

# Social Return on Investment

Social Return on Investment (SROI) provides an estimate of the total financial value, including social value created by a non-profit, and compares this to the investment required to generate these benefits.

The SROI methodology was originally developed by Stanford University and the Roberts Enterprise Development Fund. It is now widely used across the US, UK and Europe. SVA began working with the tool and customising it to the Australian non-profit sector in 2002. Since then, it has been used with many of the ventures SVA supports, the Commonwealth Department of Family and Community Services, a range of Local Governments investing in social enterprise and a number of foundations.

SROI:

- Estimates the financial benefits generated by an organisation (either through its commercial activity and/or activity relating to its social mission)
- Compares financial benefits created to investment required to generate these benefits. This return ratio tells us the extent to which the funds are being effectively leveraged

## WHY

For a non-profit organisation, estimating financial benefits can help by:

- Giving a more accurate picture of the total value the organisation creates
  - Non-profit organisations often find that their financial contribution to the community is undocumented and therefore unacknowledged
  - Quantitative data (unlike qualitative information) can be tracked over time and compared to other organisations
- Providing a powerful language in which to communicate outcomes
  - Hard, tangible results can capture the attention of important stakeholders
- Sharpening strategic focus
  - SROI helps an organisation to separate those components which have a commercial output from those which primarily have a social output. This helps to clarify organisational strategic objectives, set targets in terms of profitability and assists with decisions such as where to direct any surplus that may be generated
- Enabling comparative analysis
  - The more data we have about the cost and impact of our work the better equipped we are to inform our funder's investment decisions and compare ourselves to other programs and organisations

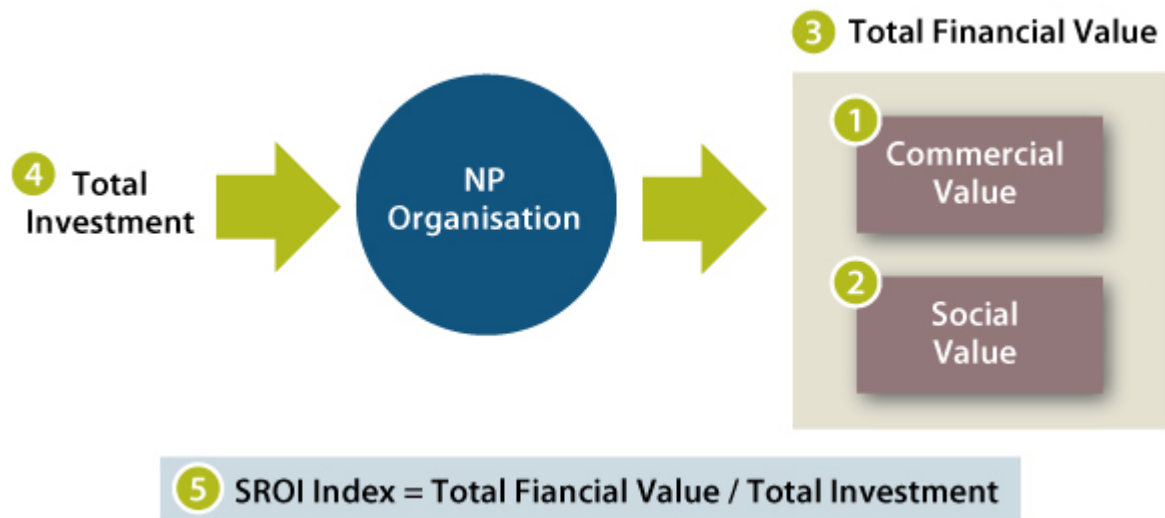
SROI analysis and results can therefore be used to inform a wide range of activities:

Strategic Planning	➔	Contributes to decisions about where to direct organisational resources
Fundraising and Marketing	➔	Provides tangible, compelling data for communicating outcomes
Performance Measurement	➔	Encourages the collection of good baseline data and helps to track outcomes

## 2. WHAT

The SROI tool involves moving through five steps, calculating:

- Commercial Value
- Social Value
- Total Financial Value
- Total Investment
- SROI Index



### 1. Commercial Value

Commercial value includes:

- Any commercial activity your organisation undertakes (e.g. selling products and/or services).
- Your total net income projected over the period, for example 3 or 5 years. This is expressed as net present value (NPV).
- Any costs not relating to commercial activity. These are referred to as social operating expenses.

The reason commercial value is important is because your organisation can direct surplus net income back into the organisation in order to achieve social outcomes. (This is different from commercial organisations where surplus is directed to shareholders).

## 2. Social Value

Social value includes:

- Any additional financial benefits generated by your organisation that go to the community (i.e. government, participants or other stakeholders). For example, the financial benefits of creating new jobs for the long term unemployed are reduced No Dole payments
- Any costs which are incurred as you generate social benefits (referred to as social operating expenses)

## 3. Total Financial Value

Total financial is then calculated by adding Commercial Value and Social Value together.

## 4. Investment

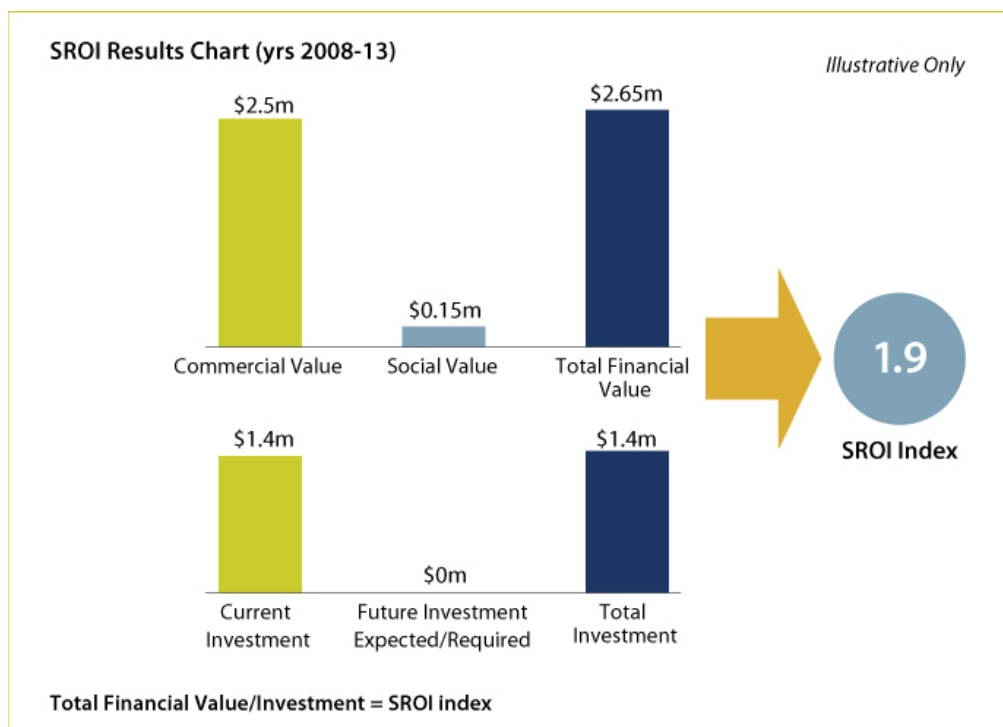
Investment refers to subsidies, grants and donations. It excludes loans and is the same as shareholder funds in a for profit organisation.

The Investment calculation includes:

- Current Net Assets
- Investment *expected* in the future (NPV)
- Investment *required* in the future (NPV)

## 5. SROI Index

Finally, the Total Financial Value generated is compared to the Investment Value to provide a Return Index. An index of 1.9 means that for every \$1 invested, the organisation is returning \$1.90 to the community and its stakeholders (i.e. the organisation is generating 1.9 times the original investment). A final report is produced that presents the findings from the SROI analysis and discusses their implications.



### 3. WHEN

An SROI analysis will be of value to some, but not all non-profit organisations. You should carefully consider whether an SROI analysis would be valuable for your organisation to ensure that the benefits would outweigh the time and costs involved.

In SVA's experience non-profit organisations that pass the following two tests will find SROI a valuable tool.

Test 1: Does your organisation do any of the following?

- Undertake commercial activity
- Increase participants' or target employees' net income
- Reduce Government welfare payments
- Increase Government taxes

If your organisation answered yes to any of these, then it is likely to be generating financial benefits. Social enterprises and employment creation ventures are two organisation types that meet this test.

Test 2: Does your organisation have the following information (or can get it relatively easily)?

- Financial Statements (income, grants/subsidies/donations, expenses, net assets)
- Planning Documents (Strategic plans, Program Logic Statements, Social Impact Maps, Growth Plans or an understanding of future trends and growth objectives)
- Outcome Measurement Reports (including data that tracks changes in participants'/employees' work hours and usage of welfare services as a result of the non-profit activity/program).

Finally, are there significant confidentiality issues around collecting data on participants or employees? If there are, then it is worth re-considering whether to conduct the analysis. Without this information, analysis will not be sufficiently robust and results will not be meaningful.

### CASE STUDIES

Two organisations provide their stories of using the SROI tool.

#### Beacon Foundation

'SROI provides the hard numbers that give us credibility beyond the qualitative stories of success.'

Bill Lawson, Chair

The Beacon Foundation was set up in Tasmania to address rising levels of youth unemployment in disadvantaged areas. Integrating final year high school students and local community businesses, its No Dole Program, pioneered at Brooks High School, reduced final year unemployment from 30 percent to 15 percent in its first year and to zero percent by year three. It has maintained this level since. The Beacon Foundation is now replicating this highly successful and innovative approach to youth unemployment in 70 locations across Australia.

The Beacon Foundation has used the SROI tool to estimate the financial value generated by two job creation programs. And both times, Bill says it has been worth the effort.

'Taking the SROI report to meetings gives us a lot of traction. Whether we are talking to funders, stakeholders, politicians or partners, the hard numbers give us credibility beyond the qualitative stories of success. SROI is a means by which these benefits can be moved from the anecdotal, however inspiring, to the factual - the language of decision makers.'

In essence, the report stated that from its program, real (that is commercially sustainable) jobs can be created for \$5,000 per job. This is equivalent to the 'dole' for about six months. And the benefits to society are significant.

Bill acknowledges that the SROI tool is particularly relevant for the Beacon Foundation. Its aim is to see new ways to find employment opportunities for young people. Since the tool 'assesses the financial impact of taking a tax taker and turning them into a tax payer' it's very relevant.

Understanding the impact of the program has also provided the Beacon Foundation with strategic focus. Bill commented that in engaging SVA consultants to apply the SROI tool, 'We knew we were heading toward a certain compass bearing, but it (SROI) gave us confidence that we were reading it right.' The Beacon board has used the tool frequently in its strategic decision making.

'I couldn't speak more highly of the tool. It is useful and plausible. It adds infinite credibility to our story and the great stories of our young people.'

### **Future Employment Opportunities' Eaglehawk Recovery & Sales Yard,**

'SROI confirmed that we are a business model, not a welfare model.'

Peter Cox, CEO

Future Employment Opportunities (FEO) is a non-profit organisation which manages a range of employment projects. It provides training, employment placement services and enterprise activities for job seekers and others of all ages in Central and Northern Victoria. FEO aims to restore dignity lost through not having a job and to generate a revitalised purpose in life by providing equal opportunity to learn and maintain existing work and personal skills.

When SVA supported Peter Cox and his team to develop an SROI for their organisation, the Eaglehawk team were really pleased with the result. 'We knew we were making a great contribution to the Bendigo community, but after applying the SROI tool we realised that we had contributed more than an estimated \$1 million – that was impressive. And motivating!'

Eaglehawk Recovery & Sales Yard is a social enterprise focused on providing sustainable employment by recycling products for sale that were otherwise destined for landfill. It has created positive outcomes in many spheres: environmentally, personally, socially and financially.

Peter and his management have been greatly impacted by the SROI report. 'After more than 20 years in the non-profit sector, it is almost a natural instinct for me to think about our organisation in the context of a welfare model. I know it is not – I know it is a great business in its own right, offering meaningful employment options for people. Having the SROI report reminds me of this.

'Furthermore, having the SROI in my back-pocket gives me a great "business tool" to take along to stakeholder meetings. To prove to them that we are a valuable business with strong financial and social outcomes. Recently, when I was lobbying our local council (and biggest stakeholder) for increased access to recyclable products, it was really useful. It ensured I could easily articulate the value we were providing in a language that they understood.

'The SROI tool is designed to provide that "knowledge". It gives further credence to the qualitative success stories and more context to the balance sheet and profit & loss statements. It provides information on our dual role as a social enterprise more comprehensively than I could otherwise discuss. How useful!'

## **NEXT STEPS**

SVA offers additional practical and tailored support to help organisations implement these approaches and tackle specific issues. For more information contact the Professional Services team on 02 8004 6722 or email [tools@socialventures.com.au](mailto:tools@socialventures.com.au).