investment (SROI) offers a different way of thinking about value. It enables public, private and voluntary organisations to prove and improve the social, environmental and economic benefits they create, and to better communicate those benefits with others.

nef (the new economics foundation) explored the use of SROI with seven Adventure Capital Fund (ACF) investments, to better understand their outcomes and impacts.

This report presents the findings from two rounds of SROI pilots. It outlines the benefits and explores the challenges facing social investment organisations and evaluators as they seek to understand the social, environmental and economic return on their investments.

Contents

Foreword

ACF has a remit to consider social impact as one of the returns it seeks to achieve alongside a modest financial return on its patient capital investments. We have therefore been pleased to work with **nef** on SROI pilot assessments as part of our portfolio of measurement methodologies. **nef**'s approach is comprehensive and academically rigorous and based on techniques known to work in other social investment markets. We see this work as an important part of the way impact is measured, something that affects the sector and funders of all types who are seeking to establish the added value of patient capital and social venture capital investment.

Jonathan Lewis
CEO, Adventure Capital Fund

Executive summary

Social return on investment (SROI) is gaining currency amongst public-sector and voluntary organisations seeking to assess the social, environmental and economic benefits they create.

In this report **nef** (the new economics foundation) presents the findings from SROI analyses of seven voluntary-sector projects across England, from Northumberland to Bristol. All seven have received support from Adventure Capital Fund (ACF), an investment fund that is keen to explore new ways of measuring and improving the value of its investments.

The projects evaluated include a social enterprise that composts green waste; a community childcare service; an organisation providing inner-city workspaces and training; a trust set up to regenerate a former mining town; and a charity that provides barrier-free workplaces for individuals with disabilities. **nef** has examined these initiatives both to quantify their social value and to test the potential use of SROI analysis by other third sector organisations and social investors.

Overall, the participating organisations found the experience of SROI evaluation to be a positive one. The process enabled them to identify areas where they were performing well, to highlight where improvement was needed and to communicate their impact powerfully to funders and other stakeholders.

A number of obstacles also came to light – notably the difficulty in understanding and establishing new concepts and evaluation processes and freeing up capacity to undertake the SROI.

The distinctive approach to SROI evaluation pioneered by **nef** is a process that involves close consultation with a range of stakeholders, especially the intended beneficiaries of a project. It goes beyond traditional evaluation methods that mainly measure outputs (such as the number of hours of training provided) to capture outcomes – the qualitative differences that such outputs make to the lives and livelihoods of the people on the receiving end.

There is a focus on identifying and measuring the things that the people affected see as most important, instead of trying to measure everything. A wide range of influences is examined, in order to differentiate between the outcomes influenced by the initiatives being evaluated and those that would have occurred anyway.

Financial proxies are devised to put a monetary value on social benefits. This makes it possible to calculate a ratio for SROI performance, weighing the value of returns against the cost of investment. In one case the monetised social return equated to nearly six times the investment.

The report concludes that when properly used and resourced, SROI evaluation is a powerful tool for 'proving and improving' organisations' work. It provides a rigorous methodology for investigating social value and should be widely adopted if the third sector wants to avoid doing what it assumes to be good work without really knowing what makes a real difference.

We end with a series of recommendations designed to ensure that SROI is used and expanded effectively. These include:

- Establishing the necessary rigour in obtaining outcomes data and monitoring progress right from the start of any investment process
- Ensuring that third-sector organisations are provided with adequate funding by social investors to cover the staff and resource costs associated with SROI analysis
- Investing in new research to help share the benefits of learning from SROI evaluations, especially around financial proxies
- Appointing a senior champion for SROI within every organisation being evaluated, to make sure that analysis is conducted successfully and has a lasting benefit
- Engaging in active, meaningful and properly funded consultation with a wide range of stakeholders, particularly the intended beneficiaries of the initiative being evaluated and disadvantaged groups whose perspective may be ignored
- Encouraging an open sharing of knowledge and tools between project evaluators and those being evaluated
- Making it a condition of funding from social investors that organisations should participate fully in SROI analysis, provided that they are recompensated for this
- Viewing the SROI process as a legitimate part of organisational capacity building, with social investors funding the evaluator to fulfil the role of capacity builder
- Working towards a broad consensus on impact reporting between funding bodies, in order to avoid proliferation of disjointed project-by-project reporting.

Introduction

The past few years have been a period of rapid expansion and significant change for the third sector. We have seen increased competition for limited grant funding, a move towards third-sector organisations being commissioned to deliver public services, and the growth of venture philanthropy. Third-sector organisations are operating in a climate that demands high standards of accountability and evidence of social, economic and environmental impacts.

Since 2004 **nef** (the new economics foundation) has been pioneering the use of social return on investment (SROI) as an impact-measurement tool for the third and public sector.[1] SROI is based on traditional cost-benefit and return-on-investment approaches, but moves beyond narrow financial measures to capture more fully the value – social, environmental, and economic – generated by an organisation.

In recent years there has been a burgeoning of interest in SROI. The Office of the Third Sector (OTS) has investigated its use as an impact-measurement tool, and announced in May 2008 that it would invest in developing standard for social return.[2] A UK network of SROI practitioners and interested parties has also been launched in 2008. The urgency of these developments is heightened by the mooted establishment of a social equity capital market.[3]

This report is based on work by **nef** and the Adventure Capital Fund (ACF). ACF was established in 2002 by a group of government departments and voluntary organisations. Operating as a venture philanthropy fund, it invested just under £2 million in nine community enterprises during its first round of investments in 2003. In subsequent rounds, ACF made further investments totalling £9 million and recently was awarded the contract to manage the £215 million Futurebuilders fund.

Like other social investors, ACF was concerned with monitoring not just the financial return but also the social return on its investment. ACF commissioned **nef** to conduct two rounds of SROI pilots. There were two main objectives for these pilots. First, to provide an account of the social value generated by the participating organisations. Second, to assess the usefulness of SROI as a tool for measuring social impact more generally.

The first round involved three organisations in 2004–05. A further round began in 2006. In 2008 the **nef** research team completed telephone surveys involving the participants in the SROI pilot process.

Who should read this report?

In this report we document the lessons that funders, third-sector organisations and evaluators can learn about SROI from the seven ACF case studies.[4] As well as presenting a summary of the SROI analyses, we discuss the usefulness of SROI as a tool for 'proving and improving' and make recommendations about how it can best be deployed.

We begin in the next section with a brief description of the **nef** SROI model and the projects that have received ACF investment.

1. Social return on investment

nef's SROI framework helps organisations to understand, quantify and increase the social value that they are creating. This approach to measurement has been developed from cost-benefit and return-on-investment analyses, but seeks to capture the broader social value of investments too.

1.1. What is SROI analysis?

SROI is a process of understanding, measuring and reporting on social, environmental and economic outcomes. The SROI ratio shows the value of the social and environmental impact that has been created in financial terms. This makes it possible to weigh social benefit against the cost of investment.

SROI also offers a framework for exploring how change is happening as a result of an intervention, showing ways in which this can be improved upon. Through the SROI process we learn how value is created by an organisation, and this is just as important as what the ratio tells us.

Table 1 outlines the SROI process. This is done as a conversation between the person undertaking the analysis, the organisation being analysed, and those with a stake in that organisation's work. The final product is a written report that outlines the decisions taken in investigating an organisation's value, the information included, and the findings at each stage. For a more extensive description of the SROI model and process, consult **nef**'s publication *Measuring Value: A guide to Social Return on Investment, Second Edition* (May, 2008).

The timeframe and resources for completing an SROI analysis vary depending on the organisation, scope of the SROI and availability of data. Especially when undertaking an SROI for the first time, the process can be demanding for third-

Table 1: Key stages to preparing an SROI analysis

Phase 1 – Boundary setting and impact mapping	• Establish the parameters for the SROI • Identify, prioritise and engage stakeholders • Construct an impact map based on stakeholder consultation
Phase 2 – Data collection	• Select indicators for collecting outcomes • Identify financial values for the indicators, using proxies where necessary • Collect outcomes data
Phase 3 – Modelling and calculating	• Model the SROI, accounting for attribution, displacement and deadweight • Calculate the present value of benefits, value added, SROI ratio and payback period • Perform sensitivity analysis
Phase 4 – Reporting and embedding	• Prepare a detailed report of the SROI process, assumptions, and findings • Ensure that the SROI process is embedded in management systems to enable ongoing *proving and improving*

sector organisations that are under-funded and over-worked. Throughout the report we identify capacity as a key challenge and argue strongly that social investors and other funders must ensure that they provide support, financial and otherwise, for third-sector organisations to be able to see the process through to completion.

1.2. The nef approach to SROI

Since beginning work on SROI in 2003, **nef** has made a number of modifications to the methodology in order to make it as meaningful and useful as possible. There are four key features of the **nef** approach to SROI that differentiate it from other approaches. These features informed the ACF case studies and are important to consider before we turn to the lessons from the ACF experience. Distinctive to the **nef** approach are:

- An emphasis on **stakeholder engagement**
- A focus on **materiality**, or measuring the most important outcomes rather than attempting to measure all outcomes
- **Impact mapping** to tell the story of organisational change
- **Attribution** to take account of the extent to which an observed outcome is an effect of the intervention being evaluated rather than some other factor.

1.2.1. Stakeholder engagement

SROI is about giving a voice to values and benefits that are neglected in more traditional analysis. To achieve this it is essential to consult fully with stakeholders and identify the benefits that are most important to them. In some instances SROI can uncover outcomes, both positive and negative, that an organisation was not aware of or did not intend. Identifying positive outcomes helps organisations to understand more fully the social value that they are creating. Identifying negative outcomes helps to address any shortcomings. As indicators are developed around individuals' objectives, the risk of generating unintended consequences is minimised through the process of stakeholder engagement.

1.2.2. Materiality

For organisations that work with a diverse client base across a number of strategic objectives, it is often not possible, or practical, to attempt to measure all impacts. For this reason **nef** SROI analysis has incorporated the concept of 'materiality', which focuses on the most important, or material, impacts. Materiality can be identified by considering and balancing, among other things:

- Areas where the organisations being studied are likely to have the biggest impact
- The relative importance of stakeholders and their priorities
- Consistency with organisations' own objectives, policies and priorities
- The actions and activities of other organisations
- Public policy
- Available resources.

1.2.3. Impact map

Also referred to as a 'theory of change', an impact map (see Table 2) tells a story about how an organisation effects change – that is, how it delivers on its mission.[5] Based on stakeholder objectives, it links inputs (for example, funding and other resources) through to outputs, outcomes and impacts. This can be done to encompass an entire programme or at the level of individual stakeholders.

Table 2: Impact map

Stakeholders	Input	Activity	Output	Outcome	Impact
People who affect what you do or are affected by what you do. Among others, this would include staff, volunteers, beneficiaries, funders and customers.	The resources you need to manage the project. This might include time, money, staff, and other assets such as buildings.	The things you do to effect change in people, the community, or the environment. What does your day-to-day work involve, and what service do you provide?	The immediate results of what you do or how you do it. Usually outputs show that people receive something (e.g. x hours of training), learn something, or take part in something as a direct result of your activities.	Longer-term changes that are wholly or partly attributable to your outputs. Outcomes are less easy to count, but are more to do with the reason why you do what you do. Improvements in someone's confidence or employability are good examples.	One definition of impact is "the outcome less what would have happened anyway". If you helped to get ten people a job, for example, how many do you think would have got a job anyway without the intervention? The difference is your impact.

The construction of the impact map is a crucial step in moving towards outcome-based, rather than output-based, measurement. Assessing outcomes – instead of the more easily measured outputs, resources or activities – allows a more meaningful assessment of how organisations really affect people's lives.

For more information on constructing an impact map see **nef**'s *Prove and Improve Toolkit* at **www.proveandimprove.org**.

1.2.4. Attribution

In calculating impacts, an organisation must recognise the contribution made by others to the outcomes. Attribution also encompasses deadweight (what would have happened anyway, calculated through the use of available benchmark data and proxies) and displacement (when the benefits claimed by a programme participant are at the expense of others outside the programme).

In the case of **nef**'s ACF analysis, we examined the impact of the whole organisation rather than just those aspects funded through the ACF investment. To determine solely the social value generated by the ACF investment, we would need to examine the size of ACF's investment (financial and otherwise) relative to the other grant makers and investors.

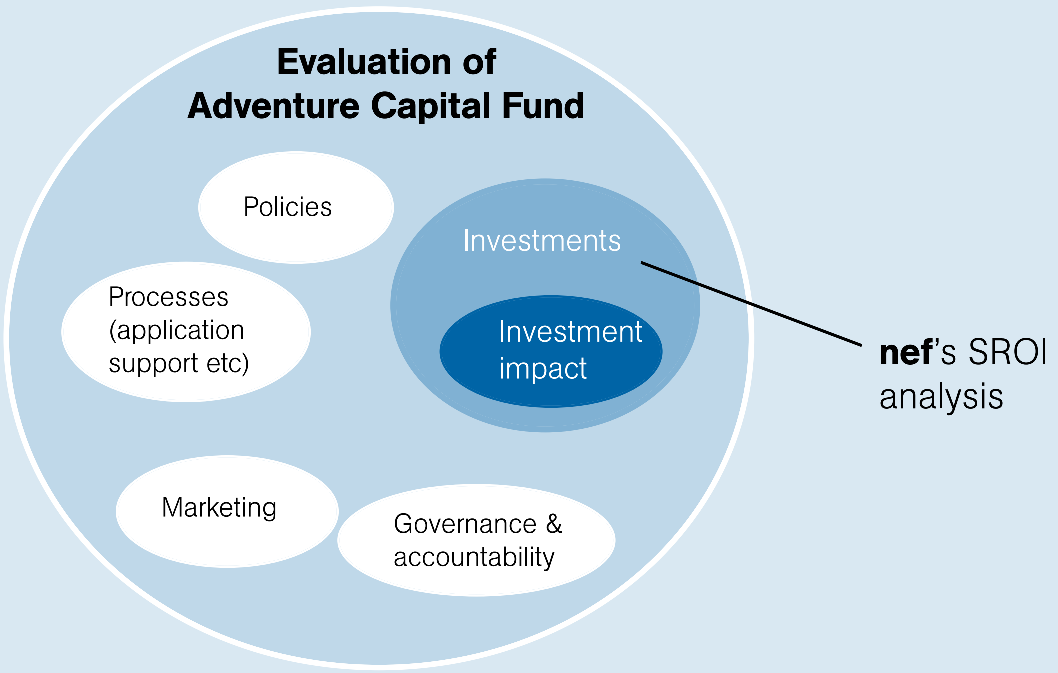
1.3 How does SROI compare with other types of evaluation?

SROI analysis is a form of evaluation. As such, it shares several features with evaluation more generally. SROI uses standard research methods in the data collection phase.

It also draws on principles that often underpin any rigorous research or evaluation. But SROI also differs from other evaluations in a few ways:

- The SROI tool has a single focus: the value that ACF's investments are creating via the organisations it has invested in. That is, whilst SROI analyses, and the process undertaken to carry them out, may surface recommendations for ACF's processes, SROI as a tool does not explicitly seek to evaluate ACF's processes, marketing, policies, or application process (see Figure 1).

Figure 1.



- Evaluations do not usually include a broader analysis of an organisation's economic impact (e.g. savings to the state as a result of reduced health care costs). It is particularly uncommon to see assessments of how any such benefit relates back to the initial investment. With SROI the monetisation of outcomes is a given, and includes a ratio to quantify return on investment.

- SROI seeks to embed measurement techniques within an organisation's management system to inform strategic planning, whereas evaluations are often conducted externally and framed as one-off events with a specific remit. SROI, thus, has the potential to continue to inform and strengthen an organisation over time.

2. About the ACF SROI analyses

nef undertook seven SROI analyses on behalf of ACF. Three of these organisations were part of the initial 'pilot' study conducted in 2005. These were:

Action for Business (Bradford) Ltd (ABL): A community-based regeneration organisation in the Manningham district of Bradford that offers a range of services and resources, including workspaces, meeting rooms, and training for local residents.

Fairfield Materials Management (FMM): A Manchester-based social enterprise involved in the production and sale of compost from biodegradable waste sourced from local municipal parks and gardens and from New Smithfield wholesale fruit-and-vegetable markets.

Lister Steps (LS): A social enterprise in Liverpool that provides a range of community childcare services, training positions and a venue for community use.

Four other recipients of ACF investment agreed to participate in the second round of SROIs that commenced in 2006. Only two of these were seen through to completion:

Amble Development Trust (ADT): A charity that works to promote the social, economic and physical regeneration of Amble, a former coal town on the north Northumberland coast.

Vassall Centre Trust (VCT): A Bristol-based charity providing workspaces and training opportunities for disabled people. The trust aims "to remove the barriers that disable people" by setting the standard for how modern working environments and public spaces should be more inclusive for people.

In the case of the other two recipients of ACF investment, there were a number of issues that prevented completion of the SROI process. The experiences of these organisations provide important insights into the conditions that are required for an SROI to be carried out successfully. The lessons learned will be discussed later in this report.

2.1. ACF SROI summaries

Table 3 presents summaries of the five completed SROIs. As you read the table, you will note from the second column that four of these were 'evaluative' and a fifth, the SROI for Amble Development Trust, was projected. An evaluative SROI is based on an analysis of outcomes that have taken place, whereas a projected SROI follows the same process but calculates a ratio based on what is expected to take place if the objectives of the organisation or project are met. For projections about SROI to be validated, an evaluative analysis needs to be carried out at a later point.[6]

Table 3: SROI summaries

Name	Type of SROI	Objectives for ACF grant	Indicators	Financial proxies	SROI Value
ABL	Evaluative	• Make a surplus by increasing take-up of the workspace by local community enterprises and business • Increase independence and financial stability • Regenerate the area through business and social enterprise • Create local employment • Use surpluses to reinvest in local community enterprises	• Numbers of patrons using the café • Tenants reporting increases in profits, or effectiveness • Numbers of charities benefiting from reinvestment of surplus • Numbers of students that go on to further education/training • Improved self-confidence, personal development • Increase in local multiplier • Numbers of new networks developed	• Café rent/service fees saved • Rent/service fee saved by voluntary sector tenants • Increased earnings for IT students • Conference fees saved • Parking and transport costs saved • Charitable grants to the local community	2.1: 1 over 20 years
FFM	Evaluative	• Make a surplus by selling good- quality compost • Be financially sustainable • Reduce waste disposal through landfill • Create employment in regeneration areas • Provide good-quality compost for local green spaces	• Amount of waste that does not go to landfill • Numbers of jobs created for local people • Amount of compost available for use in green spaces	• Cost savings on journeys to landfill • Financial savings to customers. (Others were not monetised due to lack of data)	1.8: 1 over 20 years
LS	Evaluative	• Construct a sustainable building to allow Lister Steps to compete in the market • Remove employment barriers for parents • Provide childcare and child development	• Lower crime rates and lower welfare costs once children become adults • Numbers of parents, carers and grandparents who gained work • Numbers of employees that were previously long-term unemployed	• Income, reduced benefits and tax take from gaining work • Reduced social costs to society from better outcomes for young people	49: 1 over 20 years

Table 3: SROI summaries (cont'd)

Name	Type of SROI	Objectives for ACF grant	Indicators	Financial proxies	SROI Value
ADT	Projected	• Develop a managed workspace that generates additional income for the trust to help with sustainability • Allow the trust to expand its services • Provide incubation services to two new businesses • Improve residents' perceptions of Amble as a place to live and work • Attract tourism and investment through the physical regeneration of the neighbourhood	• Improved perception of Amble • Take-up of local public services • Reduced CO_2 emissions. • Numbers of new jobs • Reduction in commuting time • Organisations reporting expansion as a result of accessing Fourways 2 • Service expansion and improved image of the ADT in Amble • Local multiplier	• Changes in property prices • Time and cost of travelling to access services elsewhere • Cost of carbon emissions • 10% of turnover (estimate of ADT's value) for those organisations that report change • Value of time spent on fundraising and marketing the organisation	1.7: 1 over 20 years
VCT	Evaluative	• Improve governance structures and strengthen management systems • Increase awareness of VCT services, role and impact, and increase take up • Increase the 'barrier free' element in the centre to 50% • Increase number, types and partnerships between organisations of disabled people in the centre • Introduce new leases linked to social goals • Shape and form best practice in creating 'barrier free' work environments • Increase employment and volunteering opportunities for disabled people • Security of tenure for organisations meeting the trust's goals	• Time saved supporting staff • Staff absenteeism • Client numbers • Discounts to tenants • Number of disabled delegates potentially benefiting from the building • Personal assistant support time saved on day-to-day tasks • Days saved on GP visits and sick leave. • Number of staff previously long-term unemployed. • Number of disabled volunteers benefiting from the centre's accessibility • Number of clients benefiting from accessibility • Number of long-term unemployment clients benefiting from accessibility. • Number of visits to GPs saved per year	• Cost of personal assistant • Costs of absenteeism and recruitment • Cost of advertising and networking saved • Reduced rent • Cost of providing audio loop and wheelchair porter • Cost of care support • Cost of GP visits • Cost of sick leave • Income • Volunteer time • Time saved to client • Value of extra services delivered to clients, or promotion costs • Benefits saved and tax revenues created • Value of Access to Work payments saved.	5.7: 1 over 20 years

2.2. Analysis and recommendations

There are several features of these SROI analyses that are worth commenting on in more depth. From this discussion, a series of recommendations emerge for our three audiences: funders, third-sector organisations, and evaluators. These are inserted periodically in bold below and then repeated in a single list towards the end of the report. Throughout the discussion we reflect on the extent to which SROI achieves its 'proving and improving' goals, where these are relevant.

2.2.1. Variation in SROI ratios and the implications for comparing organisations

The SROI ratios show considerable variation across the five organisations. In part this is a product of significant differences in respect of a number of factors: organisational type; the sectors in which organisations operate; the nature of investments; the types and longevity of social, environmental and economic outcomes. Factors such as these mean that while the same process was undertaken for all five organisations, the ratio will vary even where one of these organisations is not necessarily performing 'better' than another. Some of the reasons for this include the following:

- **In the SROIs conducted for ACF, only outcomes for which there was clear evidence were included**

  There can be two reasons for a lack of evidence.

  - Key outcomes data may not be available from the organisation. For example, systems may not yet be in place to collect data, or the outcomes being sought may only be deliverable in the longer term.

  - A lack of evidence can also be the result of an absence of existing research documenting the durability of outcomes and the monetary values associated with these outcomes. For example, the long-term outcomes created by early childhood education programmes are better documented than the outcomes created by managed workspaces. The availability of prior research is one important factor in determining indicators, proxies and financial values. If it is not available, it is difficult to include in the analysis. This was very much the case with Fairfields Materials Management, where a lack of data on environmental life cycle assessment led to only a small number of indicators being monetised.

- **Some types of outcomes will show higher social return ratios than others**

An organisation such as the Amble Development Trust (ADT) – one that is involved in regenerating an entire local community – will have a very different impact from an organisation with a narrower focus. The benefits from an organisation such as the ADT are spread across a large number of individuals and organisations. This means they can be very difficult to track and capture in an SROI. The variation in SROI ratios between two organisations does not, therefore, by itself offer a reliable indicator of how well those organisations are performing relative to each other. Such variations must also be read as a product of differences in the outcomes that different organisations are trying to achieve. Some outcomes will, by their nature, achieve higher social returns than others.

***Recommendation:* An SROI analysis is only as good as the data that is put in. Therefore:**

(a) Organisations must be properly resourced to collect outcomes data. Clarity about this and support for its implementation should be part of any investment process.

(b) SROI analyses will be strengthened by access to shared research on outcomes, proxies and indicators. Such research should be supported by funders seeking to strengthen the third sector.

There are implications, then, of using the SROI ratio as the basis for a comparison between organisations. As with abstract financial measures such as profit, the headline figure provided by the SROI ratio needs to be put in context to determine whether an organisation is a sound investment.[7]

This applies to organisations that are similar to each other in type as much as to those that are dissimilar from each other. Even in the case of similar organisations, comparisons need to take into account a range of variables, such as the profile and starting point of clients. For example, two organisations that seek to address unemployment may be dealing with very different client profiles in terms of basic skills and employability. The SROI ratio should be regarded as the starting point, rather than final destination, in a discussion about value.

Recommendation: **The SROI ratio must be understood in terms of the wider story of value that is uncovered during the SROI process. It cannot be used in an abstract form to compare organisations, especially where these differ from each other in terms of what they set out to do.**

In addition, the use of financial proxies in deriving the ratio is inherently subjective. Rather than dismissing SROI on this basis, however, we would argue that a similar debate took place with the emergence of financial accounting. Financial accounting now appears almost as a 'science' to those outside the industry but is essentially a subjective discipline that has developed a semblance of 'objectivity' over the course of many decades.

To this end, we welcome the move by the Office of the Third Sector to fund research into the development of a social return standard. Such research should investigate the establishment of a database to collect financial proxies, as this is often considered the most difficult and subjective part of the SROI process.

In lieu of a financial proxies database, however, we would encourage the reader not to be daunted by the subjectivity of the monetisation, but instead make use of sensitivity analysis to test proxies and adopt a 'vaguely right'[8] approach. Above all it is important to be transparent about the assumptions used so there is an audit trail for how the final calculations were reached.

Recommendation: **A 'vaguely right' approach should be adopted to the creation of monetary proxies. While they may not be perfect, they should be 'fit for purpose'.**

2.2.2. SROI and measuring financial sustainability

The purpose and remit of the Adventure Capital Fund is in part to make organisations more financially sustainable so as to increase the likelihood that they will be able to generate value for longer. Financial sustainability is particularly important for third-sector organisations because fundraising is time consuming and diverts resources away from the delivery of services.

Financial sustainability gives third-sector organisations the freedom to pursue their plans over the long term. As such, it lessens the chance of them becoming funding-led and makes it easier to maintain service provision. However, financial sustainability on its own does not mean that an organisation is creating positive change, nor is it any measure of the scale of change the organisation has undergone.

ACF wants to see organisations become financially sustainable so that they are better equipped to achieve their objectives. For this reason ACF was keen to see financial sustainability reflected in the factors analysed by **nef**. After some discussion, however, it was decided that because SROI is only concerned with outcomes and impact, the financial sustainability element should be excluded from our analysis. It might have been possible in projected SROIs to make assumptions on the likelihood of particular outcomes enduring, allowing reflection on the contribution of financial sustainability to achieving those outcomes. With evaluative SROIs, however, if sustainability is bringing about benefits then that ought to already be reflected in the scale of outcomes being achieved.

Funders interested specifically in the financial sustainability of organisations they are investing in may want to undertake a different analysis for this purpose. However, they should be aware that such an evaluation of financial sustainability should be seen as complementary to, rather than supplanting, an analysis of outcomes and impacts provided by a tool such as SROI.

Recommendation: **SROI analysis is only appropriate to evaluate the return from funding that explicitly seeks to generate outcomes, and is not appropriate to measure the effectiveness of processes. It is important that the parameters of the analysis are clearly explained from the outset.**

2.2.3. Key factors contributing to the success and quality of SROIs

From the seven ACF cases, a number of conclusions can be drawn about factors that increase the likelihood of an SROI analysis being completed to a high standard. We now discuss four factors that are particularly important.

Capacity, skills and resourcing

SROIs, even where an external consultant is involved, require a commitment of time and resources from the organisation being evaluated. The approach of **nef** is that SROI analysis should be 'done with' rather than 'done to' an organisation. The involvement of the organisation is vital to the construction of the impact map and to ensuring that mechanisms are in place to collect outcomes data. It also, however, presents a challenge to third-sector organisations that are often over-worked and under-funded.

Recipients of ACF investment with prior experience of evaluation found the SROI process much easier to complete and were able to provide better quality outcomes data. Lister Steps, for example, had previously undertaken a social accounting process. This meant that key staff members were familiar with basic evaluation techniques and systems were in place for collecting outcomes data.

Organisations across the board found it difficult to obtain outcomes data retrospectively. Emma Smith, director of Fairfield Materials Management, said that her experience during the pilot SROI led her to put in place processes for collecting outcomes data from the outset when establishing a second waste-management social enterprise.

Recommendation: **Due to the difficulty of retrospectively obtaining outcomes data, mechanisms for collecting information should be agreed and put in place from the outset of an investment.**

Even in the absence of prior evaluation experience and outcomes data, organisations that were able to commit time and resources succeeded in completing the SROI process well. On the other hand, organisations that were not able to free up staff time or organisational resources tended to produce SROI ratios that are likely to have underestimated the social value generated. This occurred because some impacts had to be excluded from the analysis due to a lack of evidence about outcomes. One investee, for example, saw the community as an important stakeholder, but did not have the resources to conduct a statistically significant survey of residents.

Capacity issues were also behind the failure of some organisations to complete the process. One of the ACF investees in the second round was unable to complete the SROI process because key members of staff were too busy with the day-to-day running of their organisation to contribute to the SROI process.

The intention here is not to lay the blame with third-sector organisations. Mission-driven organisations often deliver more than their funding covers. If they are to participate in measurement and evaluation, such as SROI, third-sector organisations must be provided with funding to compensate for the time and resources this requires, recognising that funders themselves must also juggle competing demands for their resources.

Recommendation: **If organisations do not have the time or resources to commit to the SROI process, there is a danger that the process will not be robust and will not be seen through to completion. Third- sector organisations must be provided with adequate funding to cover the staff and resource costs associated with SROI analysis.**

The need for third-sector organisations to be adequately funded to undertake an SROI analysis is a point that was reinforced by our follow-up interviews with several ACF organisations. One investee, for example, said they would be interested in conducting a follow-up SROI but could not free up the time or resources because of their 'hand-to-mouth' existence. There is clearly a dilemma for organisations here: they see SROI analysis as an effective way of communicating with fundraisers, yet they do not have the resources to invest in completing it.

Ownership and 'buy-in'

In addition to the need for adequate funding, it emerged that organisational ownership of the SROI process is essential if adequate time and resources are to be committed to completing the process successfully. At the Vassall Centre Trust, for example, the centre manager and treasurer took an active interest in the SROI process. This meant that time was made available for the **nef** researcher to conduct a half-day impact mapping exercise and carry out in-depth discussions with staff.

Ownership and buy-in from managers are crucial not only to ensuring the successful completion of SROIs, but also to ensuring that learning from the process is translated into how things are done over the longer term. For instance, responsibility for the SROI analysis at Fairfield Materials Management was taken on by the director of the organisation, Emma Smith. This ensured management buy-in from the outset, and Smith integrated lessons from the SROI process into a second waste-management social enterprise that she subsequently set up.

It is not always practical, or necessary, for a director or senior manager to take responsibility for the SROI process. Ownership can also be fostered through a less senior employee who acts as an internal evaluation champion. This individual takes responsibility for co-ordinating the in-house aspects of the evaluation and keeping management informed of the process.

It is important, however, that the internal evaluation champion involves the wider organisation. There is a danger, in cases where organisational ownership is not secured by an evaluation champion, that the process will be completed without access to good-quality information from some parts of the organisation. In one of the projects we examined, the employee who co-ordinated the evaluation left the organisation 15 months after the SROI analysis and much of the knowledge about SROI was lost.

Recommendation: **Even where external evaluators conduct the SROI, organisations must take ownership of the process if it is to be completed successfully and have a lasting benefit to the organisation. A staff member needs to be given responsibility for ensuring that the analysis is completed to a high standard. This should be complemented by a champion at a senior level in the organisation.**

Social investors can foster organisational ownership by making participation in an SROI process one of the criteria for receiving funding. The organisations who participated in the pilots for this report were in no small measure persuaded to do so because of the value placed on this by ACF.

Recommendation**: Social investors should make participation in an evaluation process, such as SROI, one of the criteria for receiving funding in order to ensure organisational ownership.**

The role of the evaluator

The external SROI consultant has a role to play in fostering ownership and buy-in. S/he should adopt the role of a capacity builder, actively involving staff so as to build up evaluation skills within the organisation. We return here to the point that SROI is an evaluation tool that should be 'done with' rather than done 'to' an organisation. In some cases, such capacity building will enable an organisation to perform subsequent SROIs without the need to bring in external help. The evaluator should also make the link between SROI and management systems, enabling organisations to build this into their strategic planning processes.

One of the practical ways in which **nef** sought to embed the process was through sharing not just know-how but also tools, such as the spreadsheets that were used to do the SROI analysis, with organisations. This may, depending on the skills in house, require coaching in simple economic and financial analysis.

Recommendation: **SROI is a challenge to traditional evaluation where the 'expert' gathers and communicates knowledge. When using SROI, consultants should see it as a capacity- building tool that should, by the end of the process, be embedded in the organisation.**

It was difficult at times to juggle this capacity-builder role with the more conventional demands associated with evaluation. SROI is an evaluation method and, as such, the evaluator is not fulfilling his/her role if acting only as a cheerleader for the organisation. Instead the role requires the evaluator to constructively challenge the organisation to provide evidence of its impact. Only in this way can SROI fulfil its potential to move beyond a belief that 'good work' is being done to rigorously documenting where an organisation is creating value and, conversely, where it may be underperforming. The latter is particularly important if SROI is to meaningfully feed into improving processes. With this in mind, we sought throughout the evaluations to act as a 'critical friend'.

Recommendation: **SROI evaluators often tread a fine line between being an advocate for organisations and adopting a critical stance. If the process is to feed into improving processes, the evaluator must perform the role of a 'critical friend'.**

Recommendation: **Social investors should view the SROI process as part of building capacity, and fund the evaluator to fulfil the role of capacity builder.**

Genuine stakeholder engagement

The fourth factor influencing the quality of the ACF SROIs was the extent to which each was based on meaningful engagement with stakeholders. The role of stakeholders is at the heart of the **nef** approach to SROI.

Even though stakeholder engagement is central to the operating ethos of many of the organisations we evaluated, during the SROI process such engagement became just 'another box to tick' at times. It does not help for organisations of limited resources that stakeholder engagement can be costly and time consuming to do properly. For example, to ensure that a broad range of people are consulted, it may be necessary to arrange various opportunities for contact with stakeholders and provide incentives for their participation. Stakeholder engagement, then, was also in part dependent on the capacity issues identified above.

Wherever possible, the evaluator should try to go to people 'where they are'. For example, if interested in the impact of a regeneration enterprise on the local unemployed, the evaluator could visit a job centre to meet unemployed people.[9]

In the ACF case studies, the depth of engagement varied significantly. Lister Steps, for example, conducted thorough and rigorous stakeholder engagement, including a survey both of the parents and grandparents of children attending its childcare facilities and of the tenants using its building. In a follow-up conversation after the SROI, Gaynor McKnight of Lister Steps noted that the involvement of stakeholders had been very valuable, helping the organisation to understand its value.

In other cases, however, stakeholder engagement was done far less thoroughly. When one organisation arranged for a group of stakeholders to be at a meeting with the evaluator, there was little sense of how representative these were of the cross-section of stakeholders and, therefore, how comprehensively they could tell the story of value creation for that organisation. In another case, attendance at consultation meetings was poor because no incentive was offered. The lack of incentive meant that those stakeholders who were less well off ended up being under-represented. Evaluators should ensure that those that are not usually well represented in decisionmaking have an opportunity to be meaningfully involved. This requires both a willingness to engage with stakeholders and proper resourcing to enable thorough stakeholder consultation.

Recommendation: **Organisations need to understand that high-quality stakeholder engagement may challenge them, but in so doing it will also help them to 'prove and improve'. Organisations should actively expose themselves to the possibility of criticism by seeking out a diverse range of stakeholders.**

Recommendation: **Stakeholder engagement needs to be meaningful. Evaluators should not rely solely on the organisations themselves to identify people to speak with. If there are sufficient resources, going out to people where they are at is a useful way of ensuring that you are soliciting unbiased views. While it can be beneficial to bring groups together to debate priorities, evaluators should ensure that this occurs in a forum where all groups will be comfortable to air their views.**

Recommendation: **Given the importance of thorough stakeholder engagement, the cost of this must be adequately integrated into the funding provided to third-sector organisations.**

2.2.4. Clarity of objectives

Investors need to be clear about their objectives for undertaking an exercise such as SROI, both internally and in what they communicate to the recipients of their investment. The argument for investors supporting organisations that do a SROI analysis is three-fold:

- It should enhance the impact of the investment by helping organisations be better at what they do
- It may help to make decisions about loan repayments
- It should enhance investors' ability to analyse and communicate the effectiveness of their investments.

For an organisation such as ACF, which reports to government, knowing how much value has been created as a result of its investments is a key to securing its own long-term future. The investor should see measurement as an engine of change in itself, as well as a way of knowing change is happening.

In the second round of pilots in particular, ACF wished to use SROI findings to help it make decisions about forgoing loan repayments on the basis of social value creation. However, this ran into difficulties when it became clear to the evaluators that the SROI ratio alone, or indeed the story behind it, would not be a sufficient basis on which to make such decisions. Ideally ACF also needs information about how, if at all, the SROI ratio of an organisation that it is investing in is improving over time. Like much social value creation, the benefits of SROI analysis are more likely to accrue in the long run when baselines can be revisited and the right reporting requirements have been put in place to measure the things that matter. This requires a long term approach to measurement and evaluation.

Recommendation**: Funding bodies should see measurement as a long-term project and give organisations the resources they need to carry out SROI evaluation over a long period of time. Data collection mechanisms should be put in place as soon as funding is provided to enable baseline measurement in year one and then at regular intervals to monitor progress.**

Recommendation: **It is important to be clear from the outset about reporting requirements so that data collection matches funder requirements.**

There is also a broader point that emerges from the ACF cases about reporting requirements. Prior to the SROI pilot, only one of the organisations we evaluated had made a concerted effort to look at outcomes and impacts across its organisation. The other six, partly due to capacity issues, had engaged in what might best be described as 'reactive' measurement, reporting on each project in line with the requirements of that project's funder. The fact that funders have vastly different reporting requirements means that reporting within a given organisations was often very disjointed, making it less useful to strategic planning at an organisational level. It would be helpful for funding bodies to work towards a broad consensus on outcome reporting. The announcement by the Office of the Third Sector that funding will be made available to develop an SROI standard provides an opportunity for working towards such a consensus.

Recommendation: **Funding bodies should work towards a broad consensus in outcome reporting to avoid the proliferation of disjointed project-by-project reporting.**

3. Conclusion

The outcomes that are measured are the ones that get managed and valued. If outcomes for people and communities are not being measured they are unlikely to be taken into account, and the third sector will continue doing what it assumes to be good work without really knowing if it is working effectively.

In their efforts to support good practice, investors such as ACF need to be able to identify genuine value for the communities served by the organisations they support. The organisations themselves need to have a means of finding out where they are generating value and where they need to improve.

Social return on investment is still a developing methodology and, as such, its potential is still being tested in different arenas. Its genesis was in the social investment sector and it was in this area that it was originally posited as having the potential to make a powerful contribution to decision making by providing a new of thinking about value that goes beyond outputs and narrow financial measures.

In this research, we piloted the use of SROI with five recipients of investment from ACF to see whether this potential was borne out in practice. We have learned that, when used and resourced properly, SROI evaluation is regarded as a useful and powerful tool for 'proving and improving' organisations' work. In terms of 'proving', it provides a rigorous methodology for investigating the social value that an organisation generates and a way to communicate that value to other potential funders. In terms of improving, the SROI process helps organisations to identify areas of strength and weakness, thereby making every pound go further.

However, there is a danger of SROI analysis being done poorly or for the wrong reasons. For this reason, we have sought in this report to make a series of recommendations on how, and under what circumstances, SROI can be used most productively.

4. Summary of conclusions and recommendations

4.1. General

Conclusions

- SROI evaluation enables organisations to prove and improve: it helps them better understand and manage the value that they are creating and communicate this to external audiences.

- There are three distinct benefits for social-investment organisations in using SROI: they should gain a better appreciation of the impact of their investments, they should enhance their ability to make decisions about loan repayments, and the evaluation process should help them to analyse and communicate the effectiveness of their investments.

- The SROI ratio must be understood in terms of the wider story of value that is uncovered during the SROI process. It cannot be used in an abstract form to compare organisations, especially where these differ from each other in terms of what they set out to do.

- The Office of the Third Sector's funding of research into a social return standard is timely. Such research should investigate the establishment of a financial proxies database and prompt funders to work towards a consensus on impact reporting.

- Lack of capacity at third-sector organisations to make resources and staff available presents one of the biggest obstacles to successful completion of the SROI process.

Recommendations

- If organisations do not have the time or resources to commit to the SROI process, there is a danger that the process will not be robust or will not be seen through to completion. Third-sector organisations must be provided with adequate funding by social investors to cover the staff and resource costs associated with SROI analysis.

- An SROI analysis is only as good as the data that is put in. In addition to properly resourcing organisations to collect outcomes data, SROI analyses can be strengthened by shared research on outcomes, proxies, and indicators.[10] New research should be supported in this area by funders seeking to strengthen the third sector.

4.2. For third-sector organisations

Conclusion

- Organisations need to see the benefit to them of engaging with the SROI process. The more they invest in the process, the more they will get out of it both from a proving and improving perspective.

Recommendations

- Even where external evaluators conduct the SROI, organisations must take ownership of the process if it is to be completed successfully and have a lasting benefit to the organisation. A staff member needs to be given responsibility for ensuring that the analysis is completed to a high standard. This should be complemented by a champion at a senior level in the organisation.

- Due to the difficulty of retrospectively obtaining outcomes data, mechanisms for collecting information should be put in place at the outset of an investment to enable baseline measurement at year one and then at regular intervals to monitor progress.

- Organisations need to understand that high-quality stakeholder engagement may challenge them, but in so doing it will also help them to prove and improve. Organisations should actively expose themselves to the possibility of criticism by seeking out a diverse range of stakeholders.

4.3. For evaluators

Conclusion

- SROI is a challenge to traditional evaluation, in which the 'expert' gathers and communicates knowledge. When using SROI, consultants should see it as a capacity-building tool that ought to be embedded in the organisation by the end of the process.

Recommendations

- In order to embed SROI, evaluators should share knowledge and tools, including spreadsheets, with the organisation that is the subject of the SROI.

- SROI evaluators often tread a fine line between being an advocate for organisations and adopting a critical stance. If the process is to feed into improving processes, the evaluator must perform the role of a 'critical friend'.

- Stakeholder engagement needs to be meaningful. Evaluators should not rely solely on the organisations themselves to identify people to speak with. If there are sufficient resources, going out to people where they are is a useful way of ensuring that you are soliciting unbiased views. While it can be beneficial to bring groups together to debate priorities, evaluators should ensure that this occurs in a forum where all groups will be comfortable to air their views.

- A 'vaguely right' approach should be adopted to the creation of monetary proxies. While they may not be perfect, they should be 'fit for purpose'.

4.4. For social investors and funders

Conclusion

- SROI has the potential to provide a powerful means of monitoring the change that occurs as a result of investment in an organisation. However, this potential will only be fulfilled if the process is adequately set up and funded.

Recommendations

- If organisations do not have the time or resources to commit to the SROI process, there is a danger that the process will either not be robust or will not be seen through to completion. Social investors and other funders must provide adequate funding to cover the staff and resource costs associated with carrying out an SROI analysis.

- Social investors should make participation in an evaluation process, such as SROI, one of the criteria for receiving funding in order to ensure organisational ownership.

- Social investors should view the SROI process as part of building capacity, and fund the evaluator to fulfil the role of capacity builder.

- Given the importance of thorough stakeholder engagement, the cost of this must be adequately integrated into the funding provided to third-sector organisations.

- It is important to be clear from the outset about reporting requirements so that data collection matches funder requirements.
- Funding bodies should work towards a broad consensus in outcomes reporting, to avoid proliferation of disjointed project-by-project reporting.
- Funding bodies should see measurement as a long-term project and give organisations the resources they need to carry out SROI evaluation over a long period of time. Data collection mechanisms should be put in place as soon as funding is provided to enable baseline measurement in year one and then at regular intervals to monitor progress.

Endnotes

1 **nef**'s Measuring What Matters programme has piloted the use of SROI in the public sector, to see how it can contribute to decision-making in public policy and commissioning. The outputs from this research will be published during 2008 and outlined at www.neweconomics.org

2 Warrell, H. (2008) 'Government to fund social return standard', *Third Sector Online*, available electronically at: http://www.thirdsector.co.uk/News/login/806997/

3 Brown, J. and M. Campanale. (2006) *Developing a Social Equity Capital Market*, available electronically at: http://www.neweconomics.org/gen/z_sys_PublicationDetail.aspx?pid=234

4 Full copies of the SROI analyses are available from **nef** on request.

5 See www.theoryofchange.org

6 Using SROI as one would do a budget, as a projection, is particularly useful at the start of a project, when an organisation is being established, or where outcomes data is not currently available. By mapping out the data that needs to be collected, SROIs done in advance can pave the way for evaluative SROIs (provided that the collection mechanisms identified in the predictive SROI are put in place).

7 For instance, a large company with profits that are modest but steady may be a more sound investment prospect than a start-up company with large but volatile returns. Financial profit on its own, therefore, cannot be used to make investment decisions any more than an SROI ratio can be used on its own.

8 In the sense of Keynes' famous quote: 'It is better to be vaguely right than precisely wrong'.

9 This approach was taken in the SROI analysis of the St Helen's LEGI initiative, see *Hitting the Target, Missing the Point* (2008), available electronically at: http://www.neweconomics.org/gen/z_sys_PublicationDetail.aspx?pid=250

10 **nef** has been exploring the establishment of a shared indicator bank, see *Banking on outcomes for the Third Sector: Useful? Possible? Feasible?,* available electronically at: http://www.performancehub.org.uk/publications.asp?id=5&docPId=1376&did=5167&detail=2

About Measuring What Matters at **nef**

Centre for Future Economy

Measuring what Matters is an innovative programme of research to value what matters most to people, communities, the environment and local economies, and to ensure that these inform policy. The research uses social return on investment (SROI) to determine the full costs and benefits of government decisions in three areas: women and criminal justice, economic development and children in care.

Measuring what Matters starts from premise that we have a tendency to measure the wrong things and therefore to pursue the wrong priorities. Immediate financial savings often drive policy decisions, meaning that hidden costs and benefits are not taken into consideration. Measuring what really matters means shifting the focus to how we as a society can pursue real economic, social and environmental well-being.

Through the use of SROI, **Measuring What Matters** advocates a long-term, transparent approach to measurement which takes a holistic view of impacts and effects. Capturing and valuing what matters most is crucial to ensuring maximum public benefit from public spending. The reports are being published throughout 2008 and are available to download on the **nef** website.

For more information please call 020 7820 6300

Written by: Eilís Lawlor, Richard Murray, Eva Neitzert, Lisa Sanfilippo

nef would like to thank the Adventure Capital Fund for its interest and support in advancing knowledge about understanding and using social return on investment throughout the social investment sector. This report was made possible by all of the originations participating in the pilots. We would like to thank them for their patience and dedication throughout the piloting process.

We would also like to acknowledge the contributions of Susan Mackenzie, Sarah Robinson and Jeremy Nicholls who carried out the first round of analyses. Our express thanks go to Jeremy Nicholls for his involvement and support for the pilots from the inception of this programme, and for his role, as a **nef** Fellow, in leading the development of SROI in the United Kingdom. Sargon Nissan for providing helpful comment on an earlier draft of this report.

Edited by: Martin Cottingham and Mary Murphy

Design by: the Argument by Design – www.tabd.co.uk

new economics foundation
3 Jonathan Street
London SE11 5NH
United Kingdom

Telephone: +44 (0)20 7820 6300

Facsimile: +44 (0)20 7820 6301

E-mail: info@neweconomics.org

Website: www.neweconomics.org

Registered charity number 1055254
© 2008 **nef** (the new economics foundation)

ISBN 1 904882 24 2