The Ambitions and Challenges of Social Return on Investment

A report based on a lecture hosted at GMCVO on 20th October 2011

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On 20th October 2011 GMCVO hosted Domenico Moro, research fellow at the Third Sector Research Centre, to give a lecture on the ambitions and challenges of Social Return on Investment (SROI). The following is based on the content of the lecture and the discussion that ensued.

Background

Several factors gave rise to the need to capture social and environmental value in the UK, thus paving the way for the creation of SROI:

- Third sector organisations (TSOs) have become increasingly involved in public service delivery.
- The wish for value other than monetary to be recognised.
- TSOs claim that they address some social problems that the state is not addressing, but by and large there has been little or no economic evidence that shows that TSOs deliver better social value.
- TSOs' main contribution is in the field of social value, rather than financial value, so there is a need to capture that in order to enable funders and/or commissioners to compare providers from different sectors and compare TSO providers within the sector.

The spirit in which SROI came into existence was thus a desire to be able to account for the creation of value that had hitherto not been captured. The ability to quantify intangible benefits is therefore key to SROI's success and is what sets the method apart from conventional cost-benefit analyses despite its use of a similar logic (input, output, outcomes, impact). It is this key ambition of SROI, however, that gives rise to a number of challenges, simply because it is inherently very difficult, and some people would argue impossible, to measure the intangible. Another key difference between traditional economic cost-benefit analyses and SROI is its intended involvement of stakeholders in identifying the benefits that are to be measured. Its ambition is to provide a consistent approach for measuring social value whilst staying sufficiently flexible to be used by third sector organisations, funders and commissioners alike.

How to quantify social value?

There are a number of traditional economic techniques to capture social and environmental value by quantifying intangibles:

- Willingness to pay

- Contingent valuation
- Revealed preferences

These techniques all try to arrive at indicators of social value of items that are not really traded in the market. In willingness to pay, the indicator of value is how much someone would be willing to pay for a certain good or service. For example, researchers might be asking people how much they would be willing to pay for a new public square and for a new museum and then compare the two values to make a decision of which project would provide the higher social value.

Contingent valuation asks people to identify how much they would be willing to pay contingent on a hypothetical scenario. For example, a question asked might be how much people would be willing to pay to maintain a specific service or accept as compensation for the loss of an existing service. Along the same lines, one might ask respondents how much they would be willing to pay to reduce the probability of developing a depression by 10%.

Both of the examples above give a *stated* preference in the sense that they capture people's willingness and intention, rather than their actual behaviour. Actual behaviour can be indicated by a revealed preference. An example of revealed preference is the comparison of house prices in an area that is polluted to those in an area that is not as polluted. The revealed preference for buying a house in an unpolluted area, as indicated by higher house prices, would then be an indicator of the social value of a cleaner environment.

As these examples show, finding indicators for social value is quite a subjective process and there is an inherent difficulty in quantifying an intangible benefit such as breathing clean air and/or not being depressed.

The use of proxies in SROI

SROI tends to monetise social value by assigning proxies to intangible benefits. Figuring out which proxies to use can be tricky. Proxies often come from government figures; for example how much it costs the government to treat a depression, to accommodate an offender in prison, to pay unemployment benefits. Social value is then expressed in the savings that are said to have been generated by a certain activity. For example, by developing alternative ways of treating depression, an organisation might argue that its activities have saved the NHS the average cost it would have incurred to treat that person within the NHS system.

This seems fair enough at first glance, but looking at it from an economic viewpoint, it runs the risk of overstating the actual benefit. In fact, NHS average costs include a lot of fixed cost that does not go away because a few individuals have been treated outside of the NHS. For the time being, hospitals still have to be operated, staff still have to be paid, etc. Therefore, in reality the savings to the NHS are much more marginal than assumed in the example. Instead, although the social value could be measured this way, it doesn't necessarily follow that there will be savings for the government.

Similarly, from a macroeconomic perspective placing an unemployed individual in a job means that this individual has replaced someone else, unless the position was newly created. In this case, SROI could use the unemployment benefit that no longer needs to be paid to the individual as a proxy and monetise the social value in these terms, but considering that another individual is still employed, this might not necessarily represent a true government saving.

One of SROI's potential strengths is its emphasis on stakeholder involvement in identifying the benefits of an activity. This, in addition to the inherent difficulty of choosing indicators for intangible benefits leads to a lot of discretion in assigning proxies, as social value might mean different things to different people. For example, when valuing volunteering there is a range of popular proxies available:

- Minimum wage
- Average wage
- Equivalent wage (equivalent to the role the volunteer is taking on)
- Opportunity cost (i.e. managing volunteers, recruitment, etc.)

Depending on which proxy is being used, the final SROI ratio will vary. To add to this confusion, there are also different ways of looking at volunteering in terms of social value. For example, is its value considered as an input, an output or an outcome? Depending on the answers an organisation finds to these types of questions, their SROI will vary from an organisation that used different proxies, making it impossible to use the SROI ratio for comparisons among organisations, even organisations that are delivering the same type of service.

Putting individual impact into perspective

To add further to the complexity of quantifying social value, the following considerations have to be taken into account:

- Deadweight (what would have happened anyway, regardless of the intervention being evaluated?)
- Displacement (have others been affected negatively by the programme, see example above about unemployment)
- Attribution (what can be attributed to the programme?)
- Drop-off (how long does the outcome last?)

Again, depending on the degree to which these four factors have been taken into account or not, the SROI ratio will vary.

However, as the above examples have indicated/suggested, quantifying intangibles is quite a subjective business and this is why the SROI of individual organisations can differ quite dramatically, making comparisons between organisations a rather unreliable business.

Conclusion

The key ambition of SROI – to quantify the INTANGIBLE – also appears to be its toughest challenge. Trying to put a monetary value on something that is not easily quantifiable is difficult, to say the least. It can be a very involved process that not all third sector organisations are capable of resourcing. Furthermore, the discretion and flexibility that characterises SROI and which were deemed to make it particularly suitable for third sector organisations leads to dramatically different SROI ratios, which in turn makes it impossible to use the SROI ratio as an indicator for comparisons among organisations.

Although funders are being discouraged from comparing organisations with each other it is quite reasonable to assume that funders looking at various organisations and their SROI will be tempted to compare or at least be prone to bias. For organisations the advice would be to be as transparent as possible to shed light on what exactly the SROI captures and how to ensure that their audience can properly understand the value of their work. However, it might also be a good idea to steer clear of trying to quantify social benefit at all and instead opt for a more straight-forward cost-effectiveness analysis. This is a type of analysis that is often used in the field of health services. An example of a simplified cost-effectiveness analysis is the following statement: We spent £x to keep an individual alive for x number of years. The difference to a cost-benefit analysis and therefore SROI is that in this case, there is no attempt to assign a monetary value to the outcome.

Further reading

Arvidson, M., Lyon, F., McKay, S., Moro, D. (2010). 'The ambitions and challenges of SROI,' TSRC Briefing Paper 49, Birmingham: Third Sector Research Centre, http://www.tsrc.ac.uk/Research/EconomicandSocialImpact/TheambitionsandchallengesofSROI/tabid/762/Default.aspx

Greater Manchester Centre for Voluntary Organisation (2010). 'Social Return on Investment,' *Issues 25*, Manchester: Greater Manchester Centre for Voluntary Organisation, http://www.gmcvo.org.uk/node/2256

New Economics Foundation website is a good source of information on the use of this approach in different contexts.
http://www.neweconomics.org/programmes/valuing-what-matters

Pearce, J. and Kay, A., (2008) Really Telling Accounts! Exeter: Social Audit Network, http://www.nr-foundation.org.uk/wp-content/uploads/2011/08/ReallyTellingAccounts.pdf

The SROI Network (date unknown). The SROI Guide, Haddington: The SROI Network, http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide

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