VoluntaryAction Rotherham

Bitesize... information matters

Social Return on Investment (SROI)

Voluntary and Community Sector Organisations use SROI as a management tool to improve performance, inform expenditure and highlight added value. This may be start-up organisations developing business plans or established organisations. It can be used for analysing the value arising from trading activities whether the organisation is selling to the general public, to the public sector or to other businesses.

The concept of SROI is still being developed; the idea is to provide a guide for clear framework for anyone interested in measuring, managing and accounting for social action or concept.
Social Value UK is a network of 700 members globally. Theses members have an interest in SROI and give a voice about stakeholders which do not typically have a market value i.e. a financial 'proxy' value is assigned to assist in decision making.

A cost benefit analysis can be applied which is used to analyse and evaluate alternative approaches to projects or decisions.
If you reduce the positive and negative impacts of a project to their equivalent money value, Cost-Benefit Analysis determines whether on balance the project is worthwhile. Equivalent money value is based on information gathered from consumer and producer market choices; i.e. the demand and supply schedules for the goods and services affected by the project. All variables must be considered including things such as inflation. When all has been considered a project is worthwhile if the discounted value of the benefits is greater than the discounted value of the costs; i.e. the net benefits are positive. This is equivalent to the benefit/cost ratio being greater than one and the internal rate of return being greater than the cost of capital.

Generally the formula used to calculate SROI is:
SROI = (social impact value – initial investment amount) / initial investment amount *100%

SROI follows six steps:
1) Establish scope and identify stakeholders
2) Map outcomes - show what matters
3) Evidence outcomes and give them a value - remember to be transparent and don't over claim value
4) Establish impact
5) Calculate the SROI
6) Report use and embed

There are two types of SROI:
1) Evaluative SROI – Retrospective based on outcomes that have already taken place
2) Forecasted SROI – Predictive to anticipate how much social value will be gained if anticipated outcomes are reached.

Benefits	Limitations
Use of SROI will: Allow organisations to understand social value and maximise that value. Open dialogue and increase interest in social value investment beyond financial measurement Provide assurance and verification	When using SROI: If there is not a data collect system in place this is time consuming Comparisons made just on the ratio are not recommended SROI is an outcome rather than a process SROI requires a diverse skill set to be used properly and it can be challenging to find the varied skills required in one person.

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Cost Benefit Analysis
The cost benefit analysis will determine if benefits out way the cost in sound investment by comparing total expected costs against expected benefit.

Identify the Costs
First identify and quantify costs associated with a proposed action by following these steps:
List all monetary costs which will be incurred on implementation and throughout the life of the project. This includes start-up fees, production materials, licenses , insurance cover, payroll expenses, user acceptance processes, training and travel expenses etcetera.
List all non-monetary costs which are likely to be absorbed. This includes time, lost production on other duties, potential risks, imperfect processes, market saturation or penetration uncertainties and influences on your reputation.
Next assign monetary values to the costs identified in the above two steps. Monetary values are stated in **present value terms** to ensure equality across time. To help evaluate cost values you may consult with market trends and industry surveys for comparable implementation costs in similar businesses.
Then add all anticipated costs together to get a total costs value.

Benefits can then be identified
Identify and quantify all benefits anticipated as a result of successful implementation of the proposed action as follows:
List all monetary benefits that will be experienced on implementation and thereafter. The benefits include direct profits from products and/or services, decreased production costs due to improved and standardized processes, increased contributions from investors, and increased production capabilities etcetera.
List all non-monetary benefits that you are likely to experience. This includes increased reliability and durability, greater customer base, decreased production times, greater market saturation, greater customer satisfaction, and improved company or project reputation etcetera.
Assign monetary values to the benefits identified in the two above steps. Be sure to state these monetary values in present value terms.
Add all anticipated benefits together to get a total benefits value.

Evaluate Costs and Benefits
Finally weigh the costs and benefits to determine if the proposed action is worthwhile. To properly do so, follow these steps:
Compare the total costs and total benefits values.
If total costs are far greater than the total benefits, the project is **not a worthwhile** investment of company time and resources.
If total costs and total benefits are roughly equal to one another, you may want to re-evaluate the costs and benefits identified and **revise the cost benefit analysis**. It is common to miss items or incorrectly quantify, which will cause errors in a cost benefit analysis.
If the total benefits are much greater than the total costs, the proposed action is potentially a worthwhile investment and should be further evaluated as **a realistic opportunity**.

For a more detailed guide to Social Return on Investment visit the following webpage:
http://www.socialvalueuk.org/resource/a-guide-to-social-return-on-investment-2012/

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