



New
Philanthropy
Capital

Social Return on Investment

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Social Return on Investment (SROI) is a framework for measuring social value. Often name-checked, not yet widely understood, SROI has attracted a lot of attention recently, particularly in the third sector. These days it seems any conversation about results measurement inevitably turns to SROI (not least because the UK and Scottish governments are supporting the development of a standard approach to SROI¹). Some see SROI as the answer to all of our measurement problems; a way of demonstrating the value of what they do in the financial terms they think funders will understand. Others see SROI as simply an expensive fundraising tool that misses the real point of what charities do. To many charities and funders, what is actually involved in an SROI analysis and what it can be used for is still a bit of a mystery.

New Philanthropy Capital (NPC) believes that SROI has the potential to be an incredibly useful tool for understanding and increasing charity effectiveness. However it is held back by the low levels of evidence in the charity sector. This lack of evidence is particularly acute for charities who do a lot of campaigning or whose outcomes are largely subjective, such as improvements in well-being. SROI is an approach that demands evidence and helps charities think through where more evidence is needed, but it does not tell charities how to collect this evidence. SROI will not reach its full potential until there is more investment in improving the evidence base of the sector.

NPC also believes that the potential benefits of SROI as a management tool are not being exploited enough. SROI is often viewed as being all about the final financial ratio ie, the social value created per £1 invested. This attracts scepticism and criticism and means many of its benefits are overlooked. SROI is a process of understanding and valuing impact and should be used by charities to understand where their impact is greatest and how they could improve what they do. SROI does not have to be seen as an 'all or nothing approach'; charities should use those elements of SROI that are most useful to running their organisations.

As a leading voice in the field of charity effectiveness, NPC has been asked several times for its perspective on SROI and this has prompted us to write this position paper.² A more specific paper, targeted at funders, will be published next month. We seek to provide an informed, independent, pro-measurement voice within the debate.³ This position paper is designed to provoke discussion—it is a jumping-off point for a more nuanced debate about how and when SROI is best used. This paper sets out our position on how and when SROI is most useful, based on our experience of working with charities⁴ and on our understanding of SROI in principle and practice. We discuss what we see as the defining characteristics of SROI and seek to clarify and set straight some common misunderstandings. The structure of the paper is as follows:

1. What is SROI?
2. Common misconceptions about SROI
3. Should I do an SROI?
4. Using elements of the SROI framework
5. Areas for development
6. Conclusion

1. What is SROI?

1.1 A type of economic analysis

SROI can be seen as a type of economic analysis rooted in cost-benefit analysis.⁵ The six stages of SROI are outlined in the Appendix and a short worked example is given in Box 2. This analysis results in a financial value being put a charity's results, while allowing charities to understand their key outcomes and involve stakeholders along the way. In practical terms, this allows charities to add together the values of all of their outcomes and to compare the total value created for stakeholders to the money required to achieve those results. This is summed up in the SROI ratio, usually expressed as 'for every pound spent, Charity A creates Y pounds of social value'.

But what does it mean for a charity to create social value? One way of thinking about it is to ask whether the stakeholders would rather receive money directly or receive whatever service it is that the charity offers. For example, giving £100 to a lonely pensioner might improve their life in the very short term; they could use the money to pay for services or buy goods or might just appreciate the extra financial security it gives them. But giving £100 to a charity that runs social activities for pensioners might help that person to form and maintain lasting friendships. Many of the older people the charity works with feel that the 'social value' that they receive is far in excess of £100. The goal of SROI is to *quantify* this value—to say by *how much* it exceeds the financial inputs (if, indeed, it *does* exceed them).

This is just one way of thinking about SROI, but for NPC it is the way that best encapsulates how creating value relates to the choices people make when they are giving money away. By putting outcomes in financial terms we see whether particular activities are worth the money that we spend on them, from the perspective of the stakeholders.

Some critics of SROI feel that putting a financial value on what charities do misses the point. You lose so much if you think of charities in purely financial terms. However SROI is as much a process of listening to stakeholders, understanding what outcomes are most important and how they are valued, as it is about expressing value in financial terms. SROI should never be the only way to look at what a charity achieves,⁶ but we also think that putting a financial value on social outcomes makes it easier to prove that they are worth investing in. For example, we all know that the environment is important. But it was not until environmental economists managed to value the environment, and compared this value to the costs of protecting it, that governments were motivated to act to combat global warming.

1.2 Based on stakeholder perspectives

But SROI is not just economic analysis. Before you get to the number crunching, first you need to establish what to measure and how to value what you measure. This process is based on stakeholder perspectives. See Box 1 for further discussion of SROI's emphasis on stakeholders.

Box 1: Is SROI just another name for cost-benefit analysis?

To an economist, SROI looks a lot like cost-benefit analysis. However cost-benefit analysis refers to a very broad range of approaches—comparing the costs of some particular action with its benefits and expressing both costs and benefits in financial terms. SROI can be seen as a particular approach to cost-benefit analysis with an emphasis on stakeholder involvement. As outlined in the principles of SROI (see Appendix), SROI explicitly casts the net very widely, involving stakeholders at every stage, from deciding what indicators to use to putting financial values on outcomes.

Cost-benefit statements and SROI statements look exactly the same ('for every pound spent, Charity A creates Y pounds of social value') and so an interested stakeholder would have to look at the process of the calculation to understand whether it really was a statement of SROI.

Understanding the benefits to a wide range of stakeholders is a standard part of cost-benefit analysis as practised by the government and other agencies. However, it is not standard to involve stakeholders to the same extent as in SROI. In principle, this could make a big difference. For example, consider the decision about whether to close a rural post office. A standard cost-benefit analysis might conclude that the costs of running the post office outweigh the benefits in terms of sales generated and may miss potential benefits to local residents, because they have not been consulted during the analysis. But an SROI might conclude the opposite, as the value to an older person of having a regular, local point of contact is taken into account.

1.3 Guided by principles

SROI is based on seven principles—involve stakeholders, understand what changes, value the things that matter, only include what is material, do not over claim, be transparent and verify the result. These principles

Box 2: Measuring the value of older people volunteering

Below is an example of the SROI process. The stages correspond to the six stages of SROI outlined in the Appendix.

Stages 1 and 2 (identifying stakeholders and mapping impact). A charity that provides volunteering opportunities for older people is embarking on an SROI. It starts by speaking to the older people who volunteer, people who donate money and those who benefit from the volunteering—those ‘key stakeholders’ that it thinks will be helpful in identifying what value it creates. After consulting these stakeholders to understand the impact of the charity, it creates an impact map detailing what goes into running its services (the ‘inputs’—staff time, rent etc.), and the benefits for the different stakeholders (the ‘outcomes’). It decides at this stage to focus on the older people who volunteer and the Primary Care Trust (PCT). Following the principles of SROI, the charity involves stakeholders in considering which outcomes are material and acknowledging negative as well as positive changes.

For the older people who volunteer, the main input is time. The output is the number of hours spent volunteering. Outcomes are more interesting—many volunteers remark how much happier they feel and mention the friends they have made. Some report improved physical fitness, particularly those participating in activities such as gardening. One older woman mentioned that she is no longer depressed since she became a volunteer. The PCT is interested in preventative care for older people, and funds the charity because it sees volunteering as a good way to reduce depression and improve physical health. The charity then analyses which outcomes are different and which are part of a chain of events (eg, improved physical health is part of a chain of events that leads to improved fitness so these outcomes must be considered together).

The charity collects some data to corroborate these outcomes. It gives a questionnaire to volunteers to assess their general levels of well-being when they join the programme, and every subsequent year. Initial results suggest improvements in well-being, particularly in relation to friends and community. A local doctor provides objective evidence that her patients show improvements in their mental and physical health after becoming volunteers.

Putting some numbers on these inputs, outputs and outcomes is the next stage. In terms of inputs, the cost per volunteer is low, at around £150 per volunteer a year. The charity decides not to value volunteer time as an input. Outputs are also relatively easy to track—the charity’s monitoring data indicates that its 200 volunteers devote on average 300 hours of their time a year.

Stages 3 and 4 (evidencing outcomes and establishing impact). Outcomes are trickier. The charity wants to use the SROI analysis to increase the amount of money it, and similar projects, get from the local PCT. So, ideally, the charity would like a robust willingness-to-pay study (see Box 4) that gives improvements to older people’s well-being a financial value from a stakeholder perspective. In the absence of this, it goes back to the local doctor who mentioned the health improvements in her patients and asks her some further questions. From this conversation, the charity is able to estimate conservatively that, for its volunteers, hospital overnight stays have reduced by a third and use of Accident and Emergency departments by almost a quarter. It also estimates that physiotherapy and occupational therapy appointments have reduced by 10%. The charity is sure to ask the doctor what they think would have happened if their patients hadn’t been volunteering..

Stage 5 (calculating the SROI). All this adds up—using data on the rates of all of these for older people in its local areas, and costs taken from local NHS data, the charity estimates a total saving of £48,000 over the past year. Comparing this to its total costs of £30,000, it calculates a social return on investment of £1.60, just considering these benefits, and tests some of its main assumptions. This is essentially a valuation from the perspective of the PCT.

Stage 6 (reporting, using and embedding). The charity writes a report on its SROI, which it uses to secure longer-term funding from the PCT. But the charity is also conscious that improvements in well-being, one of the main parts of its theory of change, have not been valued for the older volunteers, and so plans to do a small willingness-to-pay survey for next year’s SROI. The charity hopes that being more transparent and accountable to its stakeholders will improve the quality of its service.

underpin how SROI should be applied, and following them is critical to completing a good SROI. (A fuller explanation of the principles is given in the Appendix). Adhering to these principles is key to the credibility of SROI. Indeed, almost all of the problems with the interpretation and use of SROI stem from not following the principles properly.

1.4 Past return or future return

SROI analysis can be done using evidence that a charity has already collected or to forecast potential future returns. In the former case the SROI represents value that a charity has already delivered. In the latter case the forecast could be based on evidence from another project or on historical evidence from the charity. Forecast SROIs are becoming more common as a result of the lack of outcomes data in the charity sector. Any forecast SROI should be considered alongside other organisational information that would be likely to affect its future impact.⁶

Box 3: Other types of economic analysis

Cost-benefit analysis is an approach to assessing the case for a particular project or course of action by weighing up the total expected costs against the total expected benefits. Both costs and benefits are expressed in financial terms. 'For every £1 invested in Columba 1400 [a social enterprise], £2.50 of social value is created' is an example of a cost-benefit statement. SROI can be thought of as a special type of cost-benefit analysis where there is an explicit attempt to value costs and benefits from the perspective of stakeholders who are often excluded from investment decisions (see Box 1 for more details).

Cost-effectiveness analysis is similar to cost-benefit analysis—results are compared to the money required to achieve them—except that results are not given a financial value. 'For £45, Beatbullying helps a child learn how to ignore playground bullies' is an example of a cost-effectiveness statement. This highlights an important point: quantifying outcomes is not the same as giving them a financial value.

Break-even analysis shows how successful a charity would have to be in order for the social value of its work to outweigh its costs. For example, take a charity helping young people to find employment. Let's say that young people value employment at £10,000 and it costs £1,000 for every person the charity works with. This means the charity will only have to be successful 10% of the time in order to break even.

2. Common misconceptions about SROI

2.1 'The SROI ratio represents actual financial returns'

The 'SROI ratio' is the final point of an SROI analysis that represents the *social value* created for each £1 invested. This is how much stakeholders (including beneficiaries, the government, the employees of the charity) value the service. **It does not represent an actual financial return.**

Some of the value a stakeholder puts on a service will be based on how it improves their emotional, social and physical well-being (eg, feeling less lonely or in better health). Some of it will be based on cost-savings related to using fewer services (eg, improvements to a patient's mental health mean he or she is less reliant on healthcare), and some of it will be based on expectations of higher income (eg, the beneficiary earning a higher wage or reducing their debt or the government collecting more tax).

Lower spending on services and higher income can represent actual financial returns.⁷ Improved emotional, social and physical well-being are valued very highly by stakeholders and so this value is put into financial terms for the purpose of the SROI calculation however they do not represent real cash savings.

It is also important to note that a financial return to one stakeholder may be a financial loss to another stakeholder. For example, increasing access to benefits *increases* the income of the person receiving benefits, but *increases* the cost to the taxpayer. It is standard in cost-benefit analysis not to include cash transfers of this kind. However, it is often interesting to highlight the competing interests of different stakeholders, even if they cancel each other out.

2.2 'SROI is a way of measuring outcomes'

Although the process of carrying out an SROI requires the measurement of outcomes, it does not itself say how these outcomes should be measured. Its principles state that outcomes should be measured in ways that are meaningful to stakeholders but what is meaningful will obviously vary from stakeholder to stakeholder. Suppose a charity is interested in measuring what difference it makes to a child's self-esteem. What questions should it ask? To whom should it ask these questions? When should it ask these questions? SROI does not provide any guidance here; the charity would need to use a tool like NPC's well-being questionnaire.⁸

The need for better measurement in the charity sector, particularly for subjective outcomes is a serious one. It is a fact of life that things that are easier to measure are more likely to be counted. SROI goes some way to addressing this tendency by insisting that all material outcomes are considered. In practice however, the practicalities mean that outcomes for which there are not established methods for measurement or valuation are likely to get less prominence. For example, when NPC looked at the costs and benefits of providing services to disabled children and their families,⁹ the calculated return was negative or close to zero because there was no way of measuring and valuing the human and emotional benefits of reducing parental stress within the budget available.

That SROI does not solve the measurement problem is not a criticism—SROI is not intended to prescribe measurement techniques. However, good measurement is crucial to a good SROI and more investment in helping charities to measure is needed before SROI can reach its full potential.

3. Should I do an SROI?

An increasingly common question that we get from charities is 'should I do an SROI?' In other words, is SROI going to be worthwhile for my organisation? Undertaking SROI is often expensive, and so charities want to know what the benefits are going to be before committing resources.

These two questions should help charities assess the likely benefit to them of doing an SROI:

- Will my stakeholders find an SROI analysis useful?
- Do I have the necessary ingredients to do an SROI?

Once a charity has considered these questions they should put the likely benefits alongside the costs of doing an SROI and consider which elements of SROI would be most useful to them.

3.1 Will its stakeholders find an SROI analysis useful?

The first question a charity should ask itself when considering undertaking an SROI is whether its stakeholders will find it useful. The most common stakeholders are funders, staff and beneficiaries.

In our experience, the most common reason for charities to undertake an SROI is to attract funding. But it is worth checking that funders would be interested in the charity's results being presented in this way. It is possible that some funders would find social value being expressed in financial terms compelling, whereas others would place their own value on outcomes, or fund for other reasons that would make SROI less appropriate to them. SROI is often most powerful where a charity delivers outcomes that fall across traditional policy boundaries eg, mental health and employment, or delivers outcomes beyond those it is contracted to deliver. SROI is a good way to highlight these benefits if they are not already being valued by funders.

SROI can, and should, be used as a management tool, for staff to understand the difference they are making and improve their services. At the beginning of the process it is important to consider whether the organisational culture would allow SROI to be embedded into everyday practice, so that steps can be taken to ensure that this does happen if the charity decides to do an SROI.

It is also worth checking whether the beneficiaries of the charity would find an SROI useful. Given the principles of SROI, it follows that the findings of an SROI analysis should be interesting and relevant to beneficiaries. Going through the SROI process in a transparent way makes an organisation more accountable to those it is trying to help.

3.2 Does the charity have the necessary ingredients to do an SROI?

The first ingredient is the ability of the charity to **engage its stakeholders**. If the charity's beneficiaries are very far removed from the charity (as is the case for many campaigning charities) or they have serious communication problems, then the charity may struggle to involve these stakeholders throughout the necessary steps.

The second ingredient is **quantitative data** to back up the charity's theory of change. The data requirements to assess past social return are quite demanding. Ideally, the charity needs quantitative data on inputs, outputs and outcomes, which is collected systematically. This data should reflect the priorities of stakeholders. Without having quantifiable evidence, a charity may be over claiming on its impact by default.

Ideally, the charity also needs data to give some idea of 'what would have happened anyway', allowing for the fact that some change would have been achieved without the charity's help. This data for comparison does not need to be collected by the charity itself; it may be available from other sources, such as large national datasets.

In practice, data for the perfect 'counterfactual' is rarely available. Finger-in-the-air estimates are made based on little or no evidence. This introduces large amounts of error into the calculation and explicitly goes against the SROI principles of understanding what changes, only including what is material and not over claiming. If the charity goes ahead with a full SROI analysis, a break-even analysis is often a good way to test how sensitive the calculation is to assumptions about what would have happened anyway (see Box 3). In practice, the level and accuracy of evidence required depends on the audience for the SROI. If the key audience is internal management then an estimate based on experience will have more credibility than if the key audience is government policy-makers.

Of course, if a charity is undertaking a forecast SROI it does not need to have outcomes data already, but it does need to have a plan to collect the data to compare the forecast with what actually happened and to have a robust process for forecasting outcomes (see section 1.4).

The final ingredient is whether the charity has **outcomes that can easily be given financial values**. It is fairly straightforward to give financial values to outcomes that can be linked to cost savings.¹⁰ For example, if the outcome is reduced offending, then criminal justice system costs are saved. Outcomes that generate income can also usually be given a financial value. For example, if the outcome is someone getting a job, then income is created for the individual and the state.

But it is much harder to give other outcomes, particularly more subjective outcomes such as feeling safer, a financial value. The current state of research means that many of these outcomes are valued poorly, if at all. In an ideal world, all outcomes would be valued directly by the stakeholders. However, it is very difficult to do this in a robust way that takes account of things like stakeholders' income and expectations. Other practical problems arise if beneficiaries have communication difficulties, the charity is too far removed from its beneficiaries to ask their opinion, or if they are not human! It is more common to use a 'financial proxy' to value subjective outcomes. See Box 4 for a further explanation of how outcomes are valued. The importance of any assumptions made while assigning financial values to outcomes can be tested using sensitivity analysis.¹¹

3.3 The cost of doing an SROI

Involving stakeholders and doing accurate economic analysis takes time and specialist skills. This makes SROI resource intensive (although the same could be said for other forms of evaluation or financial accounting). As REDF, the US venture philanthropy organisation that developed the original approach to

SROI, noted in a recent article, '*Current approaches to SROI continue to be people- and expertise-dependent*'.¹² It is difficult to come up with a general estimate for how much an SROI costs but some important factors influencing price include:

- the scope of the SROI analysis;
- the skills of the staff within the charity;
- whether the charity does the analysis itself or hires an external consultant;
- data availability on outcomes and benchmarks;
- current measurement processes;
- timescale over which outcomes are measured; and
- the audience for the analysis.

The most important consideration is to use SROI in such a way that it maximises the benefit for the organisation. SROI can help a charity better understand its impact, its cost base and the value it delivers. A charity that understands these things is in a better position to improve its services and make a strong case to its funders.

If the cost of a complete SROI is prohibitive then charities may wish to explore selecting those elements that they find most useful. This is discussed further in the next section.

Box 4: Valuing outcomes and financial proxies

It is often not easy to assess directly the value various stakeholders place on outcomes: stakeholders' views may change depending on how recently the outcome was achieved; beneficiaries may have communication difficulties; or a charity may be too far removed from them to ask their opinion. Hence SROI makes frequent use of financial proxies. These are estimates of value based on anything from how much that outcome would save the taxpayer (eg, how much reducing crime saves the police service) to how much a stakeholder would be willing to pay for a similar service (eg, a charity that hosts friendship circles for disabled people might look at the cost of professional party organisers).

Below is a brief summary of the most common methods for finding financial proxies to use in an SROI analysis. Financial proxies may be constructed using one or a combination of these approaches. The right proxy depends on the audience and who will be using the SROI.

Willingness to pay (WTP). The amount that consumers are willing to pay for a little more of a service or an outcome shows how much consumers value getting that little bit more of the service or outcome. The amount consumers are willing to pay depends to a large extent on the levels of income available to them, so valuations are usually obtained by averaging across income groups. WTP values can be found through surveys or by observing people's behaviour when confronted with different prices. The government uses WTP in its values for time, health outcomes and environmental impacts.

Service costs. These values are based on how much the government pays in service costs. The value of an outcome corresponds to the service costs saved by the government eg, hospital bed spaces saved due to better health.

Market value. This is the cost of services on the open market eg, the price of a flat or a team-building course. These costs are often lower than willingness to pay estimates as competition normally drives prices down below what people are willing to pay.

4. Using elements of the SROI framework

SROI is often presented as a complete framework, following the six stages of SROI (see Appendix). Yet it does not have to be 'all or nothing' the stages can be broken down and used by charities in different ways. A charity may want to use particular elements of the framework according to where it is in terms of measuring

its impact and the resources that it has available. This section considers how different charities could use different stages and principles of SROI, and the value to them of doing so.

4.1 To clarify a theory of change

A charity without a clear theory of change that is based on stakeholder perspectives could use the first two stages of SROI to clarify its theory of change. This is regardless of whether a full SROI analysis is then completed. The charity may have a clear theory of change, but unless the theory of change is based on stakeholder perspectives, the charity will end up doing more of a cost-benefit analysis than an SROI.

NPC would argue that any charity should have a clear theory of change, and ideally one that considers stakeholders' perspectives. A clear theory of change is the best way to start thinking about how to measure impact.

4.2 To work out what to measure

A charity without evidence to back up its theory of change could use the first two stages of SROI, along with the principle 'only include what is material', to work out what to measure. We would argue that any framework that helps a charity think about what to measure and the relative importance of their outcomes is valuable. In NPC's opinion, this is the most important part of the framework. As discussed above, SROI is not going to help these charities with the 'how to measure' question.

SROI relies on having quantitative evidence of outcomes. Through the stakeholder analysis these quantitative outcomes should be complemented by qualitative evidence. NPC would argue that a mix of quantitative and qualitative evidence is often the best way to capture a charity's results.

4.3 To conduct alternative types of economic analysis

A charity without outcomes that can easily be given financial values but which can be quantified, for example increases in a child's confidence, could still conduct a cost-effectiveness analysis. If a charity has a good idea of what its outcomes are, and the value of these outcomes, but has not yet quantified these outcomes, it may consider doing a break-even analysis (see Box 3). Charities without outcomes that can be easily valued or quantified, for example an umbrella body that lobbies government on behalf of its members, can still present a qualitative description of their impact alongside their costs.

NPC believes that all charities should be able to talk about what they are achieving for the money put in. This applies no matter whether the benefits are expressed in financial terms, as quantified outcomes or qualitative descriptions.

4.4 To compare the value of different outcomes

Charities that have several stakeholders or deliver several material outcomes that can easily be given financial values could use the SROI principle of valuing what matters (see Appendix) to compare how various stakeholders value different outcomes. This could help the management of a charity decide which outcomes to concentrate on if there was the possibility of expanding services or if some services had to be cut.

5. Areas for development

This section sets out the areas where NPC believes that SROI could be improved. These improvements would increase the benefits of SROI, increase its credibility and reduce its costs, thus making SROI a practical option for more charities.

5.1 Better measurement systems

Charities need better measurement systems to make the most of SROI. The SROI framework relies on evidence of charities' results and often the analysis has to use whatever evidence is available. NPC often

sees SROI analyses where the evidence used is poor quality. One of the common criticisms of SROI is *'garbage in, garbage out.'*

Better measurement systems would help charities to collect quantitative data more easily, and the data would be better quality. This would mean an SROI was more useful, more credible to an external audience, and cheaper to do. This is particularly the case for subjective outcomes. It is still the case that the highest SROI ratios come from services that reduce crime or increase employment—two outcomes that are very easy to count and have a long history of being valued financially. If we are to truly prove the full value of what charities can deliver we need to get better at measuring what has often been viewed as immeasurable; from better family relationships to increased confidence or decreased loneliness.

More broadly, NPC sees better evidence of charities' results as key to making the charity sector more effective. Improving measurement is difficult but NPC believes that this is necessary in order to understand and increase the value of charities' work.

5.2 Using SROI as an organisational tool

NPC has heard many examples where SROI has been used to help a charity think more about its impact and measure the outcomes of its work. This is a great advert for capturing evidence of outcomes but it does not make the case for the third stage of SROI: assigning financial values to outcomes. Often the final expression of financial value is seen as little more than a fundraising tool.

NPC believes that more use could be made of the 'valuing outcomes' element of SROI, by both charities and funders. For example, such analysis could be used to look at the trade-off between doing intense work with just a few people, compared to more 'light touch' work with more people. Understanding the relative value their stakeholders place on different outcomes should help charities to decide which activities to scale up and which should be lower priority. In order for this to happen there need to be more examples of charities or funders that have found SROI useful for making internal decisions.

Some funders are currently using SROI, either for themselves or for their grantees, and are finding it a useful addition to their existing funding processes. However, its use by funders is far from widespread. Even funders who are very keen on outcomes measurement do not necessarily see the benefits of SROI. NPC would like to work with funders to work out when it would and would not be useful for them.

5.3 More robust financial proxies

NPC believes a standard approach to using financial proxies is needed,¹³ and there needs to be more development of financial proxies for subjective outcomes. This would increase the credibility of SROI and its comparability across organisations. See Box 3 for more details on financial proxies.

The Measuring Social Value project, funded by the Cabinet Office,¹⁴ and the SROI Project, funded by the Scottish government,¹⁵ are working jointly to develop a database of indicators and financial proxies. This database will assess the quality of various financial proxies. It should help to make SROI more credible as it will be clear where financial proxies have come from and how reliable they are. It should also make SROI cheaper as less time would be needed to research potential proxies.

To complement this database, NPC believes that more research should be done to improve and develop new financial proxies used for subjective outcomes. This would mean that charities could accurately value all of the outcomes of their work. However, as previously acknowledged, valuing subjective outcomes is incredibly difficult and this would require significant investment.

SROI analyses often find returns of 100% or more. This is primarily because many charitable activities are genuinely valuable and taking a multi-stakeholder approach will increase the calculated level of return. However, such high returns can give rise to scepticism and so a clear, consistent and transparent use of proxies, plus some realism that returns can sometimes be negative, is essential for credibility.

6. Conclusion

NPC has long sought to increase the level and quality of evidence in the charity sector. We believe that SROI has an important role to play in encouraging the collection and analysis of evidence. SROI's emphasis on stakeholder perspectives resonates with NPC's belief that charities should be judged by what they achieve for their beneficiaries.

In order for SROI to achieve its full potential, first we need to invest in helping charities to collect evidence of their impact. This is particularly urgent in the case of measuring subjective outcomes.

To increase the potential for SROI to improve organisations, the expression of outcomes in terms of financial values should be used to gain a deeper understanding of the value of each element of a charity's work.

To increase the credibility of SROI, the use of financial proxies should be standardised and more research is required into proxies for subjective outcomes.

Each of the elements of SROI have something to offer charities in terms of understanding their value. Depending on the data and resources available, a complete SROI analysis will not be suitable for everyone. But NPC believes that charities should take advantage of those elements of SROI that are most useful to them. Whatever approach is taken charities should adhere to the principles of SROI to ensure the credibility of any analysis they do.

Box 5: NPC and economic analysis

NPC has experience of doing several types of economic analysis to understand the value of charities' work. Here are just a few examples:

Valuing potential, NPC's SROI analysis of Columba 1400. Columba 1400 is a social enterprise that works to make the most of young people's potential by running leadership academies for young people. NPC's analysis highlighted that Columba 1400's success in preventing young people from becoming unemployed, means that they will earn higher wages throughout their lives.

What price an ordinary life?, NPC's submission to HM Treasury's 2007 Comprehensive Spending Review on services for disabled children and their families. The report shows how reducing stress for parents of disabled children can deliver real financial benefits. However, services to the families of disabled children can be expensive and without evidence of *how much* they reduce stress we cannot tell if they are cost-effective.

Misspent youth, NPC's cost-benefit analysis of two charities working to combat truancy and exclusion. Our analysis reveals that while early intervention means that many more young people are helped than will later develop behavioural problems, the huge costs of these problems means that it is still far more cost-effective to take a preventative approach.

Hard knock life, NPC's guide for charities and funders interested in helping victims of violence against women. The report includes an analysis of the huge cost of violence against women, both in terms of the human and emotional costs and the services provided to victims.

Trial and error, NPC's guide for charities and funders interested in youth offending. The report highlights the savings to be made from keeping young people out of the youth justice system.

All of the financial proxies generated during this work are available as part of the SROI database at <http://www.sroiproject.org.uk/>.

For more information on NPC and SROI please contact Lucy Heady on lheady@philanthropycapital.org or 020 7785 6334.

Appendix

The seven principles of SROI¹⁶

There are seven principles of SROI that underpin how it should be used:

1. Involve stakeholders. Stakeholders should inform what gets measured and how this is measured and valued.
2. Understand what changes. Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
3. Value the things that matter. Use financial proxies in order that the value of the outcomes can be recognised.
4. Only include what is material. Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
5. Do not over claim. Organisations should only claim the value that they are responsible for creating.
6. Be transparent. Demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.
7. Verify the result. Ensure appropriate independent verification of the account.

The six stages of SROI¹⁶

SROI analysis involves six stages:

1. Establishing scope and identifying key stakeholders. It is important to have clear boundaries about what your SROI analysis will cover, who will be involved in the process and how. Often service users, funders and other agencies working with the client group are included in an SROI.
2. Mapping outcomes. Through engaging with your stakeholders you will develop an impact map (also called a theory of change or logic model) 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 giving them a monetary value.
4. Establishing impact. Those aspects of change that would have happened anyway or are a result of other factors are taken out of the analysis.
5. Calculating the SROI. This stage involves adding up all the benefits, subtracting any negatives and comparing the result with the investment. This is also where the sensitivity of the results can be tested.
6. Reporting, using and embedding. This vital last step involves verification of the report, sharing findings with stakeholders and responding to them, and embedding good outcomes processes.

Endnotes

¹ NPC is involved in both of these projects.

² The production of this paper is supported by the Measuring Social Value project and NPC's core funds.

³ Less than 5% of NPC's income in 2009/2010 came from work related to SROI.

⁴ NPC has published over 60 reports on social issues and structural issues in the sector. As part of this process NPC has visited or analysed hundreds of charities, 60 in detail using our most recent methodology. Eighteen examples of analysis are published on NPC's website (<http://www.philanthropycapital.org/>).

⁵ This view stems from NPC's background in economic analysis. SROI could equally be viewed as a type of accountancy and shares much with the social accounting tradition.

⁶ NPC assesses the effectiveness of organisations on six elements: activities; results; leadership; people and resources; finances; and ambition. For more details see *The little blue book*: http://www.philanthropycapital.org/publications/improving_the_sector/charity_analysis/Little_blue_book.aspx.

⁷ In reality, it is very difficult to translate lower use of services into cashable savings—if crime goes down in an area it is more likely that police time will be deployed elsewhere, rather than less being spent on the police.

⁸ See http://www.philanthropycapital.org/publications/improving_the_sector/well-being/ for more details.

⁹ John Copps and Lucy Heady (2007), *What price an ordinary life?*, New Philanthropy Capital.

¹⁰ Although the difference between marginal and unit costs may be difficult to separate. For more details see *Guide to Social Return on Investment*, the Cabinet Office (2009).

¹¹ As with quantifying outcomes, the accuracy required of the financial proxies is related to the audience of the SROI.

¹² Cynthia Gair (2009), *SROI Act II: A Call to Action for Next Generation SROI*, REDF.

¹³ By this we mean a standard approach to using and combining proxies calculated in different ways, rather than calculating financial proxies in the same way. This standard approach should account for the fact that different proxies will be appropriate for different audiences and in different contexts.

¹⁴ See http://www.cabinetoffice.gov.uk/third_sector/research_and_statistics/measuring_social_value.aspx for more details.

¹⁵ See <http://www.sroiproject.org.uk/> for more details.

¹⁶ Taken from *A Guide to Social Return on Investment*, the Cabinet Office (2009).