csaco Community Services Analysis LLC

THE SOCIAL RETURN ON INVESTMENT ANALYSIS PROCESS

A Description of Social Return on Investment

In normal financial analysis, Return on Investment is the ratio of money gained or lost relative to the money invested. In social service organizations, Social Return on Investment is an attempt to measure the financial values created by the organization through delivery of services to the community.

Social Return on Investment (SROI) is an approach to measuring and understanding the future financial impact of an organization. While SROI is built on the logic of cost/benefit analysis, it is different in that it is designed to measure the comparable accountability and value of organizations whose results cannot always be easily measured in money.

In the same way that a business plan contains much more information than just the financial projections, SROI provides information about actual and planned changes, and the qualitative, quantitative, and financial information on which to base decisions about social service organizations.

There are two types of SROI analysis:

• Evaluative analysis – which is based on actual outputs and outcomes that have already taken place or are currently in process;

• Forecast analysis - which predicts how much financial social value will be created if the activities meet their intended outcomes.

An SROI analysis can take many different forms. It can encompass the social value generated by an entire organization, or focus on just one specific aspect or the organization's work.

SROI analysis has been a conceptual development since the 1960's. Many trial processes have been undertaken and many academic articles written about the process since then. The SROI process became fully developed during the last decade, primarily based on a detailed multi-year study conducted by the SROI Network, The New Economics Foundation, New Philanthropy Capital, the National Council on Voluntary Organization, and the Government of Scotland. Community Services Analysis LLC is the first organization in the United States to be a member of the SROI Network.

The Goals of a Social Return on Investment analysis

The economics of a social service are such that public and private funders are bound to underinvest in it, since the considerable social benefits B increased quality and level of education, higher levels of employment, reduced community health costs, reduced community law enforcement costs, increased property values, and increased tax revenues, to name some of the possible long term outcomes B accrue to everyone, not just to direct participants or customers.

SROI is the measurement of the fiscal benefits to the community, to the stakeholders, and to the funding source decision makers based on the both the short-term cost benefits delivered by the services provided (the "Outputs") and the longer-term social cost benefits delivered as a result of these services (the "Outcomes"). A SROI analysis can fulfill a range of purposes. It can be used as a tool for strategic planning, as a basis for funding and investment decisions, for communicating impact and financial results to stakeholders, and as a methodology for comparative evaluation of organizational long-term effectivity.

The results of a SROI analysis give a clearer picture of the value of the short-term and long-term social benefits delivered by the services delivered by any individual service provider organization or associated group of providers B the measurement of the ABang for the Buck@ actually delivered by these services.

The basis for Output valuations

Outputs are the services currently being delivered by the organization. The value of these output is a measure of the cost-effectiveness of those services and the efficiency of the organization. The most accurate and understandable measurement basis for these outputs is the Fair Market Value of the services being delivered - what it would cost the community to acquire the same services that a social service provider delivers if that provider did not exist. This result is a measurement of the comparative efficiency of the provider organization in delivering the services.

Measurement of the Fair Market Value of comparable services in the local community area is best through a survey of other providers of the same services and a comparative analysis of the resultant values. Care must be taken during these surveys to identify the actual competitive cost of these services, as many alternative providers will quote artificially high or low costs for each service for reasons of competition or as a way to "lowball" a quote to get initial business with a goal of raising prices or providing other services in the future.

The basis for Outcomes valuations

The measurement of the long-term value of the results of these output services delivered – known as the "**Outcomes**".

Outcomes are the longer term effects of the outputs on the intended recipients and the community at large. As a specific example, it is proven that people with disabilities who receive training on independent living skills and how to integrate with the community require significantly less financial support from the community over the course of their life. For another example, people who are assisted in finding and retaining employment require less future financial support from their communities, plus their future demands on the law enforcement and legal systems are less, their future needs for community-based medical assistance are less, and their future tax payments to the community are greater.

Outcome valuation may take years to realize and finding the basis for Outcome valuations depends on a thorough research of existing long-term studies or the performance of original investigation and research of long-term effects where no existing data is available.

The process steps in a SROI analysis

The process of calculating the SROI value of both Outputs and Outcomes involves a rigorous definition of each individual type of service provided, the accurate calculation of the units of each service delivered, the Fair Market Value of Output services, the long-term community benefits from the Outcomes of these services, and effects negative factors such as participant drop-off rates and the measurement of relative weighted value attribution of Outcome effects between multiple factors.

The overall formulas for the SROI calculations are:

FMV (Replacement Value) costs of Output services

SROI = Output valuation basis for each service (x) Quantity of Units Delivered
Total value of Financial Input Resources

Long-Term Value of Outcomes

SROI = Outcome valuation basis for each individual Outcome of services (x) Total quantity of units delivered during appropriate number of years of Outcome effects (x) (100% less the Deadweight percentage) (x) (100% less the Attribution percentage) (x) (100% less the Drop-off percentage) (x) Net Present Value (time value of money) factor
Total Current Value of Financial Input Resources

The actual steps involved in identifying, defining, and measuring each of these factors are:

Step I – Defining Stakeholders and Changes

Stakeholders

Stakeholders are defined as the people or organizations that experience change (whether positive or negative) as a result of the activities being analyzed. In SROI analysis the primary stakeholders are those who provide the inputs that enable the services being analyzed.

Intended Changes

Intended changes are those anticipated changes that result from the completion of the activities being delivered through the inputs from stakeholders. These anticipated changes typically are the reasons that the stakeholders have contributed the input resources.

Unintended Changes

Unintended changes are those short- and long-term results that are not expected and were not part of the basis for the stakeholders providing the input resources. (An example of unintended changes is the increase in transportation time and fuel costs resulting from state and local regulations requiring disability services providers to pick up and drop off disabled persons at their doors).

These unintended changes are not forecast, but all changes – both intended and unintended – have financial impacts and are relevant to a SROI analysis.

Step 2 – Defining the Resource Inputs

Input Elements

Inputs are resources that are provided to the activity being analyzed with a goal of achieving the planned output actions and the projected outcome changes. The SROI analysis process focuses on those input resources that can be measured in financial value terms and that are used up in the course of the activity (i.e. money and time).

Unit of Measure (UOM)

The Unit of Measure is the basis for identifying the quantity of the individual input element. This may be in units such as Dollars, Hours, Portions of Hours, or other measurements as appropriate to each input element.

Value per Unit of Measure

Value per Unit of Measure is the calculated financial impact of each input element per the appropriate Unit of Measure used for that input. These values can also include non-monetized inputs such as contributions of goods and services.

Step 3- Defining the Outputs

Output Deliverables

Outputs are the quantitative summary of the deliverable results from an activity. These results are the planned short-term goals of the activities and are typically well measured on a timely basis as completed.

Unit of Measure

The Unit of Measure is the basis for identifying the quantity of the individual output element. This may be in units such as Units, Dollars, Hours, Portions of Hours, Completion of Educational Achievement, or other measurements as appropriate to each output element.

Value per Unit of Measure

Value per Unit of Measure is the calculated financial impact of each output element per the appropriate Unit of Measure used for that output.

Basis for Valuation

The Basis for Valuation is a description of the methodology and reasoning behind the selection of the most appropriate Value per Unit of Measure for each output. When needed for complete understanding, alternative values are identified and discussed. This Basis for Valuation amount is also a key element in the Sensitivity Testing phase of the SROI calculation process.

Output SROI Gross Fiscal Impact

The Gross Fiscal Impact is the Fair Market Value replacement cost for each output service delivered. This is the short-term SROI value that primarily measures the immediate SROI value and the comparative efficiency of the services delivered to the community by the provider.

Step 4 – Defining the Outcomes

Outcome Results (Description of Change)

Outcomes are the results of the output services delivered. These outcomes may either by the projected and anticipated changes that were the basis of the stakeholders provision of the resources required, or may be unintended and unanticipated changes resulting from these same outputs.

The description of the outcomes needs to be as precise as possible to avoid uncertainty on the measurement indicator basis used and the basis for valuation. Care must also be taken not to confuse outcomes resulting from resource inputs from one shareholder with inputs from other shareholders that can result in double counting of the outcome valuations.

Measurement Indicators

Indicators are measurement points that demonstrate that changes are taking place – that the outcomes are being achieved. These indicators are actions that are capable of being measured on a quantitative basis and that are capable of having financial impacts associated with their changes.

Frequently these outcomes have intermediate results that can occur over a period of years, but there may be observable and measurable changes along the way. It is important to understand what these intermediate changes may be and the financial impacts of these intermediate results, as the time period involved requires indicator tracking to gauge the progress of the activity and because the activities being analyzed may not bring about the anticipated final results but only some intermediate changes in the chain.

Duration of Change

Many types of outcome have a finite life expectance of the resulting benefits. The duration of change element defines this expected useful life of the outcome (when appropriate).

The Duration of Change element is also related to the 'Drop-Off' factor, which defines the reduction of benefits attributed to the outcome over longer periods of time.

Change Unit of Measure

The Unit of Measure is the basis for identifying the quantity of the individual outcome measurement indicator. This may be in units such as dollars, hours, demands on social service percentages, or other measurements as appropriate to each outcome element.

Basis for Valuation

The Basis for Valuation is a description of the methodology and reasoning behind the selection of the most appropriate value per Unit of Measure for each outcome. When needed for complete understanding, alternative values are identified and discussed. This Basis for Valuation amount is also a key element in the Sensitivity Testing phase of the SROI calculation process.

There can be types of outcomes that are difficult to value in monetary terms that are routinely left out of traditional economic appraisals. There are several techniques available in SROI analysis to approximate financial values via “proxy” methods that measure financial values via indirect comparative approaches:

- Contingent Valuation assesses via survey people’s willingness to pay, or to accept compensation, for a hypothetical product or service.

- Revealed Preference infers valuations from the price of related market-supplied goods or services;

- The Travel Cost method recognizes that people are generally willing to travel some distance to access goods or services on which they place a value. This inconvenience and expense can be translated into money to derive an estimate of the values of the benefits of those goods and services.

Source of Valuation

The Source of Valuation is a description or listing of the research sources used in determining the Basis for Valuation.

Step 5 – Defining the Valuation Negative Impacts

Deadweight %

Deadweight is a measure of the amount of the individual outcome that would have happened even if the output activity had not taken place. It is expressed as a percentage.

Attribution %

Attribution is an assessment of how much of the outcome was caused by contribution of each individual output service. This is expressed as a percentage.

The assessment of individual output service contribution can be a highly variable process with multiple conflicting factors. The relative contribution weight of an individual factor can vary from individual to individual, and the calculations can becomes problematic over long periods of time.

Drop-Off %

In longer periods of time (greater than one year), the amount of outcome is likely to be less, or if the same, will be more likely to be influenced by other factors. Drop-off is an assessment of the ongoing reduced attribution to the outcome factors.

It is expressed as a fixed percentage of deduction from the remaining level of outcome at the end of each year.

Step 6 - Calculating the Time Value of Outcome Benefits over a Multi-year Period

Net Present Value (NPV) Factor

The NPV factor is used to compare costs and benefit values that occur over different or lengthy periods of time. The NPV calculation discounts the values of future costs and benefits based on the time value of money (i.e. based on future opportunity costs).

This is a controversial area. The main issue is that using NPV discounting in SROI encourages short-termism decision processes by reducing the values of future benefits. This may be especially problematic for certain types of outcomes (i.e. environmental remediation or social support services costs), where the future values may even increase.

Step 7 – The Final Outcome SROI Gross Fiscal Impact

The Outcome Gross Fiscal Impact is the total value of all fiscal benefits for each outcome (both anticipated and unanticipated) following inclusion of the Valuation Negative Impacts and Net Present Value discounting.

Using the Results

The results of the SROI analysis can be used in a variety of forms and for a variety of audiences aimed at accomplishing differing goals:

• The results can be used to prove to tax-based funding sources the financial impacts of reductions in community services resulting from budget cuts;

• They can be used to show community stakeholders the range and effectiveness of the services received by the community;

• They can be used as value justification in grants and other funding solicitations;

• They can be used for results metrics and trend analysis;

• They can be used as future planning and strategic positioning tools.

According to J. Gregory Dees, of the Kaufmann Foundation –

"SROI (Social Return on Investment) helps to find new and better ways of doing things. The Social entrepreneur shifts resources out of an area of lower value into an area of greater value and yield of benefits and social values to the community it serves. An entity creates Socio – Economic Value by increasing the value of contributions, and, through management and service delivery design, generates cost savings from the public system or the environment of which it exists. Social value is created when an organization's resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. Is in this arena that most community organizations have a difficult time measuring the true value created."

~~A follow-on article next month will describe in detail how organizations have used their SROI results for funding justifications, for community advocacy, for internal efficiency analysis, and for strategic planning.~~