


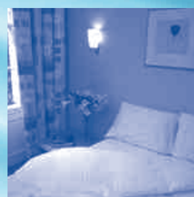

Investing in Impact:

Developing Social Return on Investment

ACKNOWLEDGEMENTS

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Forth Sector Development managed the pilot project which is the main subject of this report. Haldane Associates were project researchers.

This report was co-authored by Sheila Durie, Haldane Associates, Emma Hutton, Forth Sector Development (Associate) and Kevin Robbie, Forth Sector.

DISCLAIMER

EXECUTIVE SUMMARY

Social enterprises and other third sector organisations are often heralded for their impact on social and environmental problems. There is a sense among organisations and their supporters that they "reach the places other sectors can't reach", "adding value" to resources invested, achieving a "triple bottom line" and delivering "more for your money" (to reproduce but a few terms used to capture the perceived difference made by the sector).

This apparent supply of organisations making a positive impact collides head-on with a growing demand from a range of sources for this very impact. Government, public bodies, private philanthropists and charitable trusts and foundations are all looking for more and more effective ways to tackle social and environmental challenges.

As this supply and demand relationship develops and becomes more sophisticated, questions begin to arise about how best to evaluate, measure and prove the nature of the impact being achieved. A range of tools and techniques have developed in this field.

Social Return on Investment (SROI) is one such approach, which identifies and describes the social value being created through an organisation's activities (and the investment needed to deliver them). Uniquely, it seeks to place a financial value on this social value. Using a set of financial accounting principles and standard calculations, SROI analyses produce, as part of a wider report, an "index of social return". An index of 2:1 shows that for every £1 invested, £2 worth of social value is returned.

For some organisations and investors, SROI holds an instant appeal because it speaks the language of finance and appears to provide a way of proving that investment into social enterprises is "worth it".

However, SROI has also been seen as complex, unproven, untested and overly focused on financial value at the expense of a more rounded understanding of impact.



In Scotland, a range of partners decided to explore these issues further by testing the SROI methodology in practice, with a bigger and more diverse set of organisations than had previously been the case. Development work also took place to explore the potential for using SROI as a "predictor" of future social return. And, crucially, discussions were held with investors to explore their thoughts and considerations in terms of using SROI in the longer term.

This report is the culmination of that process and sets out a series of key lessons learned, practical guidance on using and developing SROI analyses, and recommendations for future work in this area.

In short, we conclude that there is clear potential for, and indeed, something of an imperative to develop a consistent approach to measuring social impact achieved by social enterprises and other third sector organisations. SROI could form part of a long-term response to this challenge but we firmly believe that it needs much greater development before it can fulfil its potential.

Although the work carried out through this research has begun to strengthen the methodology used, there is a need to build up a critical mass of SROI analyses before it can be confidently said that what exists is a robust approach. This is particularly true in the case of using SROI to "predict" future social return.

We also firmly believe that any such development should be aligned with wider efforts in the impact measurement and evaluation field, with the long-term aim of developing a common and consistent approach to social reporting for use by social enterprises and other third sector organisations.



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CHAPTER 1
INTRODUCTION

This report is the culmination of a two-year pilot project, designed to test and develop the effectiveness of Social Return on Investment (SROI) as a way of measuring the impact of investment into social enterprises and other third sector organisations.

Social Return on Investment (SROI)

SROI is a process of understanding, measuring and reporting on the social value that is created by organisations. Originally pioneered in the US, SROI has been adapted and developed for the UK context in recent years by a number of specialist researchers and think-tanks.

In 2005, the international SROI Network agreed a framework[1] for the use of SROI and based on these standards, nef (the New Economics Foundation) published a guide for organisations and SROI practitioners in the UK, which set out a particular approach to carrying out SROI analysis.[2] In practice, however, very few SROI analyses had been carried out with organisations in the UK to date.

Social investment

In Scotland in recent years interest from funders and policy makers has grown around social investment - where financial resources are invested into an organisation in order to generate some kind of non-financial, but socially beneficial, return. This may be the only return on investment, or it may be part of a blend of financial and social return.[3]

In particular, the Scottish Government, as part of the development of its strategy to support social enterprise[4], was keen to explore how impact measurement could be embedded in any future approaches to investing into social enterprise.

Pilot project

Drawing these elements together, the purpose of this pilot project was to build on the approach developed by nef, test it with a wider range of organisations and impact areas, develop methods for valuing 'soft outcomes', seek to make SROI more accessible to organisations and their stakeholders and engage with funders and investors to look at the issues around their use of SROI.

[1] Social Return on Investment: A Guide to SROI Analysis (2006) Lenthe Publishers, Peter Scholten, Jeremy Nicholls, Sara Olsen and Brett Galimidi
[2] Measuring real value: A DIY guide to Social Return on Investment, nef, **www.neweconomics.org**
[3] see **www.blendedvalue.org** for more on this concept
[4] Better Business: A strategy and action plan for social enterprise in Scotland, Crown Copyright, 2007

Throughout the project, and in this report, a distinction was drawn between using SROI for evaluative purposes and using SROI as a forecasting or predictive[5] tool. Table 1 explains the differences in these two applications of SROI.

Table 1: Differences Between Evaluative and Predictive SROI

	Evaluative SROI	Predictive SROI
Project/enterprise life cycle stage	Projects or enterprises already underway	Projects or enterprises at pre start-up stage
Focus of SROI analysis	Measuring the value already created	Forecasting potential value of future activity
Relationship with existing SROI methodologies	Refinement of existing SROI methodologies and developing new ways of financialising value created	Development of a streamlined, shorter SROI process which is less reliant on detailed research.
Purpose of this research	Refining established methodology and increasing its robustness through additional practice.	Developing an approach for potential use by social investors

Report structure

This report is structured as follows:

- **Chapter 2** provides background to the development of the pilot project.
- **Chapter 3** describes the research methodology used.
- **Chapter 4** discusses our findings in relation to social investors and SROI.
- An outline of the SROI analyses of individual organisations are given in **Chapter 5**.
- **Chapters 6 and 7** discuss how we believe the SROI methodology could be developed and refined.
- **Chapter 8** provides a guide to predictive SROI for social investors.
- **Chapter 9** summarises the lessons learned from the pilot project.
- Finally, recommendations are given in **Chapter 10**.

[5] 'Predictive', 'budgeted', 'forecasting' and 'projected' have all been used as terms to describe the process. We have used 'predictive' throughout this report.

CHAPTER 2
BACKGROUND

The funding relationship between the public sector and the third sector is undergoing significant change. It has shifted from mutual grant dependency to a more complex[6] interaction that can be simplistically viewed on three levels:

- **Purchasing** - where the public sector is increasingly shopping in the third sector market and buying goods and services from them. Often these are services that have traditionally been the domain of the public sector in terms of delivery. Third sector organisations are contracted to deliver services.

- **Gifting** - although grant funding for the third sector is declining (as contracts increase) the public sector is still a significant provider of grant aid to third sector organisations to help them achieve their aims and objectives.

- **Investing** - although in its infancy, there is the growth of public sector 'social investors' (alongside philanthropic, charitable and private sector investors) who are seeking to invest into the third sector rather than provide grant funding. These social investors are often motivated by receiving a blend of social and financial returns for their investment.

Funding for the third sector has grown but alongside this is a corresponding need for the third sector to begin to prove its value and provide an evidence base of its effectiveness in delivering public services.

Alongside this change there is a discernable shift in purchasing, gifting and investing happening on the basis of outcomes, rather than the traditional 'output-based' approach. Within the UK, the BIG Lottery was pioneering in the move towards funding outcomes. This has led to the need to develop not only a new language but a new set of tools to enable purchasers, givers or investors to know if they are making intelligent funding decisions. Social Return on Investment, with its emphasis on outcome evaluation fits with this shift in funding approach.

Scottish Context

The Scottish Government's vision is of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The Scottish Government has five strategic objectives:

- **Wealthier and Fairer** - Enable businesses and people to increase their wealth and more people to share fairly in that wealth.

- **Healthier** - Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.

[6] There is a parallel growth in the instance of the public sector and the third sector collaborating to develop solutions to complex, deeply embedded social problems, where they pool or share resources to achieve mutual aims. In these instances funding is still based on a purchasing, gifting or investing principle.

- **Safer and Stronger** - Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

- **Smarter** - Expand opportunities for Scots to succeed from nurture through to life long learning ensuring higher and more widely shared achievements.

- **Greener** - Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.

The Scottish Government's Third Sector Division is refreshing the Social Enterprise Strategy Action Plan[7] to enable social enterprises to contribute to the strategic objectives. The Scottish Government sees a role for social enterprises and other third sector organisations to contribute to economic growth and business development while at the same time meeting social objectives. The Social Enterprise Strategy focuses on four key areas of activity:

- raising the profile and demonstrating the value of social enterprise.
- opening up markets to social enterprise.
- increasing the range of finance available to social enterprises.
- developing the trading capacity of social enterprises through better business support.

A new Third Sector Division has been established within the Scottish Government to develop policy in this area. £63 million[8] has been allocated in 2008-11 for Third Sector development, as well as a further £30 million for direct investment through the new Scottish Investment Fund. The aim is to enhance the capacity and the potential of enterprising third sector organisations to contribute to the Scottish Government strategic objectives.

Social Economy Scotland

The EQUAL Social Economy Scotland Development Partnership works to support the third sector to increase its role in the delivery of innovative, high quality services, thereby enhancing its contribution to community regeneration, sustainable economic development and labour market integration in Scotland.

To support this aim, Social Economy Scotland has funded a range of pilot projects under the following themes:

- Public Social Partnership and Procurement.
- Access to Finance.
- Quality and Impact.
- Business Development.
- Raising the Profile.

[7] Better business - a strategy and action plan for social enterprise in Scotland (March 2007), Communities Scotland
[8] A 37% increase in Third Sector funding

The EQUAL Social Economy Scotland Development Partnership involves:

- Careers Scotland.
- Communities Scotland (Scottish Centre for Regeneration).
- Forth Sector.
- Highlands and Islands Enterprise.
- North Lanarkshire Council.
- Scottish Council for Voluntary Organisations (Lead partner).
- Scottish Enterprise.
- Scottish Government (Third Sector Division).
- Scottish Social Enterprise Coalition.
- Social Firms Scotland.
- Social Investment Scotland.
- Volunteer Development Scotland.

For more information see www.socialeconomyscotland.info

The pilot project on Social Return on Investment was funded by the Scottish Government (formerly Communities Scotland) and the EQUAL Social Economy Scotland Development Partnership, under the 'Access to Finance' theme of the programme.

UK Context

In 2003, Communities Scotland and Scotland Unlimited[9] commissioned Sheila Durie (Haldane Associates) to carry out three SROI evaluations on social enterprises receiving funding through Scotland Unlimited. The subsequent report[10] identified the patchy use of SROI within the UK and the need for a pilot project to carry out a larger number of SROI evaluations and test the methodology more rigorously.

Also in 2003, alongside the formation of ESROIN (see below) the new economics foundation (nef) began exploring ways in which SROI could be tested and developed in a UK context. An important goal of the project was to advance an approach to SROI that is as widely applicable and usable as possible.

Nef introduced the concept of 'impact mapping' to provide a framework for organisations to understand how their work creates impacts and give them a pathway to start impact measurement at a point appropriate to their own organisational capacity and priorities. The nef approach sought to create an impact map or impact value chain which links inputs and outputs through to outcomes and impact:

The nef approach measures an organisation's ability to provide social and environmental returns for its stakeholders and did not aim to produce an index of blended value[11]. The nef development of SROI was funded through Round 1 of the EQUAL Community Programme as part of the EQUAL Social Enterprise Partnership. Funding for SEP did not continue after December 2005.

[9] Now First Port - www.firstport.org.uk - this organisation was established in November 2006 to bring together the work of the Senscot Exchange (**www.senscot.net**) and Scotland UnLtd which distributing funding to individual social entrepreneurs (**www.unltd.org.uk**)

[10] Social Return On Investment: An appraisal of the use of SROI in measuring the value of social enterprise in Scotland using three case studies (2005) Sheila Durie

[11] Measuring real value: A DIY guide to Social Return on Investment, nef, **www.neweconomics.org**

Within England different practitioners have sought to develop the SROI model and no harmonisation of process currently exists:

- The new economics foundation continues to use the approach outlined above.

- Selling Added Value[12] - www.sellingaddedvalue.co.uk - has developed the approach to use as a marketing tool for social enterprises providing services to purchasers and commissioners.

- Sheffield Hallam University has developed an SROI methodology for measuring the economic and socio-economic impacts of investments in voluntary and community sector (VCS) organisations as part of the evaluation of the Futurebuilders programme.

  The Office of the Third Sector (OTS) leads work across government to support a thriving third sector (voluntary and community groups, social enterprises, charities, cooperatives and mutuals), enabling the sector to campaign for change, deliver public services, promote social enterprise and strengthen communities. It has commissioned an article by Jeremy Nicholls[13], one of the leading practitioners in SROI within the UK.

  The OTS is currently examining whether SROI has a role in enabling social enterprises and other third sector organisations to prove their value in terms of investment or purchasing decisions and whether it can be used as one approach to build the evidence base of the sector.

International Context

REDF

SROI was pioneered by REDF[14], a San Francisco-based venture philanthropy fund. During the 1990s, they commissioned work to provide a method by which they could assess their grant-making activities and determine which activities put forward for funding could deliver the greatest all-round value.

REDF's investigation of SROI linked with Harvard Business School, in particular in applying their emerging concept of 'blended value' to the task of determining added social value. The SROI index produced by REDF reflected the overall value of a social enterprise, by adding together economic, social and environmental returns.

The stages in the REDF model were:

- Calculate enterprise value.
- Calculate social purpose value.
- Calculate blended value.
- Calculate enterprise index of return.
- Calculate social purpose index of return.
- Calculate blended index of return.
- Produce an SROI report.

[12] **www.sellingaddedvalue.co.uk**
[13] Why measuring and communicating social value can help social enterprises become more competitive (2007) **www.cabinetoffice.gov.uk/third_sector**
[14] **www.redf.org**

The model developed by REDF has as its basis comparisons and links with Cost-Benefit Analysis and Economic Valuation Theory. These approaches are both used by governments in assessing investments or policy changes. SROI sought to extend the value chain and the calculation of benefits, beyond the immediate fiscal benefits to government or funders and to assess the impact on people arising from policy/interventions, which then have consequences for public spending and services.

European Social Return on Investment Network

The SROI model made its way into Europe. In autumn 2003 a European networking organisation, ESROIN[15] was formed, with strong links to the US promoters of SROI, particularly Jed Emerson. ESROIN[16] had the vision of promoting, disseminating and piloting SROI in different European countries.

Practitioners in Europe and the US[17] worked on a global SROI framework, to ensure harmonisation of practice. The global SROI framework document [18] identified the following headings and sequence of events for reporting on SROI:

- Information relating to the organisation, its mission and goals and discussion of its work and activities.
- A financial analysis of the organisation.
- A stakeholder map and analysis.
- Description of the SROI Analysis process, in particular discussing the scope and restrictions, including a description of the impact value chain, the indicators selected, and related issues.
- Descriptions of tracking systems used to collect output data.
- Clarification of assumptions.
- Description of areas which have not been measured or monetized.
- Calculations of SROI and sensitivity.
- Statement that can be used to inform others seeking to use results for comparative purposes.
- An analysis of the results.

The key development through ESROIN was to link the cost-benefit analysis to a deeper understanding of stakeholder outcomes. Within the revised approach stakeholders and the outcomes they desired were seen as key to deriving indicators of value. ESROIN sought to integrate and link their approach more closely with sustainability reporting. They built into the approach the concept of materiality, where rather than evaluating the whole spectrum of benefit derived from activity they focused on what was 'material' to proving social return. As indicated above, the new economics foundation used the developments in methodology to produce their DIY Guide to Social Return on Investment[19], with the aim of making it more accessible for organisations.

ESROIN continues to operate and aims to expand to become an international network.

They aim to ensure harmonisation of SROI practice.

[15] **www.srio-europe.org**
[16] Sheila Durie of Haldane Associates was a founder member of ESROIN
[17] Including Jed Emerson, who developed the original model
[18] Social Return on Investment: A Guide to SROI Analysis (2006) Lenthe Publishers, Peter Scholten, Jeremy Nicholls, Sara Olsen and Brett Galimidi
[19] Measuring real value: A DIY guide to Social Return on Investment, nef, **www.neweconomics.org**

CHAPTER 3
RESEARCH METHODOLOGY

Introduction

The purpose of this pilot project was to develop and test approaches to using SROI as a tool, both for evaluating the value of previous investments into organisations and for predicting the value of future investment decisions.

There were three elements to the project:

1. Determining interest from **policy makers and investors** in SROI.

2. Refining existing approaches to **evaluating** SROI.

3. Developing a new approach to **predicting** SROI.

Determining interest from policy makers and investors

Policy makers and investors are important stakeholders in developing any future approach to SROI. Part of our research focused on finding out how much interest they had in SROI, what they perceived as the barriers to its development and how they felt SROI could or should be developed in the longer term.

To explore these issues, we:

- Held two round table discussions with investors (Edinburgh, April 2007 and London, June 2007).[20]

- Met with a range of social investors within Scotland and the UK to discuss SROI within the context of social investment.[21]

- Attended the European Social Return on Investment (ESROIN) practitioner sessions in Berlin, Brussels, Edinburgh, London, Belfast and Amsterdam throughout the pilot project.

- Delivered four presentations to a mixed audience of policy makers and investors (Social Firms UK Annual Conference in July 2007, to the Social Enterprise Institute Annual Conference in October 2007, Mental Health and Social Enterprise Solutions in March 2007 and the Community Action Network, Breakthrough Event in October 2007).

- Carried out desk research into a sample of social investors and their approach to impact measurement.

[20] Appendix 1 provides the delegate lists for these events.
[21] Appendix 2 provides details

Refining existing approaches to evaluating SROI

Following on from the small-scale pilot project carried out by Haldane Associates for Communities Scotland and Scotland Unlimited we wanted to test the approach to evaluative SROI with a wider range of social enterprises and other third sector organisations.

Organisations self selected to participate in the project, although there was a clear steer from Communities Scotland that they wished to explore SROI within several key contexts:

- Investment funding received through the Futurebuilders Scotland programme (2005/06).
- Loan finance received through investment from Social Investment Scotland
- Grant funding received through the Communities Scotland 'Wider Role Programme' aimed at developing a wider role for Registered Social Landlords.

The pilot project was advertised to organisations receiving funding through these channels and group sessions were held in Paisley, Glasgow, Aberdeen and Edinburgh for interested parties. Following this 12 organisations[22] self selected to participate in the evaluative SROI pilot[23].

At the start of the process, we were clear that we were testing whether SROI was a useful approach to measuring social value and identified two guiding principles for the evaluative pilot:

1. The need to develop an approach which would be accessible for social enterprises, i.e. by:

   - Making the language surrounding SROI understandable to non-SROI literate front-line staff, commissioners, investors or purchasers.
   - Developing a process that could be easily adapted into day-to-day practice by social enterprises.

2. The need to develop an approach which integrated SROI more closely with other evaluation methodology, i.e. by:

   - Developing the impact mapping approach to closely mirror mainstream evaluation approaches.
   - Developing a process that allowed organisations to communicate the social value that they created.

[22] Kibble Works, Kibble Warehouse, Home Supported Living Scotland, Forth Sector Restart, Solstice, Six Mary's Place, Perth YMCA, Impact Arts, WISE Group, Gateway to Media, Subliminal Directions (individual participant), Factory Skateboard Park

[23] Note that 2 organisations did not complete evaluative SROIs - Subliminal Directions (individual participant) and Factory Skateboard Park - because of staffing and resource issues.

The nef approach was selected for testing as it was the most recent development in the approach to evaluative SROI. We recognised that the approach used would evolve and develop as the pilot gained more in-depth understanding of SROI.

Following selection, Haldane Associates then met with each of the organisations in the pilot to develop a SROI plan and to allocate organisations across the small number of practitioners that had been trained to carry out evaluative SROI.

The researchers supported the participating organisations through the SROI approach. It is acknowledged that each of the researchers had differing approaches and experience of evaluative SROI and this has had an effect on the pilot. The implications for this are discussed in the recommendations.

One of the key areas of difficulty in the pilot project was prioritisation of SROI. For both the researchers (who were consultants working on other projects as well) and the pilot organisations there were points where the SROI evaluation was not a priority activity. In addition, one of the consultants moved to a new job part way through the pilot project and this had an effect on working relationships with the pilot organisation around transfer of workload to another researcher. It is also acknowledged that the methodology was affected by the ongoing evolution in the SROI approach, with each report producing small refinements to the process. These changes could have been communicated more clearly to the project participants.

Feedback from the pilot project participants was gathered through quarterly reporting to the EQUAL Development Partnership, quarterly meetings to review lessons learned from the approach (and revise the methodology) and from discussions between the practitioners about SROI at conferences, events and practitioner networks.

We also gathered feedback from participants in the research using a questionnaire[24], which was completed either by email or by telephone depending on participants' availability.

Developing a new approach to predicting SROI

We wanted to test the feasibility of developing SROI as a predictive tool, which could give investors and organisations a way of forecasting the likely value created by investment into particular activities.

This element of the research was carried out over a four-month period between October 2007 and January 2008, by a team of three researchers.

At the start of the process, we identified three guiding principles for the research:

1. The need to develop an approach which would be easy to use by social investors, i.e. by:

- Minimising the time needed to carry out an analysis.
- Developing a process that could be easily adapted by an investor.
- Ensuring that any process could be easily integrated into other assessment and decision-making processes.
- Keeping the approach simple and easy-to-understand.

[24] Appendix 3 provides the questionnaire format.

2. The need to develop an approach which potential investees could easily engage with, i.e. by:
   - Minimising the amount of additional information they need to provide above and beyond standard information they would provide anyway.
   - Developing a process that gave them an incentive to engage with SROI.

3. The need to add a new dimension to investment decision-making while not replacing other dimensions, i.e. by:
   - Developing a tool which could form part of an assessment of "blended return" (i.e. some investors might want to write off financial return from an investment because of the social return generated).
   - Complementing existing assessment processes, which look at financial return, sustainability, organisational capacity, etc.

Using these principles, we followed a number of steps to complete the research. Table 2 summarises the process.

Table 2: Predictive SROI Research Process

	Description
Step 1 →	Identify organisations with plans for projects or enterprises in need of investment
Step 2 →	Identify a sub-set of organisations with a) the capacity to engage with the research in the timescale available and b) the ability to produce business plans or similar information about their planned projects or enterprises.
Step 3 →	Identify areas where the established SROI methodology could be streamlined for the purposes of forecasting future value.
Step 4 →	Using information provided by participants, work through a forecast of future value, using a streamlined SROI methodology, in a way that mimicked, as closely as possible, the approach a social investor might take (i.e. linking to investor outcomes, producing an assessment report with recommendations).
Step 5 →	Observe the resource requirements needed to forecast SROI with a view to informing the resource implications for social investors.
Step 6 →	Produce reports for each organisation, summarising the forecast SROI and appending the rationale for calculations and assumptions.
Step 7 →	Identify strengths and weaknesses of the approach taken throughout the process, with a view to sharing lessons learned.
Step 8 →	Develop an "ideal type" approach for forecasting SROI and identify the gap between this and the current reality.

Five predictive SROI analyses were carried out. The participating organisations were:

- Newstart Highland.
- Fallin Community Enterprises.
- COPE.
- The Centre for Human Ecology.
- Scottish Business in the Community/First Port.

CHAPTER 4
SROI AND SOCIAL INVESTORS

This chapter discusses our findings in relation to SROI and social investors.

Who are social investors?

SROI is clearly of potential interest to individuals and organisations who want to invest financial resources to deliver positive social impact. For our purposes, we refer to these people as social investors.

Social investors can include:

- Government and quasi-government funds.
- Independent grant-making trusts and foundations.
- Venture philanthropists.
- High Net Worth individuals.
- Ethical investment funds.

What are the characteristics of social investment?

Social investors are a diverse group. They have different motivations for investment, look for different balances of financial and social returns, have different types of relationships with their investees and use different investment products.

Motivation

Different social investors will almost certainly have different motivations for making investments.

At one end, government and quasi-government funds are likely to be interested in how particular types of investment can deliver outcomes which fit with their own policy objectives, or which lead to cost savings in other areas of government spending. On the other hand, ethical investment funds are more likely to be driven by the particular requirements of their individual investors.

Balance of returns

Different social investors will also have different approaches to balancing social impact against financial return on investment.

For example, ethical investment funds will generally be seeking a competitive financial return on their investment and in some cases, will take a "negative screening" approach to social impact - i.e. they reject investments that will have a significantly negative social impact but do not actively look for positive impact.

On the other hand, an independent grant-making trust may not be looking for any kind of financial return at all and may be actively looking for very specific types of positive social outcomes.

Relationship with investees

The type of relationship between investors and their investees is also likely to vary.

Some investors will take a very "hands on" approach to working alongside investees, perhaps by providing intensive management support as well as financial support. Others will be much more "hands off" and will prefer to leave investees to deliver by themselves, with perhaps only an annual report on progress being required.

Type of investment product/s

Social investors provide finance to organisations using a range of investment products. These can include:

- Grants, where funding is non-recoverable and is used to stimulate growth or development within an enterprise or to directly fund its social impact.

- Debt, where funding is recoverable through repayment of the initial capital, plus interest. This can take the form of an overdraft facility, a loan or in some cases, "soft" loans where repayment is long-term, low-cost and/or partial.

- Equity, where funding takes the form of an ownership stake in the company, returns are generated from the company's profits and capital is recovered either through buy-back by the company or by selling on shares to another investor.

- Quasi Equity - where funding is invested and subsequently repaid as a percentage of future annual gross revenues.[25] This can take the form of a 'recoverable' grant. Quasi-equity rarely involves the investor taking a share in the venture but does acknowledge a higher degree of risk that is the case with debt finance.

In all cases, funding can be as flexible and as "patient" as the investor chooses to be in order to fulfil their own objectives, and according to their own preferred balance of financial and social returns.

Some investors will combine different approaches to funding and many will combine financial investment with non-financial support, through management advice and capacity building and/or brokering access to industry knowledge and expertise.

[25] Futurebuilders goes for quasi-equity investment, Third Sector, 30 January 2008. This refers to Futurebuilders England.

How do social investors measure social impact?

We looked at the websites of a sample of Scottish, UK and global social investors to identify how they currently measure their social impact. Although this is not in any way comprehensive or particularly scientific, it highlights some interesting points.[26]

- Approaches to measuring social impact vary considerably from investor to investor; there is no consistent approach.
- Measuring impact is not a universal feature of investment processes. Some investors do not appear to incorporate approaches to measuring impact in their application and decision-making processes for making investments - or if they do, this is not prominent in their promotion of their work.
- Investors appear to concentrate primarily on measuring the impact of individual investments, rather than programmes or portfolios of investments.
- Investors do not generally appear to compare the impacts of individual investments, either actual or potential.

SROI and social investors

Very few UK social investors currently engage with SROI as a way of measuring their impact, although feedback from the round table discussions we held indicates that interest does exist and is increasing.

We also identified some examples of specific interest in SROI in recent years.

Social Investment Scotland[27] researched the potential for developing an investment capital fund for social ventures in Scotland and as part of this, interviewed stakeholders about their views on measuring SROI.

"Almost all of our interviewees (with one exception) expressed the view that effort should be expended to develop a suitable SROI template, but everyone concerned expressed concerns that the practical barriers were significant...while the importance of SROI was acknowledged, none of those interviewed suggested that the absence of a workable method was an acceptable reason to delay any steps that might be taken to create an investment fund largely focused on social return. SROI seemed to be placed in the 'well worth having if possible' category but was not seen as essential."[28]

Bridges Community Ventures[29] had previously conducted a similar study to look at the potential for an equity-like capital fund for social ventures. They also considered the issue of measuring impact using SROI.

"There are numerous studies and tools out there for measuring social return but few are well understood by potential investors in a [social venture] fund like this and none are generally accepted as a market standard. A social venture fund would need to work hard to remain at the cutting edge in terms of evaluating and measuring social impact."[30]

[26] Appendix 4 shows the full results
[27] **www.socialinvestmentscotland.com**
[28] Investment Capital for Social Ventures, Social Investment Scotland 2006, p22
[29] **www.bridgesventures.com**
[30] Equity-like Capital for Social Ventures, Bridges Community Venture 2004, p35

"Because the tools are still in development, it is not currently possible to use the [SROI] framework to compare social return between organisations which limits its usefulness at this stage as part of the screening process, but it could be used to report back to investors on the social performance of the fund. It is also important to be aware that the calculation of social return will have an additional cost which further reinforces our conclusion that operating costs of this pilot fund will require some form of subsidy."[31]

Futurebuilders England[32] discuss their interest in measuring the financial value of the impact of their investments in their second annual learning report.

"We are interested in how much our investments ultimately save the public purse (for example in preventing re-offending). At assessment stage in every investment we make a very rough estimate of this and as a result of this we have calculated that the gross savings to the public purse resulting from our investments could be £225m over the next three years. We are undertaking further work to develop a more robust calculation."[33]

Futurebuilders England have commissioned an evaluation of their programme of investments using SROI. This work is being carried out by Sheffield Hallam University. An interim evaluation report is due to be published in April 2008.

The **Adventure Capital Fund**[34] invest into community enterprises that can make a real difference. They offer a combination of financial investments and expert support that aims to help these enterprises become stable, soundly run businesses that will survive long into the future.

"....we expect a return on our investment - we hold our investees to account to provide us with results, both social and financial"

The Adventure Capital Fund has carried out five SROI evaluations of investments into community enterprises in its portfolio. The results will be published in April 2008.

Particular issues raised through our discussions with social investors include

- The general lack of awareness of the SROI model within the social investment community.
- The lack of up-to-date knowledge and understanding of the latest developments in SROI.
- Some concerns that the SROI approach has been over-hyped, given the lack of rigorous testing of methodology in the UK context.
- Perceived barriers to use by investors including complexity of the methodology; time and resources needed to implement it; and a sense that the existing methodology is somewhat opaque in its approach.

All of the above points to generally increasing interest in SROI within the context of social investment. We discuss relevant lessons learned and recommendations further in later chapters.

[31] Equity-like Capital for Social Ventures, Bridges Community Venture 2004, p50
[32] **www.futurebuilders-england.org.uk**
[33] Is Futurebuilders Working? Futurebuilders England's second learning report, Futurebuilders England 2007, p8
[34] **www.adventurecapitalfund.org.uk**

CHAPTER 5
SROI RESULTS FOR PARTICIPANTS

This chapter describes the SROI results achieved for each of the ten organisations participating in the evaluative SROI research and the five participants in the predictive SROI research.

Evaluative SROI

This section outlines the scope of each evaluative SROI analysis and identifies key lessons learned from each process.

Copies of the full SROI reports are available at www.socialeconomyscotland.info

Impact Arts

Scope of SROI

The study focused on Impact Arts' Fab Pad project in North Ayrshire, engaging young people who have been homeless in an arts and home design project. The analysis identified and financialised 16 indicators, including avoided homelessness, employability improvements, employment and training outcomes, health improvements and debt reduction. Impact Arts also used the SROI project's own method developed to estimate the social inclusion value arising from social economy projects.

Key lessons learned

Their contribution to and efforts in collecting new data with participants and stakeholders led to a well-rounded SROI analysis. Cunninghame Housing Association did a piece of work on the costs of tenancy turnover which is relevant elsewhere, illustrating the value of close working between stakeholders in undertaking an SROI analysis. Impact Arts now want to use SROI in all their new projects, and in benchmarking Fab Pad projects in other areas of Scotland for internal improvement of the organisation's effectiveness.

Gateway2Media

Scope of SROI

The study focused on the Gateway2Media programme run by Subliminal Directions for young people at Lochgelly High School, who were at risk of becoming NEET[35], and were following an alternative curriculum. The analysis looked at avoided supervision costs in school, personal and social development of these excluded young people as well as the avoided costs of NEET status.

Key lessons learned

A project can evidence improvements in small numbers of participants, but produce a significant social return, if the issues being addressed are of high cost to society. In this study, the high cost of supporting NEET young people in inactivity was avoided through participation in the Gateway2Media programme.

[35] Not in Education, Employment or Training (commonly referred to as NEET in Government policy)

Perth YMCA

Scope of SROI

The study focused on the organisation's Get Ready for Work programme with young people, and the associated Project Scotland programme helping young people to volunteer, and looked at employment and training outcomes, employability, the value of volunteering and reduced costs to local employers in the area.

Key lessons learned

In this case, national benchmarking information was available, through evaluation work on the Get Ready for Work programme, which allows for a more robust calculation of social return.

Forth Sector Restart

Scope of SROI

The study focused on the employment outcomes created through Restart, who offer an intensive employment-support programme to enable people with severe and enduring mental health problems to regain and retain employment. Key outcome indicators were selected around reduced welfare benefit usage, increased wages and increased taxation contribution. The outcome indicators selected were driven by the funder's needs and this limited the scope of the SROI evaluation.

Key lessons learned

National benchmarking information was available which allowed for a robust calculation of social return. Despite this the evaluation indicated that the narrow focus of stakeholder engagements in employment outcomes meant that potential significant social return in terms of reduced healthcare costs were lost. In addition, issues arose in terms of a clash between the outcome indicator requirements of the SROI methodology and the monitoring requirements of the main funder that led to increased bureaucracy. The effectiveness of the evaluation was reduced further by a lack of understanding of SROI and cost-benefit analysis by the main funder, indicating a need to educate funders about SROI.

Six Mary's Place

Scope of SROI

The evaluation focused on the possible health gains arising from people with severe and enduring mental health problems working and training in a social firm. Six Mary's Place provides supportive employment and training to people within a commercial guesthouse in Edinburgh. The study revealed significant health savings, reduced welfare benefit costs and increased contribution to taxation, for people with a history of long-term unemployment and long-term usage of mainstream psychiatric services, both in-patient and community-based.

Key lessons learned

One of the earlier studies completed, the approach closely mirrors that of nef. A well-being tool had to be developed to access information on usage of health services. The report was identified as being too cumbersome to allow accessibility by non-SROI literate people and subsequently became a benchmark for change. It was also identified that the SROI methodology allowed for the collation of significant qualitative information but this was lost in the subsequent reporting approach. Following this the researchers aimed to 'tell the story' of change that the organisation created more fully.

The Wise Group

Scope of SROI

The project studied was the Cadder environmental improvement project, which is a part of the Wise Group's portfolio of environmental projects, and follows the ILM[36] model. The analysis examined the Wise Group's own employability index results and compared them with results from the SROI project's own method of financialising employability. The analysis looked at the impact on Cadder Housing Association and the community of hosting the project, and gives further evidence on the cost effectiveness of the ILM model.

Key lessons learned

The Wise Group organised a follow up of ex-participants, and found more outcomes had been achieved than recorded at the time. Their extensive monitoring information system was not well geared up to collecting information on outcomes, due to the requirements of funders to monitor outputs, and thus the analysis did not capture many of the soft outcomes, which have been shown to have significant value

KibbleWorks and KibbleWorks Warehouse

Scope of SROI

Two studies were undertaken, one of Kibble's social enterprise model 'KibbleWorks', which aims to create jobs for young people leaving Kibble's residential and educational care services, and an individual study into one of KibbleWorks' social enterprises - the furniture collection and recycling warehouse. The studies looked at employment outcomes, employability improvements, avoided criminal justice and social services costs and environmental savings from KibbleWorks Warehouse.

Key lessons learned

Due to issues of confidentiality etc., access to participant records was limited, and this limited the ability of researchers to demonstrate and financialise the improvements being experienced by the young men who were placed in KibbleWorks. Kibble used the SROI project's methods for measuring and financialising employability, which were found to work with this group. The work with Kibble highlighted how little long-term research there is on outcomes, particularly with such a vulnerable group of young people, which limits the evaluation of outcomes being created by Kibble.

[36] Intermediate Labour Market, a term commonly used to describe projects or enterprises which create time limited job placements as a stepping stone back into mainstream unemployment for people who are long-term unemployed.

Solstice

Scope of SROI

The SROI work focused on determining the mental health and social inclusion gains being experienced by people with severe and enduring mental health problems working in this social firm. Solstice offers estate maintenance services, in partnership with Grampian Housing Association, and has also set up a horticultural nursery. As well as examining outcomes being generated within the social firm, the analysis estimated the social return from the capital investment in establishing the horticultural nursery over a three year period.

Key lessons learned

It was interesting to compare the process and results between Solstice and Six Mary's Place. The initial stages of SROI - the stakeholder analysis in particular - does appear crucial in reflecting the aims and objectives of the organisation being studied in the resulting SROI analysis. SROI can give an accurate reflection of the different emphases in the aims of what seem on the surface to be two similar organisations. The study also highlighted the need to develop some of the project methods further for greater robustness.

Home Supported Living Scotland

Scope of SROI

HSLS provides home care support to enable older people to live independently in their homes. The study investigated outcomes which included avoided residential and nursing care, deaths averted, preventing falls at home by elderly people and relieving the burden of care placed on families. The study also used a method for financialising improved quality of life arising from the support given to HSLS clients, and estimated the value of the organisation's policy of employing lone parents to offer flexible care.

Key lessons learned

The analysis suggests that SROI may be useful in examining the impact of a policy area, as well as a project. The policy of free care for the elderly, and the financial pressures to increase care provision at home, is currently an area of great concern. This study suggests that the outcomes delivered by home care support can create greater benefits to stakeholders than is currently understood.

Predictive SROI

This section describes the scope of the SROI analysis for each of the five participants in the predictive SROI research. As the purpose of our work here was to develop a process, we have not included the results from the analyses as we feel this may be misleading and would lack validity at this stage.

Table 3: Predictive SROI Participant Results

Participant	Scope of SROI
COPE - Shetland Spring Water	Analysis of the investment package proposed to start this new social firm in Shetland. The social firm will create supported employment and training for people with learning difficulties with projected outcomes around reduced healthcare costs, increased employability and improved social inclusion. The analysis focuses on the SROI linked to an innovative investment into the social enterprise by Social investment Scotland.
Newstart Highland	Analysis of investment proposal worth £543,000 to develop new service with projected impacts of improving employability of vulnerable tenants and reducing homelessness and repeat homelessness.
Fallin Community Enterprises	Analysis of investment proposal worth £123,500 to develop new service with projected impacts of reducing long-term local unemployment, improving employability of local people, reducing waste going to landfill and increasing funds available to meet community needs.
The Centre for Human Ecology	Analysis of the investment into a joint project between CHE and East Ayrshire Council. This pilot project aims to reduce food miles and improve healthy eating within schools through substituting existing national suppliers with local suppliers.
Scottish Business in the Community/First Port	Analysis of investment into a pilot project involving Scottish Business in the Community and First Port around brokering a mentoring service for social entrepreneurs from private sector entrepreneurs.

Feedback from participants

We gathered feedback from participants in the Evaluative SROI element of the project.[37]

The key points emerging from this feedback were:

- The role of the SROI researcher was important and in most cases, organisations felt the researcher enabled the analysis to be carried out in a useful way, However, in a few cases, feedback was less positive and the use of a temporary researcher had led to concerns that the researcher's role was unclear and that the researcher had not understood the right questions to ask, or information to gather, in order to develop the analysis.

- Difficulties for organisations in taking part included managing the process without being "SROI-literate", the difficulty in gathering information from vulnerable clients, choosing the right impact area to focus on, the short notice of requests for information and making time internally to engage in the process.

- Most organisations felt the process had helped them to better demonstrate their value to stakeholders.

- Organisations had generally identified ways where they could improve their data collection and evaluation systems as a result of going through the SROI process.

- The time needed to take part was about the same as expected by most organisations, although in a few cases it was more time consuming than expected.

- Organisations suggested a range of improvements to the process including making it easier to get costs information, building up a bank of standard tools for certain impact areas, having a data bank of proxies and outcome indicators, enabling comparisons to be made between like for like projects, and setting clear goals, action plans and areas of responsibility at the start of the project.

A full summary of participants' feedback is given in appendix 5. We have incorporated the lessons identified through this exercise into the recommendations set out in this report.

[37] Time constraints meant we were unable to do this for participants in the Predictive SROI work.

CHAPTER 6
EVALUATIVE SROI: REFINING THE METHODOLOGY

This chapter assimilates the learning from our experiences of carrying out Evaluative SROI analyses with ten organisations in Scotland.

We have structured our thoughts by recommending a series of refinements to the methodology developed by nef (the New Economics Foundation). These recommended refinements are explained in detail and are based on our collective experiences throughout the pilot project.

Refining the Methodology

Table 4 summarises the refined methodology that we are recommending. A stage-by-stage explanation follows, which provides the rationale for these recommendations.

Table 4: Recommended Refinements to Evaluative SROI

	nef SROI methodology[38]		Refined methodology (recommended)
Stage 1	Understand and plan	➤	Understand and plan
Stage 2	Stakeholders	➤	Stakeholder analysis
Stage 3	Boundaries	➤	Outcome map
Stage 4	Impact map and indicators	➤	Key outcomes
Stage 5	SROI Plan	➤	Collect initial data
Stage 6	Implement the plan and Data collection	➤	Impact map
Stage 7	Projections	➤	SROI Plan
Stage 8	Analyse income and expenditure	➤	Implement the plan and data collection
Stage 9	Calculate SROI	➤	Projections
Stage 10	Report	➤	Analyse income and expenditure
Stage 11	n/a	➤	Calculate SROI
Stage 12	Projections	➤	Sensitivity Analysis
Stage 13	n/a	➤	Report
Stage 14	n/a	➤	Verification

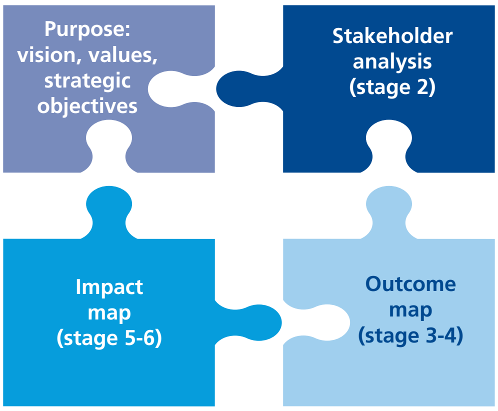
[38] See Measuring Real Value: A DIY guide to Social Return on Investment, nef, 2006

Stage 1: Understand and plan

We agree fully with nef's approach. Feedback from participants highlighted the importance of having a clear understanding of the purpose of the SROI analysis, as well as having a clear agreement on who will be involved, and how. This stage is also particularly important in establishing at the outset what monitoring information is available to use to value outcomes.

We also think it would be helpful, at this stage, to help organisations place SROI analysis in the context of strategic planning and evaluation. From our experience, stages 1 to 6 effectively demonstrate good practice in these areas and should be valued as such, even if they do not subsequently lead to a full SROI analysis (note our suggested exit route in stage 6).

We suggest developing a "jigsaw" approach to approaching stages 1 to 6, built around the core, strategic question of the purpose of the organisation. Piecing this jigsaw together assists in developing the 'impact map' developed by ESROIN and nef.



The initial stage of this process is to analyse the purpose of the organisation or project, what is the motivation for social change, what is their vision, what values, drive then and what key strategic objectives do they have?

We also recommend that organisations be directed to the guidance available from Evaluation Support Scotland on analysing stakeholders, outcomes, outputs and inputs.[39]

Stage 2: Stakeholder analysis

Our experience reinforces the importance of focusing on stakeholders and their desired outcomes as a central part of the SROI analysis. In many cases, using this approach helped organisations and researchers to develop a far more rounded perspective on the value of the organisation's activities than would otherwise have been the case.

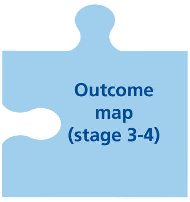
The focus of the stakeholder analysis should be on identifying their aims and desired outcomes. In common with the nef approach, we don't believe there is any value in identifying stakeholder inputs and outputs at this stage as this can distract from a focus on outcomes.

The stakeholder analysis should take the following form:

Stakeholder	Aim	Outcomes
→	→	→

[39] www.evaluationsupportscotland.org.uk

Stage 3: **Outcome map**



Our experience leads us to suggest a new stage of building an "outcome map" which builds on the stakeholder analysis carried out in stage 2, but does not go into the detail required in a full "impact map" (stage 6).

The aim of this stage is to help understand and articulate a "theory of change" to explain how value is created for stakeholders, by the organisation, through its use of resources. It also helps to decide what can be measured and what may have to be left aside for future work, or left altogether.

The outcome map should take the following form:

Activity	Outcomes (from Stakeholder Analysis)	Outcome indicators	Inputs (from stakeholders)	Outputs
→	→	→	→	→

The rationale for analysing the inputs and outputs is to assess whether it will be possible to achieve the outcomes with the resource (investment, grant or purchase) that is being provided.

Stage 4: **Key outcomes**

Once this outcome map has been constructed, we recommend that key outcomes should now be selected for further analysis.

This is about agreeing the scope for further analysis - or setting boundaries - and is broadly in line with stage 3 of nef's approach.

Financial proxies should now be selected for those key outcomes, resulting in an updated outcome map as follows:

Outcomes	Outcome indicators	Financial proxies	Decision
→	→	→	→

Two key principles in this process are that of:

- **Materiality** - what information is actually important to the next stage of analysis.
- **Transparency** - being clear and open about why decisions and assumptions are being made.

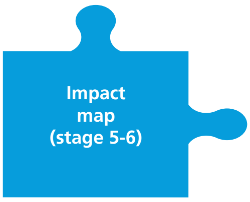
At this point an organisation may decide that there are key outcomes that it cannot identify a financial proxy for, or that the process of obtaining a proxy is disproportionate to the result. In this case it may decide to report on this outcome in a different manner, for example through a 'customer satisfaction survey'. Where this is the case we recommend that the decision and the reason for it being made is clearly recorded.

Stage 5: **Collect initial data**

Now, initial data should be gathered in relation to these key outcomes. The data should be sorted and collated according to its relevance:

- As a financial proxy for outcome indicators.
- To informing assumptions that will have to be made in stage 6 (impact map) about drop off, attribution, deadweight or displacement.
- To reporting more generally about the organisation's outcomes - i.e. telling the story of the organisation's theory of change (even where this is not financialisable).

Stage 6: **Impact map**



Then, using the data gathered above, a full impact map should be constructed. SROI explores impact in terms of the outcomes achieved by an organisation in relation to a number of other factors:

- Drop off (the proportion of outcomes sustained).
- Attribution (what proportion of outcomes can be attributed to the organisation directly, or shared with others).
- Deadweight (what would have happened anyway).
- Displacement (any negative outcomes)

One of the lessons that emerged from this pilot is the need to improve shared understanding and use of language as far as this process is concerned. As such, we have included fuller definitions of the above terms in appendix 6.

We recommend that impact maps be constructed as follows:

Outcomes, indicators & proxies (as stage 4)	Drop off	Attribution	Deadweight	Displacement	IMPACT
→	→	→	→	→	

STOP!
OPTION TO EXIT!

During this stage, we recommend that organisations should stop and reflect on the work that has been done so far. It may be that they decide not to proceed with the rest of the analysis for a number of reasons:

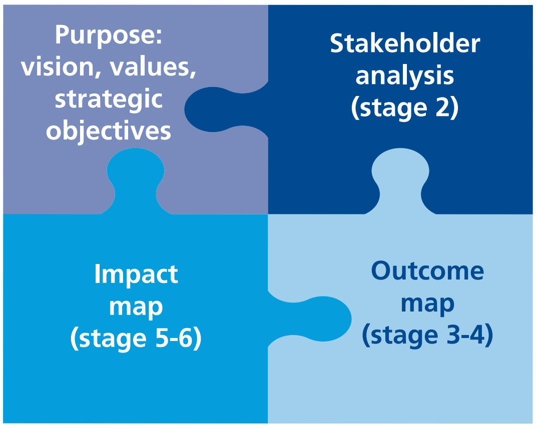
- Cannot financialise outcome indicators.
- Disproportionate time to collect data in terms of usefulness.
- Stakeholder preference may be for different type of impact analysis.

Our work has revealed potential for synergy between some of the main approaches to impact analysis eg. outcomes-based reporting, social accounting, and it may be more appropriate to use these approaches at this point.

If an organisation decides **not to proceed** with a full SROI analysis, the information gathered so far should, nonetheless, be useful for a range of purposes:

- Monitoring and evaluation work.
- As part of a social accounting framework.
- General communication with 'outcome based funders'.
- Internal reporting to management teams and boards of directors.

Stage 7: SROI plan



We agree with nef that the next stage, following on from what we have suggested above, and assuming a decision to proceed, is to review progress and plan for any further data collection that is needed.

Stage 8: Implement the plan and data collection

We agree with nef's approach.

Stage 9: Projections

We agree with nef's approach.

Stage 10: Analyse income and expenditure

We agree with nef's approach.

We have, however, identified a need to consider how the type of investment made affects the SROI ratios and value added calculations.

Most of the initial work done on SROI was in effect 'Social Return on Purchasing' where the money going into the social enterprise was for the delivery of a service with no expectation that it would ever be repaid. The ratios have been designed with this in mind.

But with the growth of social investing the 'investment' may be returned to the investor in the form of loan repayments and/or equity and quasi-equity payback arrangements. More work needs to be done on this and we have included this in our recommendations.

Additionally the time period of the 'investment' may require further work to the ratio, compared with a one-off purchase of services, ie the ratio may differ from a contract to supply social care support, through a procurement contract with a local authority, to a royalty on a quasi-equity investment over an undefined period, to a mortgage on a property designed to strengthen the asset base of an organisation. More work needs to be done on this and we have included this in our recommendations.

Stage 11: Calculate SROI

We agree with nef's approach.

However, we believe that carrying out a sensitivity analysis should be treated as a stage in itself, due to its importance (see below).

Stage 12: Sensitivity analysis

Since much benchmarking information is either not available, or is not robust, we believe that carrying out a thorough sensitivity analysis is crucial to ensuring the overall SROI analysis is as robust as possible. As such, we recommend that this be treated as a stage in itself and that due significance be attached to its results.

Stage 13: Report

We agree with nef's approach.

We have, however, identified a need to make the reports produced through this process more accessible to stakeholders and key audiences.

We believe that certain key principles should underpin any reports produced:

- They should have an extensive 'executive summary' that communicates the key information.
- They should include as appendices much of the detailed research and background information.
- They should be accessible to people who are not specialists in SROI.
- They should be written using plain English as far as possible.

Stage 14: **Verification**

We believe that a new stage should be added to the process - verification.

We feel that for SROI analyses to have legitimacy, they need to be verified.

To ensure credibility, more work needs to be done on who could do this, and how it should be approached. However, we believe it would be valuable to follow the principles used in social accounting whereby organisations are responsible for producing an SROI report (with support/training/advice), which is then verified either by a panel or through a peer review process.

The verification process should focus on checking that the accepted SROI methodology had been followed, checking the choice of proxies and checking the rationale behind assumptions. It should also, if practical, include a snapshot or random sample of checks on appropriate use of proxies, data collection and calculations (operating in a similar way to financial auditors).

Where the verification process identifies errors or points of clarification, these would need to be addressed by the organisation before the SROI report could be deemed verified.

It should be noted that this would significantly change the role played by external consultants or researchers in the SROI process, with a move away from doing much of the work themselves on SROI analyses to facilitating, training and verifying work done by organisations.

This would also mean that organisations would need to have more time input into producing the SROI report than has historically been the case. This, in turn, will need to be resourced and we would suggest that the sector's funders and investors should recognise and support these costs.

There is also potential to explore some kind of accreditation for training of practitioners and verifiers to ensure standardisation.

These points have been incorporated into our recommendations.

An example to explain...

To demonstrate this further, we have developed a fictional case study to show how this process would work in practice.

The investee

Blue Whale catering is a social firm operating in rural Perthshire, in a small town which has a large tourist trade in the summer. It operates a summer café during the tourist season, and during the winter, provides training and employment development to its clients by offering an outside catering service, mainly to local authority departments and local businesses. It also hires the café out during the winter to local organisations, as a meeting venue, and gains additional sales through this venue hire and by providing staff for catering.

The business model

Each year in October/November, it recruits 10 unemployed people with disabilities, mainly people with mental health problems, who live locally and who are referred by health and social services staff and other voluntary organisations. Blue Whale trains these clients over the winter in food preparation, food hygiene and customer service, and makes and delivers buffets, etc to customers. In summer, all people are involved in running the café, but the organisation is also placing people into work experience placements with local businesses e.g. hotels.

Every year:

- 25% of clients get jobs.
- 50% take up further education places.
- 15% take up local volunteering opportunities.
- 10% leave for reasons of ill health, but these people are able to return to Blue Whale on an unpaid basis for up to one year.

Blue Whale has had a social investment from the Scottish Government of £50,000 for its start up year.

It has a Work Preparation contract from JobCentre Plus of £7,500 per annum. Last year it generated £150,000 in sales income. It breaks even. It has entered into discussions with the local authority about a service level agreement for the employment support it provides but has not secured any funding yet.

The evaluative SROI process

The Scottish Government wants Blue Whale to undertake an evaluative SROI to demonstrate the impact of its investment in the social firm. The Blue Whale Manager agrees to do this.

A mentor is provided, and helps the Blue Whale Manager follow the above stages and construct the evaluative SROI. The Blue Whale manager becomes the "champion" for SROI within the organisation. The mentors role is that of facilitator, coach and guide.

In the process of developing the SROI, the manager realises that many of their important outcomes are not being measured, and new methods of data collection have to be put in place. This process however gets their local stakeholders more interested in Blue Whale, as they realise the organisation really is providing outcomes they are interested in.

Blue Whale and its stakeholders and the evaluator identify 15 outcomes that they can find indicators and financial proxies for, and proceed to collect data to evidence the chosen outcomes.

Table 5 shows the time input needed, methodology and roles at each stage of the evaluative SROI process.

Table 5: Blue Whale Caterers Example

Stage	Methods	Lead	Evaluator time estimate	Organisation time estimate
Understand and plan	Meeting and information exchange between the **evaluator** and the organisation **'champion'**, draft up the 'purpose' aspect of the impact map. Workshop to explain the process.	Joint	1 day	2 days
Stakeholders	1. Internal interviews of staff/Board 2. External stakeholder interviews 3. Write up and review stakeholder analysis of impact map 4. Workshop with beneficiaries of the organisation	Champion	2 day	8 days
Outcome analysis	1. Develop on basis of above and articulate theory of change 2. Workshop with other stakeholders to verify this	Joint	1 day	2 days
Key outcomes	Select and agree key outcomes	Champion	0.5 day	0.5 day
Collect initial data	Inspection of databank for indicators and financial proxies and project monitoring systems	Joint	0.5 day	1 day
Impact Assessment	1. Agree methods for financialising indicators (joint) 2. Develop and finalise impact map (joint)	Joint	1 day	2 days
SROI plan	1. Create a monitoring plan for data collection against agreed indicators (joint) 2. Adapt existing pilot spreadsheets for use in the organisation (champion)	Joint	0.5 day	2 days
Data collection	1. Identify and carry out research required on proxy's or benchmarking (champion, with mentoring help) and possible internal support from staff team 2. Collect data, including using new methods (champion)	Champion	1 day	4 days
Projections	1. Examination of project records 2. Draft produced by evaluator and examined by the champion	Joint	1 day	1 day
Analyse income and expenditure	1. Collect financial information (champion)	Champion		1 day
Calculate SROI	Using spreadsheets, mentoring support and/or workshop to explain the process	Champion	1 day	2 days
Sensitivity analysis	Agreement of areas to model and assumptions to vary	Joint	0.5 days	1 day
Draft report	Production of draft report for verification	Evaluator	3 days	1.5 days
Verification	Peer review of report	External verifier	2 days	1 day
Reporting	Final report produced and launched	Evaluator	2 days	2 days
			15 days	31 days

CHAPTER 7
PREDICTIVE SROI: DEVELOPING THE METHODOLOGY

This chapter discusses the development of a predictive SROI methodology and is based on our experiences of testing this approach with five organisations.

We have identified key issues based on our experiences of testing an approach to predicting SROI and recommended a set of next steps to take this work forward.

We have also suggested a "prototype" methodology for future work in this area and prepared a fictional case study of how a predictive SROI analysis could work in an investment context. These are set out in chapter 8, in the form of a guide to predictive SROI for potential investors[40].

Key issues identified

Investor outcomes

Investors' desired outcomes are central to predicting SROI. Most investors are likely to be most interested in how value created relates to the changes they want to invest in. Clearly, the process will work best if investors are clear at the outset about these desired outcomes. We found that it was not always easy to identify the outcomes desired by investors and because of this, we recommend that the first stage of a Predictive SROI analysis should be to clarify investor outcomes.

Stakeholders and their outcomes

Understanding how organisations create value for their stakeholders is an important part of understanding the potential SROI of an investment.

We prepared this analysis based on business plans (where available) and supplementary information provided by organisations and found this relatively easy to do. However, in a real-life investment situation, we feel it would be useful for investors to ask organisations to prepare this analysis, as this would help to ensure ownership of the analysis by organisations. Investors could then review the information and suggest changes in discussion with organisations.

Key outcomes

In a typical SROI analysis, an impact map would be prepared in as much depth as time and resource allowed. For evaluative SROI purposes, this might include an analysis of lots of different impacts for stakeholders.

For predictive SROI purposes, we found this to be time-consuming and, ultimately, not necessary. Instead, we decided to focus on analysing only those outcomes that were central to the purpose of the investment. We found that focusing on 3 or 4 key outcomes enabled a relatively rounded analysis to be done, while minimising the time needed to gather information and prepare calculations.

Given the need to keep any analysis as simple and 'light touch' as possible for investors and investees, we therefore recommend that it is important to identify key outcomes for analysis at an early stage.

[40] The ESROIN has discussed using predictive SROI as a form of "SROI-lite" to allow organisations to quickly understand the principles of SROI. Here we are looking at predictive SROI as one tool in a process for improving investment decisions and correspondingly the process is investor driven.

Indicators and proxies

SROI rests on judgements about how outcomes can be 'financialised'. As Predictive SROI analyses are, inherently, based on assumptions and projections about how future value will be created (rather than how it has been created), we felt it was useful to keep the financial proxies we used as simple and as consistent as possible. We also felt that in a real-life investment situation, investors might have limited time and resources to access detailed cost information. Where possible, we used or adapted cost information from existing or previous SROI analyses.

In the future, we strongly recommend that a "Proxy Bank" be developed which investors, SROI practitioners and organisations themselves can access easily and quickly, enabling them to select appropriate financial information for their own SROI analyses.

Impact map

Only after choosing the key outcomes for analysis and gathering information about their indicators and financial proxies, did we then build an "impact map", where we plugged in information about outputs (i.e. direct results of the investment).

In a real-life investment situation, we recommend that organisations should be heavily involved in developing this impact map, and perhaps should be asked to provide this, or at least an early version of it, at application or business plan stage.

Following the standard SROI model, we also made assumptions about drop-off (outcomes that weren't sustained), attribution (the share of the value attributed to other organisations), deadweight (what would have happened anyway) and displacement (negative effects of the investment).

We based our assumptions on information provided by organisations, evidence from other SROI analyses and 'best guesses'. We feel that in a real-life investment situation, this is an area that may cause investors some problems and we recommend that guidelines be developed for how to make these assumptions and that information be incorporated into the recommended Proxy Bank (above).

One of the benefits of using predictive SROI with organisations is that a dialogue can take place around key strategic questions related to:

- How sustainable are the outcomes that they are aiming for? What information do they have to back this up?
- Who else is working with the beneficiaries? How do they know that they are responsible for the outcomes that are taking place?
- How can they evidence that the outcomes would not take place anyway?
- What are the potential negative consequences of the activity?

Discussing these issues will inform the impact map and should be the basis of any intelligent funding decisions.

We also suggest that investors focus on using a sensitivity analysis as a way of understanding how assumptions affect the index of predicted social return.

Calculate predicted SROI

Existing approaches to SROI enable value to be projected over multiple years and we simply adapted these for our purposes.

We calculated returns over time periods appropriate to each investment proposal. We feel that investors should make informed judgements about the most appropriate length of time over which to predict SROI, depending on both the length of their investment and the likely timescale for ongoing impact.

We feel it would be useful for investors to have access to standard spreadsheet formats to enable them to build Predictive SROI calculation models - not because it is particularly difficult, but because it is time-consuming to start from scratch each time.

One area where we feel more work needs to be done, however, is in terms of predicting SROI on different kinds of investment (i.e. grant versus loan). This is discussed further in our recommendations.

Sensitivity analysis

Given that predictive SROIs are inherently based on assumptions, it is important to carry out a sensitivity analysis to identify which assumptions are particularly vulnerable to change and therefore have a major effect on the predicted social return.

It would be helpful, if possible, to set up a standard spreadsheet which enabled sensitivity analyses to be made using some kind of tool or calculator.

Report

We tried to keep the length and detail of our reports as slim as possible, recognising that investors are likely to want to have as streamlined a reporting structure as possible. A sample report is given in appendix 7, with kind permission from Fallin Community Enterprises.

We recommend, that in a real-life investment situation, a predictive SROI report should form part of any wider assessment that a social investor would carry out.

Having completed a predictive SROI the investor would be in a position to identify the key monitoring information (indicators) that it requires the investee to collect in order to prove value against the outcomes sought.

Follow up

Given the pilot nature of our research, we have not been able to follow up our predictive SROIs with either a) investment or b) evaluation of results against our predictions. However, we recommend that follow up is a fundamental aspect of any predicted SROI analysis in a real-life investment situation. This is true not only for the individual organisations and investments concerned, but also for the development of the methodology as a whole.

We recommend, in particular, that plans for collecting and analysing data need to be drawn up in close dialogue with organisations and that the onus should be on organisations to ensure they implement this plan and produce regular reports back to the investor. There may be a need for support and/or training in evaluation tools and techniques and this is something that investors should be prepared to resource. There may also be a case for investors accepting a robust 'evaluative SROI' in lieu of other monitoring information, if they have been involved in shaping the information requirements with investee organisations.

Based on the above issues, we therefore recommend a "prototype" approach to predicting SROI.

Table 6 shows how this differs from the existing methodology for SROI as developed by nef.

Table 6: Prototype Predictive SROI Approach

	nef methodology		Prototype Predictive SROI Approach
Stage 1	Understand and plan	→	Clarify investor outcomes
Stage 2	Stakeholders	→	Understand and plan
Stage 3	Boundaries	→	Stakeholders
Stage 4	Impact map and indicators	→	Identify key outcomes
Stage 5	SROI Plan	→	Choose indicators and proxies
Stage 6	Implement the plan	→	Impact map
Stage 7	Projections	→	Calculate predicted SROI
Stage 8	Analyse income and expenditure	→	Sensitivity analysis
Stage 9	Calculate SROI	→	Report
Stage 10	Report	→	Follow Up

Chapter 8 explains this prototype approach in more detail, using the format of a guide for potential investors and a fictional case study showing how the approach could work in practice.

Recommended next steps

Clearly, the work that has been done on predicting SROI is at an early stage. For the methodology to develop in a meaningful way, it needs to be tested in practice. We recommend that this is done within a pilot approach on a series of investments with a range of potential impacts, in order to extract as much learning as possible.

It is also important that a long-term approach is taken to this. Any social investor interested in developing this methodology would need to predict, follow up with evaluation, then produce further findings and lessons learned to inform future development and/or possible roll-out to other investors. It may take 3 to 5 years to refine this approach in order to produce a tool that is robust.

CHAPTER 8
INVESTORS' GUIDE TO PREDICTIVE SROI

Based on our experiences and analysis of the key issues in predictive SROI, we have developed a short guide to predicting SROI for potential **social investors** who are interested in taking this further.

Investors' Guide

Stage 1: Clarify investor outcomes

What do you want to achieve from your investments? What social and/or environmental change do you want to contribute to? By defining the outcomes your investment aims to achieve, you can set the framework for predicting the social return of any investment.

If your outcomes are not clearly defined then the predictive SROI exercise will be less meaningful, as the results will not directly relate to your own aims.

You should make sure you ask for information from your potential investees that will help you:

- understand how their work relates to your desired outcomes.
- develop a predictive SROI analysis (e.g. information about stakeholders, outcomes, outputs).

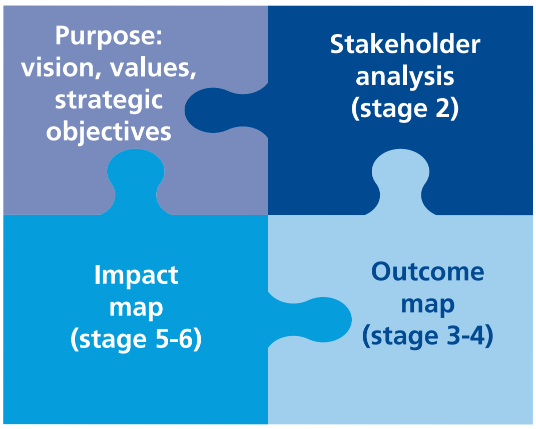
There may be an process of educating your potential 'investees' about SROI, why you are using this approach and how you will use it in your overall decision making process for investment decisions.

Stage 2: Understand and plan

Are you investing in a specific piece of work, or into the overall capacity of an organisation? Are you investing in a new business or project, or into an existing one?

Defining this at an early stage means that you can select the most appropriate information for later stages of the predictive SROI. For example, if you define the scope of the potential investment as a new business, you will want to look closely at the stakeholders and potential outcomes of this business. If, on the other hand, you define the scope of the investment as an injection into the overall capacity of the organisation, you will be more interested in analysing information about the overall outcomes of the organisation's work rather than the detailed outcomes of individual services or enterprises.

We suggest that the impact mapping process you embark on should follow a slimmed down version of the jigsaw described earlier:



At this stage you are focusing on understanding the purpose of the organisation and how it aims to create social change.

You will also need to think about how long you want to predict SROI for. This will be influenced by the type of investment (debt, equity, quasi-equity, etc) that you are making.

Stage 3: **Stakeholders**

Using the information you have about the organisation and its plans (e.g. business plan, annual report, stakeholder analysis) you should be able to list all the stakeholders who are relevant to the work you are thinking about investing in and their desired outcomes from the potential investment.

This is a crucial part of the process because it ensures that you develop a rounded perspective on the potential return on investment. Alternatively, you may want to ask organisations to provide this information as part of their application.

Key Stakeholder	Aim	Outcomes
→	→	→

As a potential investor, you are clearly a key stakeholder, but who else will be affected by the investment? Other key stakeholders might include customers of a new business, other funders, local and national government, other public bodies for whom the investment will deliver results. By setting out all the stakeholders involved, you will have a strong foundation for predicting the full range of returns on your potential investment.

Stage 4: **Identify key outcomes**

You will then have to think about which outcomes you want to analyse in depth - which ones are most relevant to your desired outcomes as an investor, and which ones do you not have time or resources to consider? It's likely as an investor, you will be most interested in the outcomes for the organisation's client group or target beneficiaries.

Activity and inputs	Key Outcomes (from Stakeholder Analysis)	Outcome indicators
→	→	→

Depending on how much time you have, you may want to focus on 3 or 4 key outcomes at this stage. (Bear in mind that you can come back to these at a later date, say to inform any evaluation of any investment you make.)

Stage 5: Choose indicators and proxies

This is where you start to think about ways of putting a financial value on the outcomes you are investing in. First you need to work out what the indicators, or ways of knowing, are for each of the key outcomes you think the investment will lead to. Then you need to decide on a proxy, or stand-in, for these indicators.

Outcomes	Outcome indicators	Financial proxies
➔	➔	➔

This can be time-consuming but you can use information and assumptions that have been made in previous SROI analyses to save time. Remember, you are trying to come up with a best estimate for the predicted SROI so as long as your indicators and proxies are sensible, don't worry about getting them exactly right.

Stage 6: Impact map

Now you need to put together a table showing the outputs that relate to each of the key outcomes you've decided to focus on. This will give you information for doing calculations later.

Outcomes, indicators & proxies (as stage 4)	Outputs	Drop off	Attribution	Deadweight	Displacement
➔	➔	➔	➔	➔	

You should also plug in the information you've gathered about indicators and proxies.

Finally, you need to make some assumptions about a range of things that can affect the impact of your investment. These are drop-off (to what extent will the outcomes be sustained over the period you're analysing; attribution (what share of the outcomes can be attributed to this investment); deadweight (what would happen anyway); and displacement (any negative effects).

Again, you might find it helpful to use assumptions from similar SROI analyses, as long as they appear to be sensible for your purposes. You should also bear in mind that you will be unable to make anything more than fairly simple assumptions - carrying out a sensitivity analysis in stage 8 is crucial.

Stage 7: Calculate predicted SROI

Calculating predicted SROI involves building a spreadsheet which sets out the financial proxies you have identified and relating these to the outcomes and outputs the investment will generate.

nef's guide to SROI explains the formulae to be used, as well as how to discount future value to establish the Net Present Value of both benefits and future investments.

Stage 8: Sensitivity analysis

Doing a sensitivity analysis is crucial as it helps to show you the effect of different assumptions on the predicted SROI. It means you can test the parameters of the results you've worked out and you can see the range of possible SROIs you might get, depending on how different factors work out.

You will find it useful to look at the types of changes to assumptions that previous SROI analyses have used. You need to identify the assumptions you have made which have the most power to affect the results.

Record the results of your sensitivity analysis and think about what this means for your investment recommendations or decisions, particularly in terms of future monitoring and evaluation.

Stage 9: Report

We have included a sample assessment report[41] as part of this research although you might find it easier to incorporate your key findings into your existing assessment report format.

However you choose to do this, you should remember that the predictive SROI results you have calculated are 'best guesses', are based on assumptions and are likely to represent a narrow analysis of the investee's potential impact.

Therefore we would strongly recommend that any predictive SROI analysis forms only one part of any investment decision-making process and serves more as a guide to the potential impact of an investment, than as a tool for choosing between potential investments.

Stage 10: Follow up

Assuming you a) make an investment and b) want to follow up your predictive SROI with an evaluation of your investment's SROI, then you will need to agree a social reporting framework with your investee.

The indicators and financial proxies you have used for your predictive analysis should be mirrored in a data collection and evaluation plan for your investee. They need to be able to gather information that will enable you to test your assumptions and predictions.

Information should be gathered systematically over the course of the investment (and beyond if you have predicted returns over the longer term). It will be up to you to decide how often to ask your organisation to report on its social returns, but we would suggest this should happen at least annually.

You might also want to think about providing access to training in social reporting for your investee as well as having their social report externally verified in order to ensure its legitimacy and credibility.

[41] Appendix 7 provides an example

An example to explain...

To help explain this further, we have developed a fictional case study to show how this "prototype" could work in practice.

The investee

Cool Caterers CIC has been formed by a group of people with experience of supporting homeless people into training and employment, who have seen the success of other social enterprises which create supported employment for vulnerable people. They have identified catering as an industry which their clients want to work in and which creates suitable entry-level job opportunities.

The business model

After doing their market research and checking out the local competition, they identify a small catering business which is for sale at £150,000. Additional development work helps them to get a business plan together, which they take to their local bank. The bank approves an in principle loan for the purchase of the business.

Over three years, they aim to grow the business into identified markets, increasing the staff team from 5 to 20, 12 of which will be full-time jobs for formerly homeless people. They will receive £2,500 per person per year for supported employment through a government contract.

The investment need

Cool Caterers CIC have also worked out that it will cost them around an additional £100,000 over three years to create a supportive working environment for their clients within the business. This includes the costs of reduced sales and increased management support needed while the business is in transition to a social enterprise.

They apply to the Scottish Government for funding for the £100,000, including an analysis of their stakeholders and their desired outcomes as part of their business plan. They receive support to prepare this from online guidance, backed up by access to an advisor from a specialist agency.

The predictive SROI process

The fund manager looks at the application for £100,000 and following the prototype methodology for predictive SROI, identifies the following key facts:

Key target outcomes

- Improved employment opportunities for vulnerable people.
- Improved physical and mental health for vulnerable people.
- Reduced repeat homelessness episodes.

Key target outputs

- 12 permanent jobs created over 3 years (4/8/12).
- 50% reduction in use of health services by employees.
- 100% reduction in repeat homelessness by employees.

Total government intervention required over 3 years

- £160,000.
- (= £100,000 grant plus £60,000 total supported employment contract).

Proxies for outcome indicators

- Increased income for employees.
- Welfare benefits savings to state.
- Tax income to state.
- Avoided costs of health services.
- Avoided costs of repeat homelessness episodes.

The fund manager realises that there are a range of additional outcomes including reduction in offending behaviour, reduced dependency on drugs and alcohol and increased social inclusion. Many of these were included in Cool Caterers CIC's stakeholder analysis. At this stage, however, she focuses on the most direct outcomes of the investment and proceeds to calculate the Predicted SROI.

The fund manager makes assumptions for drop off, attribution, deadweight and displacement based on similar SROI calculations and evidence in Cool Caterers CIC's business plan. She also gathers financial information about each proxy from a freely available Proxy Bank, which gives her working figures for her calculations. She inputs the information she has gathered, along with her assumptions and figures about the intended outputs of the investment into a template spreadsheet.

The results show that a total government intervention of £160,000 over 3 years will create social value worth a predicted £400,000. The SROI ratio is therefore 1.5:1, which means that for every £1 invested, £1.50 worth of social value is added.

The fund manager then carries out a sensitivity analysis to identify how the predicted SROI changes when different assumptions are made. Going through this process highlights the importance of a number of assumptions which leads the fund manager to recommend that the organisation puts in place long-term evaluation systems to capture information about these.

The social reporting plan

As part of the investment offer, Cool Caterers CIC are asked to agree a set of target outcomes and outputs as detailed in the Predicted SROI, as well as clear ways in which they will evidence these.

As the Predicted SROI is recognised to be an underestimate, the fund manager is keen to gather information about those outcomes which have not been included as this will help to demonstrate the wider value being created by Cool Caterers CIC in the longer term. Therefore, Cool Caterers CIC is also asked to work out ways in which they will measure the other outcomes they have identified. Again, they receive specialist advice from an external agency to do this.

Their social reporting plan is finalised and forms part of their investment agreement with the Scottish Government.

Follow up and verification

At the end of each year, Cool Caterers CIC returns a social report along with a financial report to the investor. Their social report shows the actual results of their work, backed up with evidence gathered from their clients and other stakeholders and includes a new spreadsheet which compares their actual SROI with their budget SROI. A narrative report highlighting key issues and explaining changes along the way is included with this.

During the three year investment, the Scottish Government appoints an external "SROI auditor" to verify the evidence being produced by Cool Caterers CIC. The auditor uses a range of stakeholder consultation methods to do this and reports his findings back to the Scottish Government.

CHAPTER 9
SROI: LESSONS LEARNED

This chapter summarises the main lessons learned from this pilot project and sets out the general conclusions we have reached in relation to both evaluative and predictive SROI development. These have been grouped as follows:

- General.
- Social investment.
- Social reporting.
- Third sector organisations.
- Methodology.

General

Lesson 1. There is a growing appetite for measuring impact from all key stakeholders.

All stakeholders are beginning to wrestle more and more with how to measure impact and demonstrate value. Several movements have come together in recent years which help to explain this.[42]

- There has been a drive towards developing social enterprise from communities, third sector organisations and public policy makers.

- This has underpinned an increasing need for the third sector to prove itself and demonstrate why it offers a better model than others.

- Funders and investors have an increasing desire to spend more intelligently and are looking for tools to help them do that.

- Purchasers have an increasing wish to buy better, obtain value for money and are also looking for tools to help them do that.

- Policy makers have an increasing need to develop evidence-based approaches to policy interventions and are looking at value for money and effectiveness as part of that.

Lesson 2. This is a good time to be developing thinking in this area.

The timing of this pilot project has been fortunate because there is a clear opportunity to shape a more robust approach to measuring impact and social reporting with a view to influencing future investment decisions for the third sector. Investors and policy makers are engaged and interested in the issues and are willing to work with the sector to shape a solution that works for everyone.

[42] See Making the Case: Social Added Value Guide, Scottish Executive/Communities Scotland, 2006, for more discussion

Lesson 3. SROI could be a tool to build the overall evidence base for the third sector.

Because SROI speaks the language of pounds and pence, it has a particular appeal to purchasers of services from, funders of, and investors into the third sector.

If it can be developed into a robust approach, it has the potential to build a strong case for the third sector's added value.

Lesson 4. SROI is still in its infancy.

Although what has been developed so far may be "better than nothing", there is still a need for much more development of SROI before it can genuinely claim to be a robust methodology. In particular, work on predictive SROI is at a very early stage. It is likely to take three to five years of further development work and testing before SROI can be seen as valid or reliable. Doing this alongside integrating SROI with other approaches to social reporting would add value to the development process.

Social investment

Lesson 5. Awareness of SROI is increasing but understanding is low.

At the beginning of our research, there was a generally low level of awareness of SROI among various stakeholders including investors, policy makers and social enterprises. As the established SROI methodology at that time was relatively untested and undeveloped, that was not surprising and not necessarily a bad thing.

Now, partly as a result of some of the work that has been carried out through this research, awareness of SROI seems to have increased. However, we have also identified a high level of misunderstanding and false perceptions about what SROI is and what it is not. For example, the SROI ratio is a simple figure but taken out of context it loses its meaning without a more careful examination of the assumptions on which it is based. A focus purely on the index/number without understanding how it has been derived could introduce a bias into decision-making. The index is only as good as our ability to robustly financialise social value.

Lesson 6. Investors are not always clear about the outcomes they want to invest in.

Many investors don't currently express themselves in terms of desired outcomes - this was a challenge for us, particularly in developing the predictive SROI approach, as we had hoped to take an existing public sector investor and 'transplant' their desired outcomes into the process.

It may be stating the obvious but investors will only benefit from predictive or evaluative SROI if they are clear from the outset about what they are or were looking for in return for their investment.

Social reporting

Lesson 7. SROI is a tool for social reporting - and needs to be seen in that light.

At a fundamental level, SROI is a tool for proving an organisation or project's social impact using the principles of cost-benefit analysis. It is not a panacea or magic wand for wider challenges faced by the third sector in demonstrating its impact and value. It is one tool among a wider approach, not the "holy grail" of impact measurement.

Lesson 8. SROI could be more closely aligned with other approaches to impact measurement.

More work could be done to align SROI with other approaches to impact measurement. This could help organisations to develop an integrated approach to social reporting, incorporating a range of measures. This needs additional development work and closer working with other specialists in the social reporting field. However, we see no reason why SROI and, in particular, social accounting could not be merged, at least in following common initial methodologies.

Lesson 9. SROI can be a useful "stalking horse" for social reporting more generally.

As discussed above, SROI is one strand of social reporting more generally. It is also the strand that tends to get noticed because of its financialisation of value - it's seen as a quick result compared to other approaches that are around. It sounds instantly appealing and speaks the language that many stakeholders are interested in. Although there are issues around the gap between this perception and the reality of how SROI works, it may be useful to take advantage of its "stalking horse" potential.

Third sector organisations

Lesson 10. SROI could be more closely linked to approaches to day-to-day organisational development and strategic planning.

The first stages of an SROI analysis are crucial, but they are not unique to SROI. This should be promoted so that organisations understand how the first stages of SROI relate to work they may be doing already (e.g. stakeholder analysis) in terms of strategic planning and how the latter stages flow from this foundation.

Lesson 11. Organisations don't report on their social impact in a systematic way at the moment.

Many third sector organisations struggle to provide an evidence base to explain how they generate positive social impact and why they merit investment into their work. It is the case, as has been experienced in the pilot, that organisations do not routinely collect information on outcomes, but focus almost exclusively on outputs.

This is partly because they currently spend lots of time providing other types of monitoring information on different things to their multiple funders, which do not actually relate to the outcomes desired by stakeholders.

It is also partly because there is little incentive for organisations to report on social impact at the moment, because it doesn't actually influence current or future investment decisions.

There are, of course, good reasons why organisations should report on social impact anyway, particularly from the point of view of ensuring their services are delivering relevant outcomes for their stakeholders. However, our point is that the current framework for resourcing the third sector doesn't provide an incentive to do so.

Methodology

Lesson 12. The accessibility of SROI reports could be improved

The current format of evaluative SROI reports is unwieldy and difficult to digest for non-SROI literate people - it needs to be adapted.

This project has helped to develop understanding of how to make the reports more readable. The ground-breaking level of research that has now taken place through this work to financialise 'soft' outcomes means that the reports can focus more on telling the story of the organisation's impact, rather than explaining in great detail the logic and assumptions behind each outcome studied.

We believe that the adaptations that we have suggested to the existing methodology should automatically mean that the reports become more accessible as they become less like research studies and more focused on explaining the narrative of an organisation's impact.

Nonetheless, we believe certain principles should be retained to produce SROI reports in the future. These are set out in our recommendations.

Lesson 13. Work needs to be done to reflect the differential returns on different kinds of investment

The origins of SROI were in the United States, where the investment in question was philanthropic funding (e.g. a grant). The initial development work on SROI in the UK has taken place in the context of evaluating the return on grant funding or public sector procurement of services (either through grants, contracts or service level agreements).

Recent work as part of this research has begun to explore approaches to identifying the potential return on different types of investment (patient capital, lending, equity-like investment). Work is needed with accountants and financiers to develop new types of calculation which are suitable in these contexts.

Lesson 14. There is a limit to the usefulness of financialising outcomes.

One of the issues that has emerged from this process is that placing a financial value on some things is so difficult or contestable that to do so is disproportionate in terms of time and effort needed, and can undermine the overall analysis.

However, this does not mean that these outcomes are not valuable and we believe there is merit in reporting on them in other ways. This is related to our belief that SROI should form one part of an integrated social reporting framework, rather than being seen as something separate.

Lesson 15. The unit cost of carrying out an SROI analysis could be reduced by more effective, shared gathering of information.

A significant proportion of the costs of SROI analyses stems from the need to gather detailed cost information, which involves large amounts of research. There is also a cost in terms of designing and developing evaluation tools and techniques. This could be greatly reduced by a) developing a bank of common outcomes, indicators and financial proxies and b) making better use of best practice in evaluation, e.g. that developed by Evaluation Support Scotland.

Lesson 16. There is little consistency in how SROI analyses are carried out.

Because SROI is still at an early stage, and because the methodology is still in development, there is little consistency in how analyses are carried out. There is a need for standardisation, increased use of common terminology in common circumstances and verification of a standardised approach.

Lesson 17. The role of external researchers needs to be explored.

In most cases in this pilot project, the external researcher had some kind of prior connection with, or knowledge of, the organisations who were the subject of the SROI analysis.

This is likely to be difficult to avoid, and we do not believe it is necessarily a 'bad thing'. However in line with established research approaches such as 'grounded theory' we believe that the reports would have greater validity and reliability if the role of the researcher/verifier and any bias was made more explicit within the report.

Lesson 18. Comparisons and benchmarking of SROI ratios is not yet possible.

At this point in time, comparing SROI results between organisations, or developing any kind of benchmark for results does not have any significance because of the scope for inconsistency in application of the methodology and because of the lack of volume of analyses.

However, we believe that the third sector and its investors will, ultimately, require a tool that does enable comparisons and benchmarks to be made. The extent to which this will be possible with SROI depends on the future success of efforts to develop common sources of information and common approaches to analysis.

Lesson 19. Using SROI makes a valuable contribution to developing approaches to measuring 'soft' outcomes - but this uses a lot of resources.

From the initial consultations with pilot organisations involved in the evaluative SROI programme, and the feedback being collected from participants and beneficiaries, it became clear that there was a need to collect information on some key 'soft outcomes' for participant stakeholders, and find innovative ways to financialise them.

The main ones identified were:

- Improved employability, and 'distance travelled'.
- Improved social networks.
- Improved personal and social development.
- Increased social inclusion.

The implications of this for the pilot were significant, in terms of time and research required to develop and test new methods.

In some cases, such as 'social inclusion' no methods could be found which had previously been used to measure social inclusion, far less financialise it. In the case of 'distance travelled' towards the labour market, existing methods (in this case the Rickter Scale) were adapted for use in the pilot. This involved going back to the research literature that defined the components of employability and working up a set of questions that could be used to measure change in employability over time.

The resources available did not allow for these new measurement tools to be extensively tested, and validated, before being used. There is a need for more development work in this area, to validate tools for further use.

Lesson 20. Guidance is needed on the issue of double counting.

This work also however threw up another issue, which is a general one relating to impact measurement. There is little guidance in the research evidence to avoid potential double counting of outcomes. For example, no one can say whether measuring mental health improvement and employability with the same group of participants leads to double counting. Common sense would say that if mental health improves, then the ability and capacity to get a job is also improved, but the extent to which these outcomes overlap is currently not known.

There is a need for some high-level thinking and clarity around these issues.

Lesson 21. The definition of impact needs to be aligned with understanding of how to measure impact.

The new economics foundation definition of impact is outcomes minus deadweight. But in practice the approach to understanding impact is as follows: changes that take place (outcomes) taking into consideration those changes that are not sustained (drop off), those that are shared with others (attribution), those that would have happened anyway (deadweight) and any negative consequences (displacement). This understanding of impact would be a good model for all funders and investors to follow.

CHAPTER 10
RECOMMENDATIONS

This chapter sets out key principles and recommendations for future work to develop SROI. These are based on the lessons learned throughout this pilot project.

Key principles

We believe that any further work to develop SROI should be based upon seven key principles. These reflect our learning from this pilot project and they underpin the rest of our recommendations:

1. **Stakeholder** involvement should remain central to any SROI analysis, and should be reflected in the development of the methodology as a whole (i.e. by involving stakeholders such as investors, the social reporting community and third sector organisations).

2 **Materiality** – where rather than evaluating the whole spectrum of benefit derived from any activity the focus is on what is central to proving social return and any information collected should be proportionate and central to the analysis.

3 **Outcomes** – the focus of the analysis should be on outcomes and impact rather than input and output.

4 **Value** – an objective of SROI is to capture the value generated by organisations and tell the story of how this value is created. Again proportionality is important in that the effort required to identify value must be worth the result.

5. The process should be **transparent** – where there are limitations this should be acknowledged, positive and negative consequences should be reported and development should be done on an 'open source' basis.

6 SROI should aim to **integrate** processes with other social reporting approaches.

7 Results should be **verifiable** – they should be reliable and valid.

Recommendations

1. There should be training and awareness raising for both third sector organisations and investors in SROI methodologies, to increase their understanding of its applications and limitations.

2. The suggested methodology for predictive SROI should be tested in a real-life investment situation with a sample of investments. This should be treated as an action research project and should be followed up by evaluative SROIs to test the validity of the initial predictions. The planned Scottish Investment Fund[43] would be a natural candidate for this work.

3. A separate piece of work should be developed around SROI where policy makers want to build the evidence base for what works best or what delivers best value (e.g. social care, recycling, criminal justice). This study should build on the refined methodology suggested here, helping to develop better practice in identifying and financialising indicators for common outcomes.

[43] Scottish Budget & Spending Review 2007, Scottish Government, 2007

4. Development work should take place to align SROI with other specialists in the field of impact measurement[44], as well as financial accounting, in order to develop an integrated, consistent approach to combined social and financial reporting for the third sector.

5. This should include pooling of resources and expertise to develop a set of good practice approaches to measuring 'soft' outcomes.

6. It should also include collective efforts to develop thinking around the issue of 'double counting' of outcomes with a view to producing guidance on this issue.

7. A verification process for SROI should be developed, preferably as part of work to align it with social and financial reporting more generally.

8. An open source bank of common outcomes, indicators and proxies should be developed to reduce the costs of gathering information per SROI. This should involve identifying and sifting through existing information and developing a centralised resource for use by practitioners, organisations and investors.

9. There should be accredited training of practitioners and verifiers, backed up by a revised guide and training manual. Again, it would be preferable if this took place in the context of work to align SROI with social and financial reporting more generally.

10. Work should take place with accountants and bankers to refine the ratios and calculations used currently, in the context of non-grant forms of investment.

11. Future work on developing the format of SROI reports should keep a number of governing principles in mind:

    - The report should tell the story of change that an organisation creates. This should indicate both positive and negative consequences of activity.

    - The report should help the organisation concerned to develop appropriate data collection and evaluation systems on outcomes and recommendations in this area should be clear.

    - The reports should be accessible to key organisational stakeholders and should act as a way for organisations to meet combined reporting requirements (e.g. reports to Board of Directors, reports to funders, web-based information for clients, internal management information, etc).

    - The main purpose of the report should be to summarise and discuss the key results of the analysis in relation to the organisation's own theory of change.

    - The detailed justifications and explanations of the SROI methodology, financial calculations and assumptions should be included as an appendix, available for those who want or need to understand it, but not getting in the way of the main purpose.

Closing remarks

The third sector is at a crossroads. There is a changing funding relationship with the public sector, with a greater emphasis on contracts (purchasing) and investment alongside a corresponding decline in traditional grant funding.

The effect of this change is that there is growing pressure on the third sector to prove its value and justify investment decisions. Social Return on Investment is a tool that can aid the sector to do this. It is also a tool that can aid purchasers and investors make more intelligent decisions on how to spend limited resources. But the approach is still in its infancy and further investment is required in the development of SROI to ensure it is robust and fit for purpose.

[44] e.g. Social Audit Network, Evaluation Support Scotland

APPENDIX 1: ROUND TABLE DISCUSSION DELEGATE LISTS

Edinburgh - March 2007

Scott Anderson	Social Investment Scotland
Gillian Grey	Community Enterprise in Strathclyde
Pauline Graham	EQUAL Social Economy Scotland
Luska Jerdin	Scottish Executive, Voluntary Issues Unit
David Metcalfe	Lloyds TSB
Andrew Muirhead	Lloyds TSB Foundation from Scotland
Jon Molyneux	Scottish Social Enterprise Coalition
Duncan Munro	Robertson Trust
Roddy MacDonald	Communities Scotland Social Economy Team
Ea O'Neill	EQUAL Social Economy Scotland
Mike Palmer	Scottish Executive, Voluntary Issues Unit
Philip Williams	BIG Lottery (Scotland)
Cheril von Barsewisch	Forth Sector

London - June 2007

Tracy Axten	Royal Bank of Scotland
Theresa Crowley	NESTA
Siobhan Edwards	NESTA
Amelia Fitzalan-Howard	The Henry Smith Charitable Trust
Ted Fowler	Bristol City Council
Tim Goodspeed	Selling Added Value
Lucy Heady	New Philanthropy Capital
Susan Lee	Community Development Finance Association
Jeremy Nicholls	UK SROI Network
Alan Ng	Community Action Network
Sue Peters	Adventure Capital Fund
Tim Reith	Community Innovation UK
Amelia Sussman	Impetus Trust
Oliver Sian-Davies	BIG Lottery
Fiona Young	Tudor Trust

APPENDIX 2: SOCIAL INVESTMENT STAKEHOLDERS CONSULTED

The following stakeholders were consulted as part of our research into social investment and SROI.

Amelia Sussman - Impetus Trust

David Cousland - Triodos Bank

Gerry Higgins - Community Enterprise in Strathclyde

Hilary Norman at Office of Third Sector

Iona Joy - New Philanthropy Capital

Jeremy Nicholls - Count Us In/SROI international network

Jonathan Lewis/Sue Peters - Adventure Capital Fund

Kirsten Van den Huyt - Social Enterprise Coalition

Leona McDermid - Social Firms Scotland

Lisa Sanfilippo - New Economics Foundation

Mike Palmer/Geoff Pearson - Voluntary Issues Unit

Nicola Pollock/Sharon O'Shea - Esmee Fairbairn Foundation

Nigel Kershaw - Big Issue Invest

Richard Kennedy - Community Action Network

Sally Reynolds - Social Firms UK

Scott Anderson - Social Investment Scotland

Vanessa Potter and policy team at BIG Lottery

APPENDIX 3:
PARTICIPANT FEEDBACK QUESTIONNAIRE

1. How did you first hear about the SROI pilot project?

2. Why did you decide to get involved?

3. Approximately how much time did your organisation spend on:

Areas	Days (approx)
Agreeing the scope of the SROI	
Analysing your stakeholders and their outcomes	
Providing information about your activities including monitoring and evaluation results	
Reviewing draft reports	
Other (specify)	

4. Overall, was this more or less time than you had anticipated?

5. How would you describe the role of the SROI researcher throughout the process?

6. How would you describe any support or training you received as part of the SROI process?

7. What was most difficult about participating in the SROI process?

8. How has the SROI process affected your ability to demonstrate the value of your services?

9. How has the SROI process affected your approach to data collection and evaluation?

10. How does the SROI process compare to other approaches you have used to evaluate your work?

11. What would you advise other organisations thinking about using SROI?

12. How could the SROI process be improved?

13. Is there anything else you would like to comment on in relation to the SROI process?

Thank you for your time and input into this evaluation.

APPENDIX 4: SOCIAL INVESTORS SURVEY RESULTS

This table summarises the results of a web-based survey of a sample of social investors in Scotland, the UK and the rest of the world.

It is not intended to provide an exhaustive list of social investors, nor is it intended to do anything other than report each investor's published approach to impact measurement, as available online at December 2007.

	Description	Investment product/s	Website	Published approach to impact measurement
Scotland				
Social Investment Scotland	Provide loan finance to social economy organisations both directly and through wholesale finance to community development finance institutions Also involved in pilot to develop patient capital products,	Loans from £10,000 to £500,000 Other products may be developed in future.	www.socialinvestmentscotland.com	In relation to loan finance: Use Balanced Scorecard approach In relation to pilot patient capital fund: "Operation of the fund will require the measurement of social return within a defined and disciplined framework. A balanced scorecard approach was favoured in the absence of low-impact SROI measurement tool that would allow the fund operator to differentiate between investments" (Investment Capital for Social Ventures, Social Investment Scotland, 2006)
Inspiring Scotland	New venture philanthropy fund, aiming to invest £10 million per year, blended from individuals, trusts, Govt.	Long-term (5-7 year) investments both financial and non-financial	www.inspiringscotland.org.uk	"From the time funding is committed, we will be measuring the individual and collective delivery of the charities funded."
Scottish Community Foundation	Manages funds on behalf of individual & corporate donors through range of programmes	Grants (currently up to £250,000, mostly much smaller)	www.scottishcommunityfoundation.com	"The Scottish Community Foundation assesses community projects for strength of need and impact, and we also ensure the integrity and capacity of the groups which we fund. We follow up with the group at the end of their project and evaluate their achievements."
UK				
Big Lottery Fund	Largest lottery distributor. Provides funds through range of programmes to third sector.	Wide range of grants programmes ranging from small grants of £300 to multi-million pound awards.	www.biglotteryfund.org.uk	Grant applicants identify outcomes & outcome indicators, which are used as basis for measuring individual grant progress. Big also carry out programme evaluations.

	Description	Investment product/s	Website	Published approach to impact measurement
				Website includes publication: Explaining the difference your project makes: A BIG guide to using an outcomes approach, Big Lottery Fund, 2006
Futurebuilders England	Government backed fund for investing in social enterprises engaged in public service delivery	Each investment package is different, but combines some or all of: Loans (variable) Revenue or capital grants (variable) Development grants (approx £15,000 - £20,000)	www.futurebuilders-england.org.uk	"Progress on the social outcomes of the project will be agreed and monitored on a case-by-case basis between Futurebuilders England and the organisation. We will help organisations, where appropriate, to develop their means of evaluating their progress against their outcomes." (p16, Futurebuilders England Investment Plan 07-08)
Bridges Ventures	Privately owned venture capital fund with a social mission - operate Bridges Community Development Venture Fund 1 & 2	Equity investments up to £10M.	www.bridgesventures.com	Initial development of Community Development Venture Fund indicated that SROI framework would be used; current information suggests a slightly different approach using "three-stage process to target and measure social impact", beginning with a "social screen" which identifies businesses in target under-invested areas or sectors.
Triodos Bank (UK wide)	Investment banker for social businesses	Range of debt products (loans & overdrafts) Equity investments from £250K to £2M.	www.triodos.co.uk	Invest positively in particular sectors & types of organisations (charities, organic farming etc). Set of criteria for who they won't invest in. Monitoring of use of funds through ongoing relationships with investees.
Impetus Trust (England & Wales only)	Venture philanthropy organization providing strategic funding and expertise to charities and social enterprises	Strategic funding Management expertise	www.impetus.org.uk	Produce impact reports for each portfolio charity.
Breakthrough	Joint initiative between Community Action Network & Primera (private equity firm) to provide strategic support & growth capital to established social enterprises to enable them to achieve 'breakthrough' social impact by scaling up	High-engagement grants Strategic support Access to business expertise	www.can-online.org.uk	Initial assessment process identifies potential social impact.

	Description	Investment product/s	Website	Published approach to impact measurement
Venturesome	Provides risk capital and advice to small charities and other social enterprises	Bridging finance Working capital Development capital	www.venturesome.org	Assess potential social impact using a matrix with two dimensions - social imperative and scale. Investments are assessed as high or low social impact and decisions made based on this, balanced against high, medium or low financial risk. Guide available online for applicants, Assessing Venturesome's Social Impact
Big Issue Invest	Part of Big Issue Group, lending to social enterprises to enable scaling up	Loans from £50K- £500K, average £200K	www.biginvest.co.uk	Due Diligence/performance management outline requires applicants to provide info about social impact methodology being used by them and to provide evidence of past social impact & projected future social impact
New Philanthropy Capital	Independent research consultancy, giving donors advice on how to give (helping them to make 'informed decisions')	Doesn't invest directly; advises investors e.g. High Net Worth individuals	www.philanthropycapital.org	Advise donors on different approaches to using donations most effectively. Published Intelligent Giving in association with Deloitte.
Adventure Capital Fund (England only)	Provide venture capital to community enterprises, raised from variety of public, commercial and charitable sources	Investment packages combine loans, grants, mentoring and support - main investment fund invests up to £750,000.	www.adventurecapitalfund.org.uk	"We hold our investees to account to provide us with results, both financial and social." Application form asks potential investees to identify their social impact and how they will measure it.
Private Equity Foundation (UK & Europe)	Created by leading European private equity firms as charitable vehicle.	Grants	www.privateequityfoundation.org	No information available online. Grant-making is done pro-actively, don't accept unsolicited applications.
Global				
Social Ventures Australia	Aims to align the interests of philanthropists with the needs of social ventures by raising capital and then providing funding, mentoring and organizational tools to social entrepreneur-led organisations	Funding (type not specified) Mentoring Organisational tools	www.socialventures.com.au	Use SROI tool with ventures they support, as part of overall package of support. Venture's ability to report and articulate social return is a key selection criterion for investments.
Acumen Fund	Global venture fund investing in health, water, housing and energy projects to improve lives of poorest people in the world	Equity and/or debt from $300,000 to $2,000,000	www.acumenfund.org	Partner with research institutions to understand the social impact of their investments. Have developed BACO (Best Alternative Charitable Option) tool to help with cost-benefit analysis of investments compared to other philanthropic options

	Description	Investment product/s	Website	Published approach to impact measurement
REDF	US organization investing in businesses which create employment for people living in poverty	Funding (type not specified) Intensive management support	www.redf.org	Pioneered development of SROI but no longer use. Now use OASIS (Ongoing Assessment of Social Impacts) and Social Impact Reports as part of ongoing relationship with investees.
The Venture Philanthropy Partners	US philanthropic investment organization which builds long-term investment partnerships with nonprofits to improve lives of children and young people in poor families.	Funding (type not specified) Personal contacts Intensive management support	www.vppartners.org	Use performance management framework with individual investees
New Profit Inc	US venture philanthropy fund designed to provide social entrepreneurs with resources to achieve their visions	Multi-year financial investments (type not specified) Strategy & Performance Measurement advice Leadership & Management Development Support	www.newprofit.com	Portfolio organisations use Balanced Scorecard to measure progress and communicate performance.
The One Foundation (Ireland)	Irish foundation funding charitable causes in Ireland and the developing world	Funding (type not specified) Business planning support	www.onefoundation.ie	Pro-actively seeks out investments, no information available about approach to measuring impact.

APPENDIX 5:
PARTICIPANTS FEEDBACK

Summary of results from participants' feedback

Initial involvement

Participants had generally heard about the SROI pilot project through contact with one of the research team, or through local partners.

All participants were motivated to take part in the project by a desire to demonstrate the value being created by their work. Many wanted to show the multiple and cross-cutting benefits of their work to funders and other external stakeholders. The difficulty of doing this was recognised by some and formed part of their motivation for getting involved.

Time needed to take part

- Most participants estimated it had taken them between 0.5 and 1.5 days to agree the scope of the SROI analysis. One organisation reported contributing 5 days to this stage.
- Organisations reported that analysing stakeholders and their outcomes took between 0.5 and 7 days of their time.
- The time contributed by organisations to provide information about activities including monitoring and evaluation results varied considerably from 0.5 day to 28 days.
- Reviewing draft reports generally took organisations between 2 and 5 days.
- Organisations also reported spending time on developing understanding of SROI internally, promoting findings to stakeholders, progress chasing the researchers, and having update meetings.

Overall, estimates of the time contributed by participants varied considerably:

Participant	Total time estimate (approx days)
1	10.5
2	1.5
3	18.5
4	13.5
5	13.5
6	3
7	40+
8	9

Overall, most organisations felt that the time they had contributed was about the same as they had expected to. In one case, it was considerably more and in another, it was more.

Role of researcher/s

Generally, the feedback from participants about the SROI researcher was very positive and most organisations felt that the researcher had:

- Understood the nature of their work quickly.
- Knew the right questions to ask to develop the analysis
- Respected confidentiality and dealt with sensitive issues appropriately.
- Challenged them in a constructive way to think through their assumptions.
- Sourced information about costs and values quickly and effectively.
- Saw connections and identified stakeholders that we wouldn't have.

In a few cases, however, feedback was not so positive. Organisations reported felt that the researcher had:

- Not been clear about the questions to ask.
- Not been clear about the information to gather.
- Took a long time to respond to communication.
- Didn't set clear objectives for the analysis.
- Didn't have a clear role.

Support and training

Organisations had not generally received any training on SROI as part of the process, although some organisations referred to ongoing support from the SROI researcher and felt this has been useful.

Difficulties in taking part

Organisations generally felt it had been relatively easy to take part in the process, although they did mention a range of minor difficulties when asked:

- Time needed to gather information from clients.
- Difficulty in gathering information from vulnerable clients.
- Making time internally to engage in the process.
- Choosing the right impact area to focus on.
- Managing the process without being SROI-literate.
- Short notice of requests for information from researcher.
- Lack of clarity about roles inputting to the process.
- Didn't fully grasp implications of taking part.

Effect on ability to demonstrate value

Generally, feedback was positive in this area. Most organisations felt taking part in the process had helped them develop their ability to demonstrate value to stakeholders. Specific comments included:

- Incredibly useful in highlighting what we need to improve and where our current tools aren't doing what we thought we were.
- Need to go through another cycle, having implemented recommendations from first, before we can fully reflect value.
- Will provide a further argument for support demonstrating that our services are providing a return on investment.
- Didn't include impact areas we should have done so less useful than we'd hoped for.
- Independent evaluation has enhanced our ability to show value.
- External stakeholders have been really positive about results.
- We are actively using the findings to do this. In particular we are able to focus on particular areas and use this when approaching possible new partners.

Effect on data collection and evaluation

Generally, organisations reported that taking part in the process had identified areas where they could improve their data collection and evaluation systems. Particular comments include:

- We now intend to adopt SROI as standard practice on all of our larger projects and programmes as part of our evaluation work.
- Will make us more careful about what we collect in the future - we will be more fastidious about making sure we get information.
- We are about to start adopting the impact measurement methodology developed through the process with all our clients.
- Helped us to understand what we need to gather.
- Highlighted that internally data collection and monitoring procedures require to be formalised. It has also provided a platform for developing our methods of monitoring and evaluation.
- Made us realise we need to find better ways to measure distance travelled and softer indicators.

Comparison with other approaches to evaluation

Feedback was generally neutral in terms of how SROI compares with other approaches to evaluation used, with differences being highlighted in a number of ways:

- Far more detailed in terms of looking at the impact of work on clients. SROI is less like an audit process than others and it's been refreshing to look at our impact on people.
- It was a lengthy process compared to other evaluations and the final sample size was probably too small to give an accurate representation.
- Been useful to give headline figures to show hard and soft impacts. Good for proving value. Social accounting is more useful for improving service delivery.
- Objective.
- Much more powerful because it takes the information and outcomes of the project a stage further and lets funders see the financial impact of their investment - it is really joining things up.
- We are also using as an internal benchmarking tool - to look at how other programmes compare and as a means of assuring quality across the programme.
- Much more of a financial focus in terms of value. Sometimes evaluation seems to mean audit and SROI is more about learning - has helped us to understand the learning process behind evaluating impact.

Advice to other organisations considering using SROI

Organisations were asked what advice they would give to others thinking about using SROI. Their responses were:

- Make sure your own information gathering systems are doing what they need to, and invest the time needed - it is worth it.
- Make sure you get your head round why you're doing it and the value it's going to have - if you do this, you'll put in the time you need to.
- Invest in it and make sure you have a clear relationship with the external researcher.
- Thoroughly recommend it.
- The process is time consuming and at times unclear. We would advise other organisations to try and gain more from the process by undertaking exercises jointly with the external consultants. This will ensure the process can be implemented in your own organisation, and allow you to analyse your own results.
- Get information at the start about what the process demands, benchmark your tools with others, look at other organisations, spend time thinking about what you need to do to make the process work.

Suggestions for improving the process

Participants had a range of suggestions for how the SROI process could be improved:

- Make it easier to get cost information - if more people were using it, and could see the benefit of it, this would happen.
- Build up a bank of impacts for certain areas and model questionnaires etc.
- Have a range of skilled researchers available to support organisations.
- Have a data bank of proxies and indicators.
- Get to the point where can compare across like for like projects to enable investors to see where money is producing most return. Would probably mean some challenges and lots of resistance but needs to be done.
- As things evolve fairly quickly, an early conclusion to the process would be helpful.
- Set clear goals, action plans and areas of responsibility at the start of the project to ensure that everyone is fulfilling their role and project is completed on time.
- Use of quarterly reviews or regular/mini analysis would have helped to bring out some of the lessons for us at an earlier stage and give us the opportunity to review our data collection systems.

Other comments

Participants made a number of additional comments:

- Although our aim was to demonstrate value to external bodies, the most positive thing for us has been in terms of our own continuous improvement.
- It is vitally important to ensure this process becomes far more widely disseminated and used as an evaluation and investment tool for funders - and it is important to grow capacity to enable more SROI work to be undertaken.
- Should make a big splash about the tool and promote it widely to help overcome the barriers that exist in the public sector around purchasers only thinking in terms of their own budget lines.

APPENDIX 6:
DEFINITIONS OF KEY TERMS

Key term	Definition
Stakeholder	Stakeholders are people or organisations with a direct interest - or stake - in an organisation's activities.
Outcome	Outcomes are the changes that happen because of an activity. They usually refer to movement of some kind (e.g. increase, improvement, reduction).
Impact	Impact is the change that happens because of an activity (an outcome), adjusted for the proportion of the outcome that is not sustained (drop off), the proportion that is shared with others (attribution), what would have happened anyway (deadweight) and any negative effects from the activity (displacement).
Output	Outputs are the direct products of an activity. They are usually quantifiable (e.g. numbers of people, number of things sold).
Outcome Indicator	Outcome indicators are ways of knowing whether the desired change has taken place. They refer to the things you can observe which help to show this change has happened.
Financial proxy	Financial proxies are ways of placing a financial value on outcomes. They enable us to provide an estimate of the equivalent financial value of outcomes that are sometimes hard to measure in straightforward financial terms.
Drop off	This is the proportion of outcomes which are not sustained. These can be calculated using benchmarking information or research evidence. An example of this is in moving people into employment, where a proportion of people drop out of employment in the near future.
Attribution	In some situations the organisation will be sharing the returns with other agencies, who for example have all been involved in supporting individual participants. In this situation, the value added has to be shared between agencies, and only that proportion of the returns being generated by the organisation should be included in the calculation of SROI.
Deadweight	This is an estimation of the social benefits that would have been created anyway, without the intervention. SROI analysis provides a method for estimating how much of the benefit would have happened anyway by making use of available baseline data, and subtracting this from the organisation's calculated outcomes.
Displacement	In some cases, the positive outcomes for stakeholders generated by an activity are offset by negative outcomes for other stakeholders. For example an employment organisation may place individuals with employers at the expense of other individuals who are seeking work.

APPENDIX 7:
SAMPLE PREDICTIVE SROI REPORT

Introduction

This report provides a Social Return on Investment (SROI) analysis of Fallin Community Enterprises' proposal for a Community Reuse Centre.

Contents

1. Fallin Community Enterprises - Overview

Social purpose

Fallin is an ex-mining community that has experienced unemployment and low income since the closure of the local Polmaise Colliery. Local unemployment sits at 6.1% and local opportunities for training and employment are limited.

Fallin Community Enterprises was established by a group of local people to drive forward the social and environmental regeneration of Fallin.

Profile of activities

So far, Fallin Community Enterprises has successfully established "Recycke-a-bike", a bicycle recycling and repair enterprise, which also creates a range of training opportunities for disadvantaged people.

2. Investment requirement

Fallin Community Enterprises now requires start-up investment to establish a new Community Reuse Centre, situated within the local Polmaise Civic Amenity Site.

An overall investment of £123,500 is needed over three years. This will fund:

1. The erection of a purpose-built shed and preparation of ground.

2. The purchase of small items of capital equipment (tills, forklift truck etc).

3. The revenue costs of running the Centre during its first year of operation.

The ongoing revenue costs of running the Centre will be met from sales from year 2 onwards.

3. Purpose of investment

Fallin as a community sits directly adjacent to the recently closed Lower Polmaise landfill site that had until recently received up to 90% of the waste from households and business across the Stirling Council area. This site stopped accepting waste for landfill in August 2005 and now operates as a civic amenity site.

The Community Reuse Centre will be located within Polmaise civic amenity site.

- It will operate like a charity shop diverting material that would normally go for recycling or be land filled.

- The shop will be a shed, 30mx 12 m and will be located at the front end of the site.

- The material able to re reused will be sorted and then be able for sale at low prices to the public.

- The shop will be initially manned by 3 staff with the help of volunteers.

- Paid training placements will be created throughout the business for local people who have a range of backgrounds preventing them from accessing the labour market.

This concept is based upon projects set up elsewhere in the UK. The model is a shop operated by the Shakespeare Hospice in conjunction with Warwickshire county council at Burton farm recycling centre near Stratford upon Avon.

The Community Recycling Centre has several specific objectives:

- To provide local employment and training opportunities.
- To reduce the impact of waste on the environment.
- To promote reuse as a way of protecting the environment.
- To sell low cost reusable goods to the public.
- To provide income to further the charitable aims of Fallin Community Enterprises.

The Community Recycling Centre's objectives are closely aligned with local and national strategies in relation to reuse of waste and community regeneration.

4. Investor

For the purposes of this exercise, we have assumed that the Big Lottery Fund in Scotland is being approached as the sole potential investor for the full amount of £123,500.

5. Impact Map

Using an adapted version of the established Social Return on Investment methodology, an "impact map" has been prepared for this investment proposal.

An impact map helps to show how value is created by an organisation's activities. It shows the outcomes desired by different stakeholders and identifies ways to place a financial value on these. It also maps intended outputs from the investment to the desired outcomes.

The impact map also makes assumptions about how much of the value can be attributed to the organisation concerned, what might have happened anyway, what proportion of outcomes are likely to be sustained and what the negative effects of activities might be.

It should be noted that the impact map that we have prepared for Fallin Community Enterprises does not map a range of other likely impacts (e.g. impact on individual's health, mental health, addiction issues, offending behaviour etc). Furthermore, time constraints mean that we were only able to identify key outcomes and indicators in the areas of impact described and is not, therefore, as comprehensive as it could be. This means that the impact map prepared is likely to significantly underestimate the total value created by the proposal.

We have explained the key terms used, and our assumptions while preparing Fallin Community Enterprises' impact map, in detail below:

Figure 1: Explanation of Impact Map

Key term	Definition	Fallin Community Enterprises
Stakeholder	Stakeholders are people or organisations with a direct interest - or stake - in an organisation's activities.	Stakeholders were identified using information provided by Fallin Community Enterprises.
Outcome	Outcomes are the changes that happen because of an activity. They usually refer to movement of some kind (e.g. increase, improvement, reduction).	Outcomes were identified using information provided by Fallin Community Enterprises in their business plan and supporting material.
Output	Outputs are the direct products of an activity. They are usually quantifiable (e.g. numbers of people, number of things sold).	Outputs were identified using information provided by Fallin Community Enterprises in their business plan and supporting material
Outcome Indicator	Outcome indicators are ways of knowing whether the desired change has taken place. They refer to the things you can observe which help to show this change has happened.	We selected outcome indicators based on previous experience of SROI analyses.
Financial proxy	Financial proxies are ways of placing a financial value on outcomes. They enable us to provide an estimate of the equivalent financial value of outcomes that are sometimes hard to measure in straightforward financial terms.	We gathered information about financial proxies from a range of sources, including previous SROI analyses. These are, inevitably, best guesses. We have explained the rationale and sources for our calculations in our calculations spreadsheet, which is available as a separate document.
Drop off	This is the proportion of outcomes which are not sustained. These can be calculated using benchmarking information or research evidence. An example of this is in moving people into employment, where a proportion of people drop out of employment in the near future.	We assumed that 33% of training placements would not be completed (based on information provided by Fallin Community Enterprises). We assumed that 12% of people in employment would lose their jobs each year (based on similar SROI analyses).
Attribution	In some situations the organisation will be sharing the returns with other agencies, who for example have all been involved in supporting individual participants. In this situation, the value added has to be shared between agencies, and only that proportion of the returns being generated by the organisation should be included in the calculation of SROI.	We assumed that 75% of outcomes were attributable to Fallin Community Enterprises, based on the recognition of the role of other local support agencies.
Deadweight	'Deadweight' is an estimation of the social benefits that would have been created anyway, without the intervention. SROI analysis provides a method for estimating how much of the benefit would have happened anyway by making use of available baseline data, and subtracting this from the organisation's calculated outcomes.	We assumed that 50% of landfill diversion outcomes would have happened anyway from other recycling opportunities. This is an approximation.
Displacement	In some cases, the positive outcomes for stakeholders generated by an activity are offset by negative outcomes for other stakeholders. For example an employment organisation may place individuals with employers at the expense of other individuals who are seeking work.	We assumed that 10% of jobs taken by trainees would have been taken by other people in the local area (based on similar SROI analyses).

Figure 2: Impact Map

Desired Investor Outcomes[45]	Key Stakeholders	Stakeholder Outcomes	Outcome Indicator	Financial Proxy	Outputs from Investment	Attribution	Deadweight	Displacement	Drop Off
Communities are stronger, with shared aspirations and the ability to achieve these together.	Local people disadvantaged in the labour market	Increased skills leading to long-term employment	Attendance at training placements	Trainee net earnings while on placement	18 trainees taking part in paid training placements per year	75% used throughout			33% used for training placements
Communities have services and amenities that meet people's needs better and are more accessible.		Increased future long-term employment	Future earnings potential	Future earnings from employment	3 trainees per year moving into sustained employment			10% used for employment	12% used for employment
People have more skills, knowledge and confidence, and the ability to use these for the benefit of their community.		Increased direct local employment	Earnings from employment	Earnings from direct employment	3 jobs created and sustained within business for local people				
	Local community	Increased participation by volunteers	Volunteer hours	Value of time contributed by volunteers	720 volunteer days contributed per year				
Communities have a more positive impact on the local and global environment.		Increased income to meet community needs	FCE spending on community projects	Value of FCE surplus	£25K surplus generated in year 4 and 5				
Communities are more able to grasp opportunities, and are more enterprising and self-reliant.	State and its agencies, including Scottish Government, Local Social Landlords, Local Authority Housing Dept and Employment Services	Reduced long-term unemployment	Value to public purse of benefits savings & tax income	Tax & NI contributions	200 tonnes diverted from landfill per year				
		Reduced waste being landfilled	Tonnage diverted from landfill	Cost of landfill			50% assumed for landfill diversion		

[45] Big Lottery Fund, Investing in Communities Funding Information (Growing Community Assets), www.biglotteryfund.org.uk

6. Predicted SROI

Using this impact map, we predicted the Social Return on Investment for Fallin Community Enterprises' investment proposal.

In common with previous SROI approaches, we have assumed that impacts from the one year investment will be sustained over five years.

Aggregate value of benefits

The aggregate value of the benefits from Fallin Community Enterprises' proposal, over five years and adjusted for net present value[46], is predicted to be £489,864.

Value added

Value added measures, in absolute terms, the value that an organisation creates through its activities. It is the net present value of benefits minus the net present value of the investment needed to create them.

The value added by an investment of £123,500 in Fallin Community Enterprises is predicted to be £370,541.

SROI

SROI measures the value of benefits relative to the costs of achieving those benefits. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

The predicted SROI ratio for Fallin Community Enterprises is 3.11:1. This indicates that for every £1 invested, £3.11 worth of social value will be added.

7. Sensitivity Analysis

Since our calculations depend on a range of assumptions, we have tested the sensitivity of those assumptions on the value added and SROI ratio results. Sensitivity analysis has been carried out to test the assumptions made in the original impact map.

[46] Net present value is a financial calculation which discounts the future value of benefits and investments, enabling us to understand their current value.

Varying the assumptions within relatively broad parameters affects the forecasts in the following ways.

Figure 3: Sensitivity Analysis

Area	Assumption	%	Effect on SROI
Attribution	Original	75	
	Increase	90	3.93
	Reduce	50	1.74
Deadweight - recycling	Original	50	
	Increase	100	2.88
	Reduce	25	3.22
Drop Off - training placements	Original	33	
	Increase	50	2.30
	Reduce	15	3.95
Drop Off - jobs	Original	12	
	Increase	25	2.69
	Reduce	5	3.33
Displacement - jobs	Original	10	
	Increase	30	2.47
	Reduce	0	3.43

One area that is particularly sensitive to changes is Attribution - i.e. the proportion of outcomes that can be attributed to Fallin Community Enterprises.

Varying this from our original assumption from 75% to 50% reduces the SROI ratio from 3.11:1 to 1.74:1. This is an area that may be worth exploring and testing in more depth should an investment be made (see recommendations).

8. Discussion and Recommendations

This report has predicted that the development of a Community Reuse Centre by Fallin Community Enterprises will generate social value for a range of key stakeholders, which can be directly linked to the outcomes desired by their target investor, the Big Lottery Fund.

Value will be created by:

- Increasing skills and future employment opportunities for disadvantaged people.
- Increasing direct employment opportunities for disadvantaged people.
- Increasing income for use by the local community to meet its needs.
- Reducing long-term unemployment.
- Reducing waste being landfilled.

This analysis has predicted that a one-off investment of £123,500 will generate social value which has a financial value greater than the value of the initial investment. We have estimated that for every **£1** invested, **£3.11** worth of social value will be added.

It will clearly be for individual investors to make their own investment decisions; however we would suggest that this predicted SROI is significant and demonstrates a solid return on investment in terms of social value created.

Should an investment be made, we would recommend that a robust system is established to collect information about progress towards the intended outputs and outcomes identified in this analysis. This will enable a comparison to be made between the SROI predicted in this study with the actual SROI generated by any investment.

In particular, both Fallin Community Enterprises and their investors should explore ways to provide evidence to either back up or adjust the assumptions that have been made about attribution, deadweight, drop-of and displacement. Given its sensitivity to adjustment, there should be a particular focus on attribution.

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