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Measuring Impact with Social Return on Investment

Information Note

The purpose of an investment is to generate a return. But, how do we measure the value of an investment in society, where the impacts are not only financial, but may also include other aspects like improved quality of life or better environment?

Social Return on Investment (SROI) is an innovative, principles-based methodology and increasingly sought-out approach that takes into account the broader value created by an organisation or activity, by measuring the social , economic and environmental impact, that would otherwise be overlooked or misunderstood. It is derived from the cost benefits analysis and social accounting frameworks.

The SROI approach is stakeholder driven. It tells the story of how change is being created from the stakeholder's perspective and places a monetary value on that change. It compares that change with the costs of inputs required to achieve it. This enables to calculate a ratio of benefits to costs – known as the SROI Ratio.

For example, the investment made in a diabetes prevention program is $ 100,000. The sought value of the program can be estimated to $500,000 – the figure being the monetised value of the project's social impact, thus forming its social value. This figure could be derived by adding the value of:

- cost of paying a doctor ,
- reduced number of hospitalisations ,
- reduced medications,
- individual benefits which the participants gain (like improved confidence, increased mobility, improved nutrition, etc.).

SROI- Social Value Principles

1. Involve stakeholders.
2. Understand what changes.
3. Value the things that matter.
4. Include only what is material.
5. Do not over-claim.
6. Be transparent.
7. Verify the result.

Six Stages of SROI

1. Establishing scope and identifying key stakeholders.
2. Mapping outcomes.
3. Evidencing outcomes and giving them a value.
4. Establish impact.
5. Calculating the SROI.
6. Reporting, using and embedding

The SROI ratio for this project is then calculated by comparing the value created ($500,000) to the investment required ($100,000). This shows that for every $1 invested, a social return of $5 is achieved, thereby resulting in an SROI ratio of 5:1. This is the social return on investment.

Social Return on Investment can be used by a range of organisations - not for profit (or voluntary), public and private sectors; small or large and new or established. It is useful to social organisations, corporations, funders, investors and the government.

It aids to facilitate strategic management and target appropriate resources at managing outcomes. It builds a platform for dialogue between stakeholders and promotes transparency and efficiency. SROI gives a better understanding of how to measure impact and be accountable to the stakeholders.