



**MEASURING REAL VALUE:
a DIY guide to Social Return on Investment**

nef is an independent think-and-do tank that inspires and demonstrates real economic well-being.

We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environmental and social issues. We work in partnership and put people and the planet first.



economics
real wealth
means well-being



environment
lifestyles must
become sustainable



society
communities need
power and influence

nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.



Value driven organisations are using new ways to understand, measure and foster awareness of their impacts. **nef**'s innovative approach to social return on investment (SROI) places stakeholders – the people who matter – at the heart of the measurement process.

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About this guide

Value driven organisations are using new ways to understand, measure and foster awareness of their impacts. **nef**'s innovative approach to social return on investment (SROI) places stakeholders – the people who matter – at the heart of the measurement process. SROI shows how social and environmental outcomes translate into tangible monetary value, helping organisations and investors of all kinds to see a fuller picture of the benefits that flow from their investment of time, money and other resources. This investment can then be seen in terms of the 'return' or the value created for individuals, communities, society or the environment.

This is a powerful new way of viewing impact. It enables those who invest in, and have a stake in, social change to thoughtfully weigh which resources they use.

This guide sets the standard for a complete and rigorous SROI process and report. This guide is designed for anyone with an interest in SROI, and is full of examples to make it as user-friendly as possible.

The material can get a little technical but remember that you can take the process as far as you want, depending on the depth of analysis you require. There is something for everyone in here, the beginner through to experts alike.

Although developed specifically for a third sector audience, much of the content will be equally applicable to public and private sector organisations that want to demonstrate their social impact.

¹ <http://sroi.london.edu/>

² <http://www.proveandimprove.org/new/>

Introduction

What is SROI analysis?

Social Return on Investment (SROI) analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. **nef**'s (the new economics foundation) SROI framework is an approach to measurement, developed from cost-benefit analysis and social auditing, which captures social value by translating social objectives into financial, and non-financial, measures.

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is the ratio between net present value of the benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

An SROI ratio is a comparison between the value being generated by an intervention and the investment required to achieve that impact. However, an SROI analysis should not be restricted to one number, which should be seen as a short-hand for expressing value. Rather, it presents a framework for exploring an organisation's social impact, in which monetisation plays an important, but not an exclusive, role.

$$[\text{SROI}] = \frac{[\text{Net present value of benefits}]}{[\text{Net present value of investment}]}$$

While some people may not be used to an approach that has a quantitative component, with practice, anyone can learn the process. When SROI was piloted by **nef** in Social Firms, employees felt empowered by being able to talk about the benefits their work creates in such a clear way. Ultimately, SROI is a tool that translates the social value created into data that can be understood by a range of stakeholders, from those we are trying to influence (investors and policy-makers) to those whose support we want (clients, beneficiaries, local community) to those whose support is integral to the quality of our success (staff).

SROI

SROI was pioneered by the Roberts Enterprise Development Fund (REDF), a San Francisco-based venture philanthropy fund. The concept has since evolved into a widely used, global framework, which has been supported and co-developed by **nef**. In 2003, with support from the Hadley Trust, **nef** began exploring ways in which SROI could be tested and developed in a UK context. One of the projects primary goals was to advance an approach to SROI that is as applicable and usable as possible. The objective was to integrate SROI with social accounting methodologies; in part because it is stakeholders who define value and in part because integration of existing approaches to impact management will make it easier for users to engage. In 2005 the International SROI Network agreed a framework for the use of SROI, and this guide is based on these standards. **nef** has continued to innovate by exploring how SROI and its principles can be used to improve service delivery and accountability to users by testing its potential to measure impact in the public policy through the Measuring What Matters Programme.

This guide

This guide arose out of collaborative work between **nef** and Social Firms UK as part of the Social Enterprise Partnership (GB) Ltd. Social Firms UK commissioned **nef** to create a guide to SROI to help demonstrate how Social Firms create value for many stakeholders and improve the work these businesses do each day.

This guide was originally developed as part of the Social Enterprise Partnership (SEP) Quality & Impact Project, (2002-2005) which aimed to provide social enterprises of all kinds with the knowledge, tools, and resources to prove and improve their quality and impact. The project surveyed and developed a range of methods for measuring impact and building quality and has developed several new resources and approaches in collaboration with the SEP Partners.

SEP was funded by the EQUAL Community Initiative Programme and other funders, (including the UK Department for Trade and Industry's Small Business Service former Social Enterprise Unit and the UK Department for Work and Pensions) to deliver a three-year project of infrastructure and systems development, capacity building, and research and development for the social enterprise sector from 2002-2005. SEP's members included leading organisations working in the social enterprise field in the UK: Co-operatives UK, Development Trusts Association, **nef** (the new economics foundation), Social Enterprise London, Social Firms UK, and the Social Enterprise Coalition.

The Guide

What is unique about the nef approach?

1. Stakeholders are central

nef's SROI analysis focuses on the people who are important to an organisation - its stakeholders. Moreover, it is based on social and environmental accounting principles, and has a clear process for involving stakeholders, in which each identifies his/her own social objectives for the project. As a result, this guide incorporates a summary of the processes involved in social accounting.

2. Impact map - Know how you create social change

The impact map tells a story about how the organisation affects change - that is, how it delivers on its mission. It also provides a framework for organisations to better understand how their actions actually create this change, by analysing its components through the cause and effect chain of inputs, outputs, outcomes, and impacts. By completing an impact map, organisations develop a pathway into impact measurement based on their own organisational capacity and priorities.

3. Materiality - Focus on what is important

SROI analysis is about enabling organisations to gather better, rather than more information. A 'materiality check' highlights the areas that are important, or material, to an organisation. Through engaging with stakeholders, the SROI analysis becomes focused on these areas of enquiry. This helps the management team determine where to concentrate its effort and resources. This ensures that organisations are gathering information on the things that matter to their stakeholders, rather than gathering lots of information that is then never used.

4. Deadweight - What would have happened anyway

nef's SROI analysis provides a method for estimating how much of the benefit would have happened anyway (i.e., 'deadweight'). This is achieved by asking those carrying out the analysis to think through the portion of the impact an organisation added versus what would have happened if the organisation did not exist at all. This is explained in detail later in the guide.

SROI can be used by those who:

Create social value, as a management tool, to track projections, improve performance, inform expenditure and highlight added value in competitive tendering.

Procure social value, as a way to objectively assess contract criteria relating to social value.

Invest in the creation of social value, as a way to assess performance and to provide due diligence.

Develop policy, for which recognition of social value is important.

Potential benefits of using SROI analysis

One of the benefits of SROI, similar to most proving and improving processes, is that by taking a step back from day to day operations, employees have the opportunity to examine the work they undertake through new eyes. The learning that comes from this new understanding is used to shape future decision-making, thus continuously improving how a project or organisation runs. Similarly, those who invest in an organisation can learn more about how their input directly contributes to social value creation.

Benefits include

- **Accountability** - by providing both numbers and the story to support those numbers (combining qualitative and quantitative approaches) it provides a means to communicate to a wide range of stakeholders and make transparent how social value is created.
- **Better information for future decision making** - when used for planning purposes, information highlighted by the analysis can provide important feedback as to the effectiveness of existing activities, areas of weakness, and where unanticipated but beneficial impacts have occurred.
- **Cost and time effectiveness** - by focusing on critical impacts, SROI can be a relatively quick and effective way to learn about the change a project or organisation creates.

The 10 stages of a nef SROI analysis

Understand and plan

Stage 1: Understand the nature of the impact you want to measure - is it one project, or the whole organisation? Create the scope for the analysis - how much time do you have to spend on it, and who will comprise the team?



Stakeholders

Stage 2: Now that you know what you want to measure, who are the stakeholders? Identify who they are and gain input to understand what their goals and objectives are for the organisation or project.



Boundaries

Stage 3: Create the framework for the analysis and begin to prepare background information. Describe how the project or organisation works, decide the time period you want to collect data for, and learn more about the main target group, or beneficiaries.



Impact map and indicators

Stage 4: Understand how stakeholders participate through inputs, outputs, outcomes, and impacts. In answering this, it becomes clearer how social value is created.



SROI Plan

Stage 5: At this point, we consolidate where we are in the process by summarising what we know so far. Lay out a plan and timetable for collecting the remaining data, completing the calculations, writing up the report and sharing findings with stakeholders



Implement the plan and Data collection

Stage 6: Collect the remaining data.



Projections

Stage 7: Determine whether or not the monetised values of the costs and benefits can be projected over future years. The choice of the number of years to be used for projections will be determined by the nature of the project or organisation.



Analyse income and expenditure

Stage 8: Examine financial accounts. Look at how resources used relate to different project areas. Investigate whether or not financial information is reported in a way that links it to social, economic or environmental objectives.



Calculate SROI

Stage 9: Create a discounted cash flow model using gathered data and projections. Calculate the present value of benefits and investment, total value added, SROI ratio and payback period. Use sensitivity analysis to identify the relative significance of data.



Report

Stage 10: Consider and present the results in a way that brings out the subtleties and underlying limitations and assumptions.



Using this guide

This guide has two purposes, to increase understanding about SROI generally and to train practitioners on how to prepare an SROI analysis from start to finish. If you are reading this to gain a quick overview, then feel free to skim the material, and spend more time reading the case study of Pack-IT in the appendix. However, if your goal is to be able to conduct an SROI analysis, then everything you need to guide you is here. Each section contains exercises to work through, 'top tips' to refine thinking, and case studies to serve as examples of how to complete each stage.

Completing this guide is comparable to finishing an introductory training course. Therefore, set aside the time to work through each stage accordingly. We recommend giving the whole guide a quick read through first in order to have a picture of what the process entails. Then start over at the beginning, and work through the exercises in each stage. Keep in mind that the complexity of each SROI analysis varies, as you can measure change in one project, a set of projects, or across an entire organisation. Similarly, the organisation under study may be small, in which case the SROI could be simpler, or it could be very large and thus require much more time.

Helpful hints

For most people, Stage 5: Impact Map and Stage 9: SROI calculations, are the most difficult to do for the first time. The impact map may be challenging because while most of us are good at identifying stakeholders, it is not often that we think through what those stakeholders contribute to social value creation. After completing an impact map once or twice, it becomes a lot easier.

When approaching the SROI calculations, the use of accounting based language may be unfamiliar for some, and more complicated than it actually is. Please refer to the glossary at the back as you progress through the guide for help with this.

We strongly recommend that you do some 'back of the envelope' work alongside the guide, particularly in Stages 5 and 9, in order to get the hang of SROI analysis. Also, in the text, we refer to where seeking guidance from finance officers or accountants may be useful. The important thing is to 'have a go' and build your own confidence and abilities through the process.

The SROI process essentially involves:

- Talking to stakeholders to identify what social value means to them
- Understanding how that value is created through a set of activities
- Finding appropriate indicators, or 'ways of knowing' that change has taken place
- Putting financial proxies on those indicators that do not lend themselves to monetisation
- Comparing the financial value of the social change created to the financial cost of producing these changes

In addition to serving as an initial training course, once you are familiar with the methodology, this guide may be used as a step-by-step prompt to completing your own SROI analysis.

Case studies

Social Firms UK commissioned **nef** to conduct SROI analyses for two Social Firms with the support of the Social Enterprise Partnership (GB) Ltd. Social Firms, a type of social enterprise, are businesses set up to create employment for disabled people. As with commercial businesses, their business models differ, as do the type of disabled people they support. Social Firms are distinctive in that they are going concerns, as opposed to time-limited, stand-alone programmes. According to Social Firms UK, the umbrella body, they are 'businesses that support' rather than 'projects that trade'. As private businesses, they also have the potential to generate independent income, reducing their dependence on grants and subsidies.

The two SROI reports prepared for Social Firms UK appear in this Guide as case studies. The first is of MillRace IT, a Social Firm operating in Witham, Essex. The SROI report demonstrated the social value MillRace IT creates in employing people recovering from mental ill health, and in recycling computer equipment. The MillRace IT report is used as the example you will see at each stage of the guide, and for every step along the way. The second SROI report is of Pack-IT Products Promotions Ltd, a Social Firm in Cardiff, Wales. Pack-IT's main area of social value creation comes through its employment, where half of the staff has severe learning difficulties. The Pack-IT report is presented in full at the end of the guide. This is done so that you have a complete report to use as a reference when preparing your own SROI reports.

In Stages 8 through 10 of the SROI analysis, we use YouthWorks as an illustration. This is a fictional study of an organisation that helps young offenders to learn skills that enable them to find sustainable employment. While the case study is fictional, it is based on **nef**'s experience. The YouthWorks example is used to show elements of the SROI analysis that did not apply to the analysis of MillRace IT, enabling you to see each of the stages fully and with practical examples.

What to look for – using this guide

Each stage includes, where applicable:

- a description of the stage
- definitions of key terms
- reference to a case study
- top tips for completing the stage
- a checklist

Over to you



When this symbol appears, it means there is a learning exercise to complete.



Stage 1: Understand and plan

Understand what you want to measure. Create the scope for the project, determine how much time you have to spend, and who will be responsible for the work.

Project planning

The first step of SROI analysis is to create a project plan. While this is useful to ensure the process runs smoothly and according to expectations, with SROI this aspect of the work is particularly important. This is because analysis that follows in the next stages is in fact framed by the responses to initial questions at the outset. For example, determining whether or not you want to measure the impact of one project or an entire organisation's work will affect the design of the framework.

In this stage, you will:

1. Start a draft project plan, which will become the basis for the final SROI report
2. Determine which area of work to measure - one project, whole organisation?
3. Begin collecting background information about the specified area of work - literature review

Introducing the MillRace IT Case Study

As part of its SROI pilot project, **nef** conducted an SROI analysis on MillRace IT, a Social Firm operating in Witham, Essex. We introduce the organisation below, and then throughout each stage, illustrate how we completed the MillRace IT analysis.

MillRace IT Case Study

MillRace IT began as a project within InterAct, a mental health charity operating in Essex. InterAct enables people and groups both in the UK and overseas to improve their lives and their communities. It provides training, resources, experience and support to those recovering from mental illness and to adults and transition aged youngsters with learning difficulties. It also provides computers and associated equipment for projects in the developing world and offers assistance to institutions such as churches that find themselves at some kind of a crossroads. To achieve this it initiates projects that enable individuals to fulfil their potential through meaningful work. One common theme is regard for the dignity of the individual, and a thread running through all its projects is helping others to help themselves. InterAct's main programme areas are; Bridges to Work, Bridges to Education, Bridges to Inclusion, Bridges between Worlds, and Bridges for Churches.

MillRace IT was envisioned as a place to offer employment and work experience, serving as an intermediary between the initial support offered at InterAct and a link to mainstream employment. Due to the nature of MillRace IT's core client base, some participants may never enter mainstream employment. In these cases, the goal is to provide a long-term volunteer opportunity, where clients are able to contribute and be productive in a supportive work environment. In some cases, participants are eligible for supported employment, where they earn up to £81 a week in addition to receiving relevant benefits (this is based on the Statutory rate, as of October 2005). By spending time at MillRace IT, participants can avoid a relapse in their condition and in fact extend their recovery. In addition, each year, some participants move forward into employment after training at MillRace IT. Supporting this mission is a commercial strategy based on the re-use and refurbishment of IT equipment. Computers are refurbished for continued use, distributed to new users, or serve as educational parts for the training programme. In addition, MillRace IT has a commercial partnership with RDC - a private sector computer-recycling firm. MillRace IT is located on RDC's premises and as such, RDC provides technical expertise as well as access to a supply of computers to recycle.

Step one: Determining the scope of the study

▲ 1.1

The first step in the SROI process is to establish the framework for the analysis, understanding why measurement is undertaken at this time, and identifying those areas of work you want to learn more about. This stage is also about deciding who will participate in the study, how people will communicate as it progresses, and how the work will get done. We use the word 'study' to describe the process of preparing an SROI report and we refer to the person doing the work as the 'SROI researcher'.

Some SROI studies are conducted with one external researcher, and are done without significant help from the organisation under enquiry. This is often the case if a funder or investor is commissioning the study. However, other SROI studies are prepared because the management of an organisation wants it to be done, and then an SROI team is set up with members of staff internal to the organisation, and sometimes includes outside expertise, to make up an SROI team.

In order to help you determine the scope of the SROI study, the following questions are meant to shape initial thoughts about the work. As you build upon answers in each of the following exercises, you are actually working through a draft SROI report. To begin, create a new document, titled 'draft SROI report', and in exercise 1.1, answer the following questions either individually, or as part of a larger SROI team as appropriate. The sub-bullets are questions to inform your thinking, but only the main questions require responses.

1. What do you want to measure?
A specific project, or the impact created by an entire organisation?
2. Are you an independent researcher, or do you work within the project area or organisation you wish to study?
Think through how this will affect the design of the analysis
3. Why do you want to begin this process now?
Are there specific motivations driving the work?
4. Who is this analysis for?
Consider primary and secondary audiences

5. What time frame and plan for how you will the analysis?

Will this time frame determine whether or not internal or external staff conducts the analysis?

6. Who is responsible for the work?

Will the work be carried out internally, or with external support and do the people leading it have all of the information and resources they need?

7. Will this have implications for the organisation's resources?

Does dedicated funding need to be freed up to support this work to make sure it happens?

MillRace IT: Creating the framework for SROI analysis

To begin the analysis, the first step was to complete an initial project plan. We needed to understand which areas of work were to be considered in the analysis, meaning which activities to include or exclude. We also needed to know the circumstances around why the work was being undertaken, and how much time was available to complete the project.

It was established that a researcher would lead the work from **nef** who would liaise with the senior managers of both InterAct and MillRace IT. The work was expected to take 25 days in total to complete, 5 days worth of combined time from employees of InterAct and MillRace IT, and 20 days of the external researcher's time.

After an initial discussion between the external researcher and the MillRace IT project team, it was understood that the reasons for conducting an SROI analysis were to further demonstrate impact to funders and stakeholders generally. This was also work undertaken on behalf of Social Firms UK, as a means to explore the potential uses of SROI for Social Firms generally. As SROI is a new tool, the project team did not necessarily know what to expect. Thus, it became the researcher's job to lead the team through the work, and to serve as an informer and facilitator. Days were scheduled for the researcher to interview senior managers to collect background information to learn more about the operations of the organisation.

Step two: Identifying which areas of work to measure

Now that an initial framework for the study has been established, the next step is to decide which areas of work are to be measured for social value returns. Here, the decision is whether or not the study should focus on one project, a set of projects, or take into consideration the work of the entire organisation. Bear in mind that if it is decided to focus on one project, then the social returns measured will only look at what is generated by that one project, and will not be representative of the entire organisation.

Terminology:

There are several different terms used to describe the group of people who are the intended target of goods or services, whose lives are meant to improve by the action being taken. Examples include 'service users', 'project participants' and 'clients'. In this Guide, we use the term 'participant' to mean those people who are intended to benefit from the work undertaken. This is done deliberately to encourage you to think through how that person or group of people contributes to the social value that is created. While the term 'service users' can be passive, 'participant' demonstrates involvement and action. For example, in a Social Firms setting, thinking about the Pack-IT case, those employees who have learning difficulties, and are thus different from those employees that do not have learning difficulties would be designated as the participants.

▲ 1.2

In Exercise 1.2, answer the following questions as a follow on from the work completed in Exercise 1.1.

1. What are the activities you want to determine the impact for?

For example, if you are looking at a waste management organisation, do you want to measure the impact of a recycling programme or a computer refurbishment operation, or both?

2. Describe the intended participants, or target population.

For example, if you are looking at a skills training agency, do you want to track all of the participants, or a smaller segment, for example looking exclusively at subcategories, such as those recovering from mental ill health, or those who are between 16-24 years old?

3. Over what time period will these social returns be measured?

For example, will you consider social returns created from the beginning of a project through to its conclusion, or just one financial year? Or will you follow one intake of participants in the project? Often organisations will project returns over the life of the outcome being achieved, so for young offenders this might mean for a life of reduced contact with the criminal justice system.

Top tip: Keep it simple the first time around

If this is your first attempt at an SROI analysis, it is always best to start with something simple in order to get the hang of the methodology. Measuring the impact of one project may be easier than measuring the impact of a whole organisation. For example, some organisations are involved in many very different areas of work - a development trust may house ten different community enterprises and each enterprise may run several different projects. To build your own confidence and skill, complete a practice SROI on one project within your organisation.

MillRace IT: Learning more about the organisation

The researcher worked with the project team to understand how the organisation functions. It was decided that the SROI analysis would explore social returns for the entire organisation and over one financial year.

For MillRace IT, people suffering from mental ill health are supported either through direct employment within the organisation or through participating in a training programme that creates a bridge to long - term work. Work experience is gained onsite in MillRace IT's computer recycling centre. Participants learn how to maintain and refurbish computers that are then re-used.

Step three: Familiarise yourself with the literature

So far, in the preceding sections, you will have determined the framework for the study and decided which areas of work to measure. Now, you will begin to add detail about the areas of work chosen. The best way to begin to understand the area of work is to conduct a literature review of; the activities themselves, the organisations involved, and then the broader issue or industry type. This will help you connect with stakeholders, design more appropriate research, give an overview of what previous studies have thrown up in relation to costings, as well as provide a policy context and background for the final report. For example, when looking at MillRace IT, we know the organisation trains people recovering from mental ill health, they recycle computer equipment and they operate in Essex. Therefore, we can look to the following sources of information to learn more:

- MillRace IT's website, annual review, reports to funders, financial accounts
- Information about waste management and recycling in Essex- public policy documents, local recycling networks
- Information about the employment challenges and needs of people recovering from mental ill health- public policy documents, mental ill health advocacy organisations, academic research
- Information from previous studies on costs and benefits relating to employment and other outcomes

Top tip: Use the Internet for the literature review

A lot of the background information needed will come from the documents described above; annual reviews, project reports or returns, and financial statements. However, there is a wealth of information that may also be collected at this time through the Internet. First, read about the project or organisation on any affiliated websites. Then look for organisations with similar characteristics and relevant policy reports on UK or international government websites. By doing some of this initial research now, you gain a broader understanding of the kinds of data already available while brainstorming ideas about what kinds of information you will want to collect from stakeholders yourself in later stages.

▲ 1.3 Learn more about the area of work

In Exercise 1.3, answer the questions below. The goal is to describe the area of work you want to measure. If this is a project, answer the questions below with the project in mind. If you chose to study an entire organisation, then answer the questions with the complete organisation in mind. In answering these questions, it will help you to breakdown all of the activities involved in social value creation. This is something that will be addressed in more detail in later stages but should be at the back of your mind now.

1. What is the purpose (of the project, set of projects, or organisation)?
Write a one paragraph summary
2. What are the objectives (of the project, set of projects, or organisation)?
Is performance information currently collected?
3. What is the long-term vision (of the project, set of projects, or organisation)?
This information may be stated in standard reports, such as a business plan, annual review, strategic plan, quarterly project returns, or other project management documents
4. What are the expected benefits of the SROI analysis?
 - a. *Will the information help managers with future planning?*
 - b. *Will the findings be shared with stakeholders, both those inside and outside, in order to improve communication or demonstrate accountability?*
 - c. *Is this information being generated to attract investment?*
5. What is the nature of Board and senior management support at this stage?
 - a. *With all proving and improving processes, the most successful are those with champions throughout the organisation, but not least of all at senior management and Board level.*
 - b. *Is current level of support adequate, or does further action need to be taken to explain the project to key decision-makers?*

6. Which, if any, stakeholders are driving the SROI study?
7. What is your initial assessment of the likely availability of data?
 - a. *To what extent is data currently collected?*
 - b. *Are there any representative organisations that collect similar types of performance information across an industry or business type? For example, for a recycling business, is there an environmental network you can contact? If the organisation is a charity, does the National Council of Voluntary Organisations or any other umbrella body hold relevant information?*
8. Do you feel you need additional support to complete the work?

For example, training, resources, access to more information about SROI
9. What is the first estimate of the expected timescale for completion of the SROI study?

Step four: Win support and communicate the initial plan

Establish these parameters and win support from all who will be involved. It is important to gain the support of key stakeholders for the work before it begins, and to make sure that time and resources are set aside to complete the analysis. To some extent, the amount of time and resource available will determine the scope of the SROI project. Many well designed proving and improving projects stall or do not deliver to expectations because of a lack of communication and clarity as to responsibilities and resources at the outset of the project. This is particularly important when engaging clients and family members of beneficiaries.

Once you address the questions above, through creating an initial project plan, choosing the area of impact to measure, and then collecting some information, you are ready to move on to Stage Two. Something to keep in mind is that this process is a reflexive one. As you move through the additional stages, you may come across new information that requires you to re-think earlier assumptions. Refining earlier stages as you move through the process is encouraged. In the end, the data assembled and calculated represents information that was verified and selected after consulting with stakeholders and gaining insight into how the project or organisation functions.

*As you move through the stages, we will refer to the document you created in this stage as the 'draft SROI report' that we will ask you to add to throughout the rest of the process.

Project planning work for MillRace IT

The researcher answered the questions as outlined in Stage 1 and determined the following:

- The researcher was external to the organisation, and as such, would need to clarify expectations with decision-makers inside of MillRace IT
- MillRace IT and InterAct chose representatives from both organisations to serve as liaisons to the external researcher
- The organisation was interested in SROI as a way to win support from investors and as a means to communicate success to stakeholders
- Initial agreement was made as to how much time was available for the project, with 10 days of external researcher time planned along with 5 days of internal staff time
- The researcher asked for background documentation- annual review, financial accounts, measurement indicators, and looked up information on the organisation's website
- To begin to understand how to approach the SROI, the researcher did a literature review of Government reports on mental ill health and recovery
- Determined that the SROI analysis would look at the organisation as a whole, using the employment impact as a focal point

Preparing the draft SROI report

After conducting an initial literature review of public policy documents, project documents, and annual reviews, the following description was prepared and included in the draft SROI report:

As explained in the government's report, "Adults with mental health problems are one of the most excluded groups in society. Although many want to work, fewer than a quarter actually do- the lowest employment rate for any of the main groups of disabled people...mental health problems are estimated to cost the country over £77 billion a year through the cost of care, economic losses and premature death," (*Mental Health and Social Exclusion*, Social Exclusion Unit, ODPM, June 2004, pg. 1). An organisation seeking to change those circumstances is InterAct, a charity working across Essex and its subsidiary MillRace IT, a Social Firm. At the time of undertaking this research in May-June 2005, InterAct & its subsidiary MillRace IT had formed a successful partnership with RDC, which resulted in the total relocation of the Social Firm to RDC's site at Witham. The organisations recognise the expertise and strengths of each other and wish to work in partnership to build on the existing recycling and employment related initiatives of InterAct and MillRace IT, and the recycling expertise of RDC, Europe's leading IT asset management company. The shared goal is to increase the employability of disabled people while specifically targeting and reducing the volume of personal computers and peripheral equipment waste from landfill. The statistical and financial data used in this report is based on information generated in the 2004 financial year.

Checklist

Before moving to Stage 2, consider the following questions and determine if it is time to move forward.

- Is there Board and senior management support for the SROI analysis?
- Is there agreement that internal, or external, resources will be made available?
- Have you decided which areas of work the analysis should cover?
- Has it been determined who will participate in the work and what their roles and responsibilities will be?
- Has background information been collected on the project or organisation, including an understanding of how it operates and who the key participants are?
- Were you able to answer the questions in the previous sections?



Stage 2: Stakeholders

Identify who key stakeholders are. Understand stakeholders' goals for the organisation or project.

The best way to determine what is important to include in the SROI analysis is to ask those who are most affected by the impact created, otherwise known as stakeholders. A stakeholder is any person or group of people that can affect or is affected by your activities. Examples of stakeholders include people who participate in projects, employees, customers, suppliers, members of the local community, public sector agencies and funders or investors.

In this stage you will create a comprehensive list of stakeholders

1. Choose which of these stakeholders is considered key to your SROI analysis
2. Determine how to learn about the goals and objectives of key stakeholders
3. Collect information about key stakeholders' goals and objectives

The steps we recommend for stakeholder engagement mirror those within social accounting. Appendix A lists additional resources on advice around stakeholder engagement beyond what is explained here.

In an SROI analysis stakeholders may need to be engaged on two separate occasions. The first kind of contact with stakeholders around understanding their goals, and project or organisation specific objectives is referred to as 'reality checking'. The second kind of contact with stakeholders where the information collected is to gather evidence that change has taken place is considered part of the 'data collection' process. This is detailed in Stage 7.

It will not always be necessary to consult stakeholders at the data collection phase if sufficient data already exists but it should be borne in mind when thinking about the input that will be required from the organisation.

Step one: Identify stakeholders

▲ 2.1

In Exercise 2.1, brainstorm as many stakeholders as possible. Create a new section within the draft SROI report underneath work already completed Stage One. To determine which people or organisations are considered to be

stakeholders, use the following questions as a *guide* to brainstorm your list. You only need to record your list of stakeholders in the document and not the questions themselves. Try to identify at least six different types of stakeholders and list as many stakeholders as possible.

- Who cares if the issue is addressed or the problem is solved?
- Whom does the problem or issue impact?
- Who will benefit if the problem is solved or the issue is addressed?
- Whose behaviour must change for the project to succeed?
- Who can help solve the problem or address the issue?
- Who can contribute financial or technical resources?
- Who can contribute knowledge or skills?
- Who are the “voiceless” for whom special efforts may have to be made?

Case study: MillRace IT

Comprehensive list of stakeholders

The list below was generated for MillRace IT. Using both the questions explained above and referring back to the activities listed in Stage one, the researcher and project team were able to create a comprehensive list.

- Employees
- Board members
- Funders
- Individual customers who purchase recycled IT equipment
- Organisations which purchase IT services
- Partner charities who distribute recycled computers to African charities
- African charities, who receive the recycled equipment
- Participants in the projects run by African charities
- Members of the local community
- Project participants- people recovering from mental ill health
- The family members of project participants
- Local mental health care system
- Inter-Act, as the founding organisation
- RDC- the commercial company that offers office space to MillRace IT
- Local government in Essex
- National Health Service
- UK taxpayers
- Social Firms UK
- Other Social Firms

Step two: Decide which stakeholders are the most important

Key stakeholders are those who are either *most affected* by the impact or whose influence can *most directly affect* the outcome of an area of work. How you define key stakeholders is determined by what it is you seek to measure. In segmenting stakeholders, consider their differing motives and interests, as well as their respective importance to or influence on the project. When engaging with stakeholders later on, they may help you identify new ones you hadn't previously

thought of. This may lead you to re-assess stakeholder interests and to possibly re-think stakeholder groups.

From the MillRace IT example above, as we are looking at the organisation as a whole, we want to consider those stakeholders who directly participate in the outcome as key stakeholders. The following explains which stakeholders were determined to be key for the MillRace IT analysis.

MillRace IT: Selecting key stakeholders

It was decided that the areas of impact that were most important to the organisation were around environmental and employment benefits created by MillRace IT's activities. Further, it was felt that where possible, the analysis should focus on those groups that directly participate in the activities in Witham. Based on a quick review of which data the organisation already tracked, versus where it would be difficult to obtain information, the following were identified as key stakeholders.

Key stakeholders

- Employees
- Funders
- Project participants- people recovering from mental ill health
- The family members of project participants
- Inter-Act, as the founding organisation
- RDC- the commercial company that offers office space to MillRace IT
- Local government in Essex
- National Health Service

The following list describes those stakeholders that were not determined to be essential to the analysis.

Excluded stakeholders

- Board members
- Individual customers who purchase recycled IT equipment
- Organisations which purchase IT services
- Partner charities who distribute recycled computers to African charities
- African charities, who receive the recycled equipment
- Participants in the projects run by African charities
- Members of the local community
- Local mental health care system
- UK taxpayers
- Social Firms UK
- Other Social Firms

Why some stakeholders were excluded

The customers who purchase recycled computers or IT support services were considered further removed from the ways in which how MillRace IT creates its core social value and were thus not considered in this first analysis. With respect to the project that distributes computers to African charities, because the distribution is done by partner charities and is thus not in the direct control of MillRace IT and because the size of the project compared to MillRace IT's other activities is relatively small, it was decided to exclude the stakeholders associated with this project. The remaining stakeholders were excluded because it was felt their level of interest in or contribution to MillRace IT was not as significant as the other groups that were included, or as significant as some of the other interests these stakeholders held.

▲ 2.2

In Exercise 2.2, reviewing the list of stakeholders prepared, now specify only those stakeholders that you feel are *key* to the analysis. It is important to be transparent about why certain stakeholders are excluded from the analysis by including a stakeholder audit trail. You may also find it more helpful to further segment stakeholder groups into subgroups e.g. local residents and local residents that are economically inactive, where it is clear that a different type or level of value is being obtained.

Step three: Understand what key stakeholders want

Now that we have established who key stakeholders are the next task is to determine how to best understand what they want from a project, or organisation, referred to as **stakeholder objectives**.

What we want to know

There are two things we want to know from key stakeholders at this point:

1. What are their goals, *beyond* the scope of a project or organisation?
2. What are their objectives for *this* project or organisation?

We distinguish between a stakeholder's goals generally, and objectives for a project, in order to show how in achieving their project level objectives, they can eventually reach their larger aspirations. An example from MillRace IT can be found in speaking with trainees.

The trainees explained that their larger goal was to one day obtain a permanent full time job in the IT industry. Their objective for their participation in MillRace IT was to reach a specific accreditation for IT maintenance.

Top tip: Be practical about engaging stakeholders

It is particularly important for external researchers to be sensitive about the amount of time and resources stakeholders can give to this process, whether they be staff, funders, or participants. It is useful therefore to do as much of goals and objectives in advance of meetings and ensure that the time is used as efficiently as possible. If it is likely that you will have to come back to the same group of stakeholders to collect data, make sure that you tell them this in advance of the first meeting, so they know what to expect. Also, where you are asking people to give a significant amount of time to the process with no obvious benefit to them, consider providing incentives such as lunch, travel expenses, or vouchers to guarantee attendance.

Step four: 'Reality checking'

There are two approaches/phases to determining stakeholder goals and objectives. The first is to make assumptions about what they want based on previous knowledge, such as the researcher's expertise in a sector, or past experience. The second is to test this with stakeholders themselves.

It may be that some stakeholder groups already explicitly state goals and organisation - specific objectives in documents that are regularly produced. Examples here include funders, or participants as reported in project reports or annual reviews. It is often the case that organisations regularly ask for this information in an annual consultation process and as such the information is already on file.

In summary, there are three methods of 'Reality Checking':

1. Making assumptions as to stakeholder goals and objectives
2. Collecting the information from existing sources, where this information has already been sought
3. Collecting the information directly from stakeholders

In practice, a combination of the three methods is used, depending on how expensive or difficult it is to determine the information, and the amount of information that is already available. Best practice would guide you to, where possible, collect the information from accurate sources, either from existing material or from stakeholders directly.

Top tip: Be creative and informal in your approach to 'Reality Checking'

Collecting information about stakeholders' goals and objectives can be as simple as picking up the phone and ringing someone or as complex as holding a facilitated focus group. The following is a list of methods:

- Get stakeholders together in one place and ask them directly
- Try a workshop format, with informal discussions and a flipchart to record response
- Use a 'storyboard' approach. Get staff together and ask them to talk about the change as they see it as a result of the work they do – either at an organisational or individual level. Record these stories on a wall chart.
- Have stakeholders complete a form during a regularly scheduled meeting- for example an Annual General Meeting of an organisation, or other set gathering
- Ring representatives from key stakeholder groups and ask them
- Email a short form around to representatives from key stakeholder groups
- Have a social event and ask staff members to walk around and speak to stakeholders
- In general, be mindful of the needs and sensitivity of individual stakeholders when asking them for information
- When gathering information from participants, take your cue from staff that work with them as to the best way of engaging them. For some groups such as young people formal group settings may not be appropriate, and one-to-one interviews might work better.

2.3

Now that key stakeholders have been identified, determine what approaches you will use to understand their goals and objectives. The following table is one way of recording this information, and MillRace IT is used as an example.

Case study: MillRace IT

Table 1: Key stakeholder engagement plan, taken from MillRace IT

Stakeholder groups	Method of engagement	How many from each group to contact?	When to complete	Who is responsible	Goals	Project-specific objectives
Participants	Walk around training site and speak to participants over tea during break	Speak to at least 4 of the 6	Next week	SROI researcher	State findings	State findings
Family members of participants	Send a short letter home with participants, asking them to answer three questions	Send one letter home with each participant.	Two weeks time	MillRace IT training manager	State findings here	State findings here
National Health Service	Look up goals under mental ill health policies, record those and assume objectives for MillRace IT	N/A	By the end of this week	SROI researcher	State findings here	State findings here
RDC	Ring liaison at RDC	N/A	Next week	SROI researcher	State findings here	State findings here
InterAct	Ring Chief Executive of InterAct	N/A	By the end of this week	SROI researcher	State findings here	State findings here
Local government	Ring main contact in the Environment department	1 person per relevant department	Next week	SROI researcher	State findings here	State findings here
Employees	On the same day interviewing participants, also interview employees over tea	Speak to at least 7 of the 10	Two weeks time	SROI researcher	State findings here	State findings here

Things to keep in mind:

First, as you can see from the example above, the way you contact key stakeholders does not need to be overly fancy or complicated. However, it does need to be made explicit. Don't forget that you may be in contact with key stakeholders again later in the process to collect outcome related data. Therefore, it is a good rule of thumb to introduce the SROI research, explain why you want their participation, and warn them that you may be in touch down the line for additional information. Also provide them with the opportunity to ask questions. This is a tried and true method for winning support.

The case study example below illustrates a table that you should now be able to generate based on the work you will have completed so far in Stage 2.

Case study: MillRace IT

The following table was prepared by **nef** for MillRace IT, based on initial discussions with key stakeholders

KEY STAKEHOLDERS AND OBJECTIVES

Overriding objectives: Continued recovery and sustainable employment

Stakeholder	Description	Goals	Objectives for MillRace IT
Participants (32)	People recovering from mental ill health, either as trainees or volunteers	<ul style="list-style-type: none"> • Improve quality and stability of life • Continue recovery from mental ill health • Sustainable employment 	<ul style="list-style-type: none"> • Increase self-confidence • Learn practical skills • Become more employable • Continue recovery from mental ill health
Employees (6)	Staff of MillRace IT, which includes some who are recovering from mental ill health	<ul style="list-style-type: none"> • Help people recovering from mental ill health qualify for jobs • Improve the environment • Earn income from employment 	<ul style="list-style-type: none"> • Train participants in IT maintenance • Recycle old computers for further use • Increase MillRace IT's financial sustainability
Participants' families	Family members and partners living with participants	<ul style="list-style-type: none"> • Participant to recover from mental ill health • Participant to gain sustainable employment 	<ul style="list-style-type: none"> • Family member to gain marketable skills • Family member to increase self confidence • Respite from care of family member
InterAct	Founding organisation, and charity that refers clients for placement into MillRace IT	<ul style="list-style-type: none"> • Place ILM participants into further training or jobs 	<ul style="list-style-type: none"> • Train participants to increase long-term employability • Profits from MillRace IT which are donated back to InterAct
RDC	Commercial computer recycling partner	<ul style="list-style-type: none"> • Improve the environment • Fulfil corporate social responsibility goals 	<ul style="list-style-type: none"> • Support those recovering from mental ill health • Increase recycling targets for equipment that cannot be sold on
Local government	Essex County Council and Borough Council	<ul style="list-style-type: none"> • Improve the environment • Reduce unemployment 	<ul style="list-style-type: none"> • Achieve recycling targets • Improve local employment • Reduce waste disposal expenditure
National Health Service	Local Health Authority and Social Services	<ul style="list-style-type: none"> • Fill gaps in provision of mental health services • Reduce in-patient care costs 	<ul style="list-style-type: none"> • Continued recovery for participants • Increased employability for participants • Reduce care costs in the long-term



Stage 3: Boundaries

Create the framework for the analysis. Describe how the project or organisation works. Learn more about the main target group, or beneficiaries.

In Stages 1 and 2, we created the broad-brush strokes for the SROI analysis. We asked basic questions to determine some initial parameters for the project. In Stage 3, we take the next step and focus on the details. This process of learning more and then making decisions as to what to prioritise and what to exclude is referred to as 'setting boundaries'.

The best way to think about the SROI report is to view it as a record of the process we have gone through. It is essentially a method of storytelling that explains not only how organisations create their impact, but also how we as analysts study and explain to others how that change was created. The reason we record the whole process and not just the final stages is to demonstrate to those reading the report what our assumptions are and explains the reasons we prioritised some aspects of the work over others. The areas of work we focus on will be those that were deemed most important, or material, to the people who are most affected by what we do.

To some extent, this framework mirrors what social researchers do when they independently investigate changes in society and we can view our own role in this process in the same way - as sleuths out to understand and explain change that occurs as a result of many different factors.

In this stage, you are going to determine:

1. What is 'material' or important to include for decision-making purposes
2. Which stakeholders you are going to include and exclude
3. Which activities you are going to include and exclude
4. What data do you have available

Determining materiality

One way of defining what is 'material' to the SROI analysis (materiality) is to evaluate whether a piece of information, if excluded, would significantly *misrepresent* the conclusions a person comes to about the organisation or its activities. Referring to the MillRace IT example, if we were to examine the employment impact created by the IT training programme and not include the fact that the trainees are recovering from mental ill health, we would draw inaccurate

conclusions about the quality of the employment impact that was being created. This is an example of what a material omission would look like.

To understand other aspects of materiality for the project or organisation under study, consider the following:

- Where are you likely to have the biggest impact
- Consistency of stakeholder's objectives with the organisation's mission
- What, if anything is a priority of public policy in this area
- What are peers and competitors doing in this area? What is unique about what your organisation – where are you adding the more value?
- Available resources

Including and excluding stakeholders

Sometimes, stakeholders will be excluded from the remaining analysis because what is required to engage with them is beyond the resources available. Whenever stakeholders are excluded, there is a chance that we are underestimating the impact a project or organisation has. To balance this, make sure the final report explains which stakeholders have not been included and your assessment of what sources of value are being excluded.

Including and excluding activities

Even though you will have already listed all of the stakeholders, it is possible that you will decide to limit the scope of the analysis to fewer activities, which may in turn then reduce the number of stakeholders you will consider in future stages.

Data availability

The extent of readily available data will affect how the analysis proceeds in later stages. Consider the following questions. Does the organisation have systems in place for tracking its activities and its stakeholders? What systems could be put in place? Can existing systems monitor the effect of your work on stakeholders? Do they include measures of success? You do not need detailed answers to these questions, but thinking about them will help you define your boundaries, as well as anticipate potential problems later on in the process.

We recognise that all proving and improving processes require resources, particularly staff time, and as such, the SROI project should be designed to meet the resources available. However, a key principle of SROI analysis is to measure the things that matter to stakeholders, although resources will be a factor in drawing boundaries, it is important to attempt to include the most important outcomes even if measured on a small scale. Where areas are excluded based on resource limitations, it is important to be transparent about this so it is clear to the reader.

3.1

Stage 3 is about taking stock of what you know already and consolidating that information before moving forward in the process. In two to three paragraphs, explain the background of the organisation and then specify the areas of work that will be the focus of the SROI analysis, using the case study below as a model.

MillRace IT: Setting Boundaries for the SROI analysis

MillRace IT emphasises job creation and sustainable employment for those recovering from mental ill health, yet this research would point to additional impacts. *Foremost is the role that the work placements and volunteer opportunities play in maintaining clients' recovery from mental ill health.* As not all participants move directly into part/full time employment, what they do have in common is their continued recovery for the duration of time they spend at MillRace IT.

It is because those recovering from mental ill health are individual in their needs, and time frames differ between participants for development, it is only expected that a portion of participants gain employment each year. However, those that remain benefit in terms of increased self-confidence, and skills gained in the IT industry. The third main programme outcome is decreased waste to landfill as computers are refurbished and distributed for re-use.

Started in 2000, MillRace IT has grown and is a company limited by shares, a wholly owned subsidiary of InterAct. In May 2005, the organisation moved premises and is housed on the industrial site of RDC, a private recycling and IT maintenance firm. MillRace IT plans to expand its commercial trading activities in order to provide more places for work experience. In addition, MillRace IT is in the process of gaining accreditation for the training offered through the Open College Network during 2006.

InterAct refers clients to the training programme on offer at MillRace IT, while RDC offers technical guidance, facilities, and computers to process. MillRace IT helps InterAct achieve financial sustainability by distributing profits back to the charity, which InterAct often reinvests back into the Social Firm in order to provide additional employment opportunities. MillRace IT also supports RDC's corporate social responsibility objectives.

MillRace IT offers employment training through hands-on IT learning opportunities to people recovering from mental ill health. Driven by the 'triple bottom line', MillRace IT aims to achieve financial sustainability, recycle computer equipment, and provide a bridge to employment for those recovering from mental ill health. As such, the SROI analysis will focus on the employment and environmental impacts gathered.

MillRace IT receives most of its referrals from InterAct, and InterAct's role as founding organisation continues with the ongoing support it provides to the Social Firm. This is firstly through a leadership role, where an InterAct director has lead responsibility and managers are sometimes seconded to MillRace IT. Further contribution is made through the referral system and through guidance provided by Board members. This inter-dependency of the organisations is accounted for in the SROI model through attribution, a concept explained in following sections of the Guide.

RDC is a commercial computer recycling company that has formed a unique partnership with MillRace IT in May 2005. Offering the use of premises along with supplying an in-house technician for support, RDC aims to support the growth and sustainability of MillRace IT as part of its corporate social responsibility agenda. In exchange for the support, MillRace IT processes some of RDC's computer stock-where trainees complete the same work as RDC employees.

The advantage for MillRace IT is that it receives a constant stock of computer and a bridge is built to ultimately move participants on to mainstream employment in the IT industry. In consultation with the internal MillRace IT team, it was decided to use the information from the 2004 financial year, as that was the most recent readily available data at the time the analysis was undertaken. Further, the researcher determined the activities to be included in the analysis were computer recycling and training for participants.

The analysis is limited to this set of activities based on 1) what was considered most important to stakeholders and 2) where data was available or could easily be extracted. The decision was made to exclude the activities relating to the distribution of refurbished computers to organisations in developing countries, as data would be difficult to collect. MillRace IT does not directly distribute the computers themselves and would have to rely on partners to produce data, while resources were limited.



Stage 4: Impact map and indicators

Create an impact map to chart social value creation.
Select indicators to measure change.

In Stage 4, we want to know how value is created for different stakeholders. How the organisation takes in resources (inputs) to do its work (activities) which leads to direct results (outputs) and longer term or more significant results (outcomes), as well as the part of those outcomes the organisation can take credit for (impacts).

In this stage, we will create an impact map, and select indicators. In doing so, we will also address the following:

- Identify how the project works and how it affects key stakeholders (linking this to stakeholders' objectives)
- Capture this through an analysis of inputs, outputs, outcomes, and impacts
- Identify appropriate indicators for capturing outcomes
- Identify monetised equivalent values for the indicators, using averages and estimates where information is not available

Step one: Understanding key terms

Inputs

Inputs are resources used to run the activities- money, people, facilities and equipment. This is the investment against which the value of the impact is compared; often most key stakeholders make some kind of investment. It is important to think through what all stakeholders bring to the mix, not just those that are providing the funding.

Outputs

Outputs are the direct and tangible products from the activity; for example the number of people trained, or the number of computers recycled.

Outcomes

Outcomes are changes that take place in stakeholders as a result of the activity; for example, a new job, increased income or improved quality of life. This is the **result** of the organisation's work and closely relates to the objectives of the stakeholder. Outcomes are the most important things to measure and can take

place directly as a result of an output, or indirectly over time as the result of other outcomes being achieved.

In some cases, outcomes are influenced by other organisations and factors, especially where the stakeholders' objectives can only be achieved through the combined efforts of more than one organisation. Taking this into account is referred to as **attribution**. For example, in the MillRace IT case, while MillRace IT does train people recovering from mental ill health, InterAct works with the participants before they enter the training programme, and in some cases, family members at home support the participants throughout their time. Therefore, when a participant moves on to employment, MillRace IT cannot take all of the credit for the outcome. When we calculate the SROI, we address to what extent an organisation can take credit for the outcome produced.

Outcomes may also require knowledge of what happens over time and after the stakeholder has stopped working or engaging with the organisation. This may mean that some tracking is required and if you are not yet tracking today, you may be required to estimate how long an outcome lasts. For example some people gaining work may drop back into unemployment. There may also be additional long-term outcomes that result indirectly from gaining employment such as improvements in mental health and wellbeing.

Impacts

Even if we added up the outcomes of all organisations we would still need to recognise that some of the outcomes would have happened even if the organisation had not existed.

Deadweight is the extent to which the outcomes would have happened anyway and is estimated by using benchmarks. An example of deadweight with MillRace IT is that we need to consider to what extent computer recycling would take place if MillRace IT did not exist. It turns out that there are many places local customers could go to have their computers recycled, even at the same site as customers could drop off computers with RDC. Therefore, people could have recycled their computers anyway, and the deadweight for computer recycling is 100%. We calculate the deadweight because it can help an organisation express the value of its work and also weights the final impact depending on how difficult it is to achieve outcomes – which varies across beneficiaries. For example an employment project working with young people who have been unemployed for 6 months may find that their participants might have already been more likely to get jobs anyway (greater deadweight) than an employment project working with young ex-offenders who have been unemployed for 2 years.

Displacement (or substitution effect) occurs when the benefits claimed by a project participant are at the expense of others outside the project. For example, if participant A gets a job following the project as a result of improved skills, but participant A gets the job at the expense of person B, who was not in the project and now loses a job (is displaced), this leads to a net job change of nil. While displacement is difficult to measure, it is still useful to think through it.

Impacts are therefore the outcomes adjusted for 'deadweight' (i.e., the effects of what would have happened anyway, such as the proportion of participants who would have obtained a job without the intervention) and 'displacement' (i.e. the extent to which the organisation displaces the outcomes of other organisations).

$$[\text{Impact}] = [\text{Outcomes}] - [\text{deadweight and displacement}].$$

Step two: Introducing the impact map

The impact map lays out the cause and effect chain that leads to social value creation. What this demonstrates is the way that **each** stakeholder contributes an input to an activity, which then leads to an output, an outcome and eventually an impact. The best way to familiarise yourself with this methodology is to go through more than one example. Therefore, below is the impact map for the case study for us to review.

By examining the impact map above, some things become clear. First, not every key stakeholder will have something to input into the process, and this is demonstrated by looking at the local government and National Health Service categories. However, both are interested in the outcomes. Further, it is not usually possible to complete the impact column until after data has been collected. However, by using existing research as a benchmark, it is possible to make an educated guess as to whether or not deadweight or displacement will be applicable for each stakeholder group. It is useful to capture some of these ideas in the Impact Map.

There are no hard and fast rules for determining which stakeholders you will complete all of the information for. However, by asking yourself the following questions, it may become clearer:

For each stakeholder ask:

- What does this stakeholder input into the process?
 - Money, time, facilities, expertise, access to something?
- What output is created by these activities that the stakeholder would be interested in?
 - You can base this on the stakeholder's stated goals and objectives from Stage 2
- What outcome is created by these outputs that the stakeholder would be interested in?

Case study: MillRace IT

Stakeholder	Input	Activity	Output	Outcome	Impact
Participants (32)	Skills Time	Trained in computer recycling	IT skill set No. of recycled computers	Increased self-confidence Improved mental health Sustainable employment Improved life stability	Explore deadweight and displacement, determined no deadweight or displacement
Employees (6)	Skills Time	Train participants in computer recycling, sell computers and support services	No. of trained participants No. of recycled computers Income	Sustainable employment, Increased financial sustainability for organisation Improved mental health of participants	Explore deadweight and displacement, determined no deadweight or displacement
Participants' families	Time	Encourage family member	Continued participation	Improved mental health of participants Increased income for family Less time spent on care for family member	Explore deadweight and displacement, determined no deadweight or displacement

Stakeholder	Input	Activity	Output	Outcome	Impact
InterAct	Funding, staff time, referrals	Referrals, pre-training support	Clients enrolled in programme, no. of trained participants	Employment for participants	Explore deadweight and displacement, determined no deadweight or displacement
RDC	Office space, technical support, computers to recycle	Workshop management, training, computer recycling	No. of computers recycled, no. of trained participants	Potential employees, Improved corporate social responsibility, Achievement of environmental targets	Explore deadweight and displacement, determined 100% of computer recycling is deadweight because of RDC presence
Local government	Not applicable	Not applicable	No. of computers recycled and diverted from landfill	Reduced landfill expenditure ↓ Improved local environment	Explore deadweight and displacement, determined no deadweight or displacement
National Health Service	Not applicable	Not applicable	Prolonged support for participants, improved skills for participants	Reduction in care costs Improved mental health of participants	Explore deadweight and displacement, determined no deadweight or displacement

Some objectives are omitted from the analysis as we move forward, because they are less material to the analysis and do not fit within the scope expressed in earlier stages. This topic of excluding stakeholder objectives will be explained in more detail later in this stage, however, the rationale in the MillRace IT study is detailed in the box below.

Case study: MillRace IT

At this point in the process, we review the stakeholder map above and determine which outcomes are not appropriate for inclusion in the social return on investment analysis, either because they are not material or data is currently limited. The outcomes that are left out of the SROI analysis are explained below:

- 'Improved environment' is expressed in the SROI in terms of tonnes of computers diverted from landfill, broken down by types of equipment, customer and geographical location. At this point, this is all of the information currently available to assess environmental outcomes based on the level of data presently collected by MillRace IT.
- RDC's outcomes are not included, as they are not deemed as material when trying to understand how MillRace IT creates social value.
- 'Improved local employment' is limited in the SROI to meaning the monetised benefits realised when someone moves into full time employment.
- 'Decreased unemployment' is not currently measured, as the data explaining how many people go from MillRace IT into employment is not readily available within MillRace IT, although if more resources allowed we would be able to retrieve it from referring agencies, such as InterAct. We are able to express the benefits realised when one person moves from MillRace IT into employment in year one.

- The role that charity customers' purchasing IT equipment plays in extending the social value created by MillRace IT is currently unknown. However, by tracking the distribution chain of charity customers who deliver to organisations in the developing world, this information could be included in an SROI in future years.
- Data on the desired outcomes for participants' families is not currently collected, however, it may be in future years.³

▲ 4.1

Now it is your turn to give it a try. Create a similar table to the Impact Map in the MillRace IT case study.

Step three: Identifying indicators

An indicator is a piece of information that helps us determine whether or not change has taken place - it allows performance to be measured. The indicators are the *ways of knowing* something has happened or changed. Indicators are specific pieces of information, signs or signals that can be measured to determine whether a given output or outcome has occurred, or has been achieved. Sometimes for complicated and hard to measure outcomes, it is necessary to use more than one indicator to capture the complexity. It is preferable, where possible, to use subjective (or self-reported) and objective indicators that compliment each other. These are sometimes referred to as overlapping indicators.

In terms of the SROI analysis, choose indicators for the outcomes sections of the impact map. This will form a second map, known as an Indicators Map, which lists indicators instead of objectives, detailed later in this stage.

Matching indicators to stakeholder objectives can sometimes be easy and sometimes more difficult. Outputs, and the indicators that show them, only tell us part of the story, which is why it is recommended use more than one indicator to properly assess, or signal that change is taking place (refer to **nef's** Quality & Impact Toolkit for more information).

What to consider when choosing indicators

Organisations usually have more information about outputs than outcomes. Therefore, it may be necessary to reference data held by other organisations, most often government departments. It is worthwhile brainstorming possible sources of this information with colleagues and undertaking some web research.

Proxies

All of the indicators have then to be monetised, or expressed in financial terms. Sometimes this is a straightforward process for example, indicators relating to the National Health Service, in the MillRace IT case, may be referred to as a reduction in mental ill health care costs. As the NHS publishes how much care costs and how many patients are served in a given time period, determining this indicator is a straightforward process. In selecting indicators there is a trade-off between cost, data availability and accuracy. When data is unavailable or difficult to obtain, you may choose to use proxies. A **proxy** is a value that is deemed to be close to the desired indicator, for which data may be unavailable. For example with MillRace IT, an overall regional unemployment rate may be used as a proxy for the unemployment rate among people recovering from mental ill health. Proxies are very useful when there is no exact data for what you are trying to measure, however, it is important to be clear in your report which assumptions have been made in selecting proxies.

Proxies should not be seen as conveying a hard and fast value on that outcome but as a way of expressing it in financial terms that ensures it can be included in the analysis. Clearly this is a subjective process and for this reason we carry out sensitivity analyses using different assumptions. Every effort should be made to derive the most accurate and reasonable proxies, however, they can and should be changed as and when new, or better information becomes available. It should be remembered that proxies are representations of the outcomes in monetary terms, and are not intended to convey a sense of 'worth' in the traditional sense of the word. The principle of inclusion is therefore more important than the value placed on the indicator. The following table gives examples of the kinds of proxies that you might consider using.

Outcome	Indicator	Possible Proxies
Increased confidence	Time spent socializing/doing new things	Cost of membership of a social club/network
Improved access to local services	Take-up of those services	Savings in time and travel costs of being able to access services locally
Improved physical health	Reduced visit to GP surgery	Cost of visiting private GP clinic
Improved well-being of carers	No of hours respite/spent in leisure activities	Value of hours spent engaged in these activities (e.g. minimum wage)
Reduced carbon emissions	Reduced tones of carbon omitted	Cost of carbon (DEFRA valuation)

Top tip: Be imaginative in deriving indicators and proxies

Deriving appropriate proxies can be challenging and often two heads will be better than one at this stage. Here are some pointers to get you started:

- Think about what is close to the indicator that is already traded in the marketplace, which indicates a willingness to pay on the part of participants.
- Who can you involve to help you? Often those closest to the initiative are the best at selecting good proxies. Brainstorm with colleagues, or ask participants as part of the data collection phase to help you think this through.
- Reflect back to your literature review. Did you come across studies that might contain costings that you could use?
- Have you researched this online? The Internet can be a good source of data and spark new ideas

Benchmarking and Deadweight

Estimating what would have happened anyway (deadweight and displacement) can prove to be challenging and may require the use of benchmarks. Benchmarks are data for outcomes for similar stakeholders that were not involved in the specific project or organisation under study. For example, it may be information about a wider or neighbouring area, or data from an earlier time period that is used to see if a trend has changed.

MillRace IT Indicator Map

Stakeholder	Input	Outputs	Outcome indicators	Impact
Participants	No. of participants	No. of tonnes of computers recycled	Length of time in recovery	<i>Deadweight:</i> No. of computers that would have been recycled anyway
		Length of time in programme	Change in medical costs Change in income	<i>Displacement:</i> Assumed nil given nature of participant population
Government	Funding	No. of trained participants	No. who obtain jobs No. who extend recovery	<i>Deadweight:</i> No. of computers that would have been recycled anyway
		No. of tonnes of computers recycled	No. who decrease use of the local health and care system	<i>Displacement:</i> Assumed nil given nature of participant population

▲ 4.2

Using the case study as an example, create a table in your draft SROI report called 'impact map: indicators' and begin filling in what you can under each heading. Read through the rest of the material in this stage and then go back and see if you can improve upon the indicators you put down or if you have now thought of new indicators for boxes previously left blank.

Checklist

- Are there different outcomes for different stakeholders?
- Have you considered attribution of outcomes between different organisations?
- Have you started to consider how will you factor in deadweight and displacement for each of the stakeholders outcomes
- To what extent have you matched indicators to each outcome?
- Are all of the indicators quantifiable? Will they translate into a financial value?
- Are you clear about what assumptions you will be making?
- Are you happy with proxies that you are using? Have you tested their appropriateness with stakeholders/colleagues?
- Have you been clear about what data you will not pursue at this time, and how that may affect your results?
- Have you allowed sufficient time for data collection from external resources?
- Have you been clear about what benchmark data you are using, and how it differs from your participant population?
- Have you completed both Stage 5 Worksheets for Impact Map, Deadweight and Displacement and Indicators?



Stage 5: The SROI Plan

Summarise the information collected and estimate the time and costs of carrying out the remaining SROI analysis.

Because we have been preparing our draft SROI report alongside completing each of the prior stages, by the time we get to Stage 6, we are in good shape. Make sure the draft report you have includes the following components:

- A summary of work completed at each stage
- Clear explanations of assumptions made, how stakeholders and areas of impact were 'dropped'
- All of the tables specified in each stage are complete
- The resource plan and timescale (set out in a table below)

Creating a resource plan and timescale

The table below is a means to project manage remaining work and communicate with the rest of your SROI team. If you have already completed some of the stages, great!

Stage	Internal Days	External Days	Timeline
1 Understand and plan			Month
2 Stakeholders and initial engagement			Month
3 Boundaries			Month
4 Analysis of income			Month
5 Impact map and indicators			Month
6 SROI Plan			Month
7 Further stakeholder engagement and data collection			Month
8 Projections			Month
9 Calculate SROI			Month
10 Completion of SROI analysis			Month
Total			

▲ 5.1

Pull together the draft SROI report, including the project management table detailed above and circulate to SROI team for feedback and support before moving on to the final stages. This becomes a last opportunity to check in regarding assumptions and the framework created. From this point on, we collect our data and calculate the SROI.

MillRace IT project plan				
Stage		Internal	External	Timeline
		Days	Days	Month
1	Understand and plan	.5	2	June
2	Stakeholders and initial engagement	.25	2.5	June
3	Boundaries	.15	.25	June
4	Analysis of income	.15	.25	June
5	Impact map and indicators	.25	1	June
6	SROI Plan	.15	.5	July
7	Further stakeholder engagement and data collection	1.55	7.5	July
8	Projections	0	1.5	July
9	Calculate SROI	0	2	July
10	Completion of SROI analysis	2	2.5	July
Total		5	20	



Stage 6: Data collection

Design the data collection process and collect remaining information.

In this stage, we review the Indicators Map and consider which data needs to be collected. In doing so, we choose between quantitative and qualitative methods, as well as using existing data and proxies. In the end, we wind up with a list of information to gather and an action plan as to how to collect it.

The data we collect will come from the following sources:

- Organisations
 - Membership organisations, government departments, market research firms, consulting companies, partner organisations
- Primary stakeholders
 - People directly involved in the creation of social value, for example project participants, or employees
- Previous research
 - Universities, government departments, research organisation

In Stage 2 we explored ways of engaging with stakeholders. To remind ourselves, this included:

- One-to-one interviews
- Focus groups
- Workshops and seminars
- Questionnaires (face-to-face, over the phone, in the post, on the Internet)

Although similar techniques and methods are used for the data collection the two phases are distinct and have different purposes – stakeholder engagement is about ensuring you are measuring the right things, whereas data collection is about gathering evidence that change has taken place.

Best practice techniques of stakeholder engagement, as espoused in the AA1000 Assurance Standard developed by AccountAbility, an international institute promoting accountability for sustainable development, include the following:

- Using statistically robust sampling techniques to ensure that a representative range of stakeholder groups is included in the analysis

- Ensuring the independence and objectivity of those persons (internal or external) conducting the research
- Involving stakeholders in the design of the engagement process, and encouraging feedback
- Acknowledging differences among stakeholders
- Ensuring confidentiality
- Documenting the rationale and processes of stakeholder engagement

Although every effort should be made to be methodologically robust, for smaller organisations it is important not to get too hung up on sample sizes. For example, if there are 20 participants, speaking to 15 of them will give you a reasonable sense of the effect the organisation is having. Data collected outside of what is gathered through stakeholder engagement will come from a combination of internal management information systems, external sources, estimates, and assumptions. Data collection can prove to be the most taxing stage of the process. Even after refining your list of indicators, finding relevant data may be challenging

Top Tip

Whilst it is possible to prepare a SROI analysis in which an estimate for deadweight and displacement are excluded, we strongly recommend that an attempt is made to estimate impact instead of outcome.

Prioritising data collection by level of difficulty will help you focus limited resources, as well as determine whether you need to narrow the scope of your analysis. Do not worry about not being able to collect every piece of data. You may even conclude, given current organisational priorities, that it is necessary to go back to Stage 1 and redefine your boundaries. Nevertheless, you can always expand your scope later, when more resources are available and organisational priorities permit. However, be sure to keep track of all your data sources, as well as a list of indicators for which you will collect data in the future.

As you start to collect data you may find you have to change from a specific indicator that you had hoped to use to a proxy

Case study: MillRace IT

Data collection, proxies and assumptions

Indicator		Source / description
Inputs	Grant	MillRace IT
Outputs	No. of participants (trainees and volunteers)	MillRace IT
	No. of tonnes of computers recycled per annum	MillRace IT
	Average participant time per week	MillRace IT
Outcomes	Increased employability	InterAct
	Full time salary for participants once they move on from MillRace IT	Based on an average of participants' starting salaries who have gained employment, InterAct
	Employment (tax payment)	Income tax for full time salary, based on statutory rates
	Employment (benefit reduction)	DWP statutory rates for Incapacity benefit, Income Support and Job seekers allowance
	Cost to National Health Service for in-patient care	Department of Health
	Increased self confidence	Determined by stakeholder interviews, conducted June 2005
	Reduction in use of care services	Assumed 4 of 32 participants no longer uses in-patient care, Conservative assumption based on information collected from stakeholder interviews, conducted June 2005
	Continued recovery	Determined by stakeholder interviews, conducted June 2005
Cost to send to landfill one tonne of waste in Essex	Office of the Deputy Prime Minister, data current from June 2005	
Impacts	Continued recovery for some clients in the long-term	InterAct
	D/W: Amount of computers that would be recycled anyway	RDC is located on the same site and can recycle the computers, as well as several other organisations operating in the region
	D/W: Work placement opportunities	If MillRace IT closed, participants would not have a comparable place to go to, there is no other IT training Social Firm that offers the same high level hands-on training in the locality
	Displacement	Based on nature of client population
	Millrace-IT share of outcome (attribution)	Based on stakeholder interviews, participants expressed that it was MillRace IT above all other organisations that helped them, yet InterAct, family members, and the health system also play a significant role in recovery
Other assumptions	Time period	One year
	Discount rate	We assume zero because we are not projecting returns over more than one year, therefore, we do not need to discount the returns

▲ 6.1

Complete your own data table, outlining sources and assumptions, based on the one above.

Issues to consider

During data collection, be realistic about time constraints, be careful in using proxies and be sure not to double count outcomes.

Time constraints

When seeking data that is not internally available, be realistic about estimating the time required to collect the data. Your requests may encounter slower-than-expected response times as well as lower than expected data quality, which may require further analysis before incorporating into your model.

Double counting

When including valuations of the indicators relating to more than one stakeholder, care should be taken to ensure that there is no double counting. Double counting occurs when a benefit is counted twice **to the same stakeholder**. For example, if a disabled person got a job, benefits might accrue to them (expressed through income), to their carer (respite time), and to the Government (tax and benefits). Counting the value to all three stakeholders is not considered double counting. However, if the income gained through employment was intended to represent the improved wellbeing that employment brings about, then valuing the wellbeing benefit separately would constitute double counting.

Expectations

In our experience it is possible to spend a lot of time seeking data that you think 'should' be available but in the end have to accept is not available. Setting limits on how long you will spend finding data is important. Try and stick to the budget you have set. If you can't find the data you want move on to using a proxy.

Checklist

- Have you completed the stakeholder engagement?
- Did this result in the need to change any of the information from previous stages?
- If so has this effected the resource requirements or the scope if the resources have to stay the same?
- Have you been able to collect the data required?
- If not have you been able to find alternatives?



Stage 7: Projections

Build the SROI Model.

Creating SROI calculations is about more than slotting figures into an equation. It is about thinking through inputs, activities, outputs, outcomes and impacts, and then making assumptions about how each key stakeholder group is affected by this process. In 'building an SROI model' what we mean is we create a table of our cumulative assumptions, demonstrating the components of what our social return on investment ratio will represent.

This section assumes some familiarity with discounting techniques and the use of Excel spreadsheets. However, the calculations are not complicated, and even if you have no experience with these kinds of projections, do give it a go. The finance director or accountant of any organisation can also serve as a good on-site guide. The more you practice the calculations, the easier they are to complete.

There are some examples on websites of models for calculating SROI. Whilst these can be used as references we recommend starting each one afresh because each organisation, the benefits and the decisions it has made in setting out on an SROI analysis will be different.

How to build a model

Having assessed the financial values for your indicators and collecting the information the next step is to forecast the financial value of each benefit for each year, being sure that the participant population is the same. For example, you may select participants who entered a programme on a specific date or over a fixed time period.

The case study below provides an example of a forecast of annual benefits to the participant and to the State. That is, the net benefits of wages, welfare payments and tax contribution are measured against the Government's investment in the programme.

This is where you will combine the information on costs and benefits of the social value with the costs that you identified in Stage 4. You will be making projections on the behaviour of both costs and benefits and should include the future costs that will be necessary to continue the service that is delivering the benefit.

For example, in a capital investment in a building there will be future maintenance costs that may not be in the current financial accounts.

Things to keep in mind

There is one potential complexity to consider. In some capital investments there will be annual social benefits. In some revenue investments (the annual grants) there will be a single social benefit in that year. However take the example of an ILM where the benefit is a person staying in work for several years. In an SROI of revenue investment in this ILM the benefits will occur into the future and you will need to estimate over what timescale the benefits should be included.

In an SROI of a capital investment for a building in which to run an ILM these multi year benefits will occur each year that the building is running.

MillRace IT SROI model	
Indicator	Value (£)
Benefits to participants	
Employee wages (for some participants)	13,500
Less welfare benefits lost (weighted average)	-6,900
Less increase in tax contribution	-1600
Less increase in National Insurance	-500
Net benefit per participant that moves on to full-time employment	4,500
Number of participants that move on to full time employment per annum	3
Total benefits to participants	13,500
Benefits to local government	
Cost to send one tonne of waste to landfill	39
Number of tonnes recycled per annum	50
Net savings to local government	1,950
Benefits to national government (per employee)	
Welfare benefits saved (weighted average)	6,900
Number of participants that no longer require welfare benefits per annum	3
Net savings in welfare benefit expenditure	20,700
Savings in the cost of mental health provision	20,500
Number of participants who do not require intensive care	4
Total health care savings	82,000
Net benefit to national government	102,700
Combined net benefit	
Payback period (in months)	1
Aggregate annual benefits	118,150
Less deadweight from computer recycling (118,150-1950)	116,200
Less attribution	75%
MillRace IT share of outcome	87,150

MillRace IT's SROI model explained

The following explains how to calculate the benefits for those participants that move on to full time employment after the training at MillRace IT is completed. First, our assumption is that each person who moves on to full-time employment will earn £13,500, and is based on how much participants who have moved on have earned.

However, now that some of the group has gained employment, there are costs to the benefits they receive. In earning the wage of £13,500, they now have to pay taxes and national insurance. This leaves them with a net benefit of £4,500. Further, while twenty people may participate in the skills training in a given year, we assume that only 3 will actually progress to full-time employment. Therefore, the individual employment benefit of £4,500 is multiplied by the 3 participants, which equals a total employment benefit for participants of £13,500 each year.

Next, we look at the benefits created for local government of the savings in waste management costs. Here, it cost the County Council £39 to process one tonne of landfill waste. MillRace IT recycled 50 tonnes in 2004, which leads to a benefit of £1950 per year.

The stakeholder with the greatest financial benefit is the Government, through the savings in benefit expenditure and the decreased cost of medical care. Note that in the MillRace IT model above, we calculate the loss of benefits for the same three people that now gain full time employment, but we only calculate this under the benefit savings for Government so as to not double count outcomes. The government saves £6900 in benefits per person, for a total of £20,700 for all 3 participants. Interestingly- compare the £4500 the participant gains through employment to the £6900 the participant loses in benefits. If we only examined the financial gain in one year, then it would appear that the participants actually have a negative impact of £2400. However, participants can increase their salary once they return to full time employment, whereas they are not able to increase their benefit in subsequent years. The Government saves £20,700 in benefit costs each year that 3 people move into mainstream employment.

In calculating the benefit to Government on reduced health care expenditure, the State saves £20,561 for each person that no longer requires in-patient medical care. The assumption here is that of the 20 participants per year, 54 of them will prolong their recovery through their participation in the training programme at MillRace IT, and as such, will not relapse into needing in-patient care. The assumptions here are based on participation, as opposed to moving on from the programme. Therefore, 4 participants sustaining their recovery who previously required in-patient care will lead to a Government savings of £82,000. As stated earlier, the use of the statistic on in-patient care is in fact a proxy to stand in for the total amount Government spends on mental health care provision per person in one year. Presently, the closest data available is the amount Government spends on treatment in the form of hospitalization per person per year, although it is our hope that in future years this information will become more accurate.

All of the benefits are totalled, and then we consider the deadweight from the recycling and the attribution rate. Deadweight refers to what would have happened anyway, and because MillRace IT is located on the premises of a large-scale private sector computer recycling facility, the deadweight in this case is as high as it can get- 100%. Attribution refers to how much of the benefit MillRace IT is responsible for. In this case, we assume the attribution rate to be 75%- which is a guess based on conversations with the participants and other stakeholders. What we assume here is that MillRace IT is largely responsible for the benefits achieved- the employment benefit and the savings to government. However, InterAct contributes to the process through working with clients to get them ready for their work experience, as do family members and the health system that supports them. These other factors account for 25% of the outcome.

The payback period explains the break-even point for the investment. So, it compares the point at which the investment equals the social benefit being created. To determine the payback period: MillRace IT's share of Total Value

Created is divided by 12 months, to determine monthly value created. The monthly value created is then divided by the investment to determine the 'break-even' or payback period.

Payback period: $1.56 = 10,325/6402$

In this case, the payback period is rounded up to **2 months**, based on 4 participants no longer needing in-patient care, and 3 participants progressing on to full time employment.

Step one: Understanding Time Value of Money

To calculate the social return on investment, we need to compare the present value of benefits to the present value of the investment made to generate those benefits. Before we can do this, we need to understand a concept called 'time value of money'. While many spreadsheet programmes have built in formulas that will tell us what we are looking for, it is useful to understand the underlying concept. The time value of money means that in general, £1 now is worth more than £1 will be worth in a year's time. This is something most of us are familiar with and as such, we hope our employers will adjust our salaries each year by inflation to compensate how the value of money changes over time.

Now to see how this applies to SROI, if the benefits we aim to achieve in a project take two years to occur, and we want to know how an investment of £10,000 given to us now will compare with the benefits achieved over that two year time period, we need to 'discount' the future value of those benefits. In doing this, we are able to see what the value of the benefits created over two years would be worth now, and then compare this amount to the investment. The good news is, if the time value of money concept seems confusing, you can learn how to do the calculations and not worry about the underlying theory to generate accurate results.

If the benefits that you are creating will only last for one year or last for longer but the deadweight is 100% then there will be no future projections of value and no need to discount future values to a present day equivalent.

As MillRace IT did not project benefits over multiple years, we use a fictional case study, Youth Work, to show how to project returns beyond a one-year period.

Case study: YouthWork

Projecting returns over multiple years

To help you get used to the SROI model, this is a second example to consider. **nef** forecasted the social benefits generated through YouthWork a fictional social enterprise, based on a real example. Key assumptions are listed below. The figures have been changed for purposes of simplicity in presentation. Drop off relates to those people who fall back out of work.

YouthWork Benefits Model

	Year 1	Year 2	Year 3	Year 4	Year 5
Average benefits to each participant					
Participant wages	£9,500	£9,785	£10,610	£10,925	£11,250
Less welfare lost	(6,800)	(6,800)	(6,800)	(6,800)	(6,800)
Less increase in tax contribution	(950)	(979)	(1,061)	(1,093)	(1,125)
Net benefit per participant	£1,750	£2,007	£2,749	£3,033	£3,325
Benefits to State per participant					
Welfare payments saved	£6,800	£6,800	£6,800	£6,800	£6,800
Increase in tax contribution	1,425	1,545	1,592	1,640	1,690
Net benefit to the State	£8,225	£8,345	£8,392	£8,440	£8,490
Combined net benefit					
Total participants in job	50	50	50	50	50
less deadweight	45	45	45	45	45
less deadweight and drop-off	45	40	35	31	27
Total annual benefits (benefits x jobs)	£498,750	£517,575	£557,050	£573,625	£590,750
less deadweight	£448,875	£465,818	£501,345	£516,263	£531,675
less deadweight and drop-off	£448,875	£414,060	£389,935	£355,648	£319,005

Assumptions

Average starting salary in year 1 for all participants is £9,500

Average annual growth in salary is 3% from year 1

Welfare payments = £6,800 per year (£130 per week)

Income tax = 10 per cent of salary plus 5% for employer contribution

Deadweight = 10 per cent (e.g., $50 \times 0.9 = 45$). That is, we can only claim benefit for 90% of the benefits, because 10% of the participants probably would have found a job without the intervention.

Displacement is assumed to be zero

Drop-off = 12% annually (e.g., $45 \times 0.88 = 40$). That is, each year 12% of the prior year's employed participants lose their job.

Time period to accrue benefits = 5 years

Discount rate = 3.5%

Investment: public funding (New Deal) paid in year 0 = £500,000 to fund one-year pilot project

▲ 7.1

Now generate your own SROI model, based on the data you have available. Even if this is your first run through with SROI, go ahead and do an example. Pick one benefit that you can assign a monetary value to, even if it is hypothetical, and run through the stages to calculate the social return on investment.



Stage 8: Analyse income and expenditure

Understand how the use of resources relates to the creation of social value.

So far we have looked at the sources of value that will become the 'return'. We also need to look at the investment that was required in order to generate that 'return'. SROI relates to the value of the social benefits gained from the investment made to generate that value. In order to be clear about the investment it will be necessary to analyse and understand an organisation's financial accounts.

Examining financial accounts for relevant information

When reviewing the financial accounts we are looking for the relationship between the expenditure and social impact under different account headings.

Some organisations will use standard methods of reporting financial information and many of us are used to seeing this material. Often, this information is expressed according to amount of funds brought in and amount spent on specific categories, or line items. Some of the standard headings are:

Table 1

Sources of revenue	Uses of revenue
Government contract	Rent
Grant from Trust or Regional Development Agency	Utilities
Sales	Salaries
Donations	Insurance
	Equipment

However, some organisations have become increasingly sophisticated in how they report the resources they bring in and how these resources are then used. An example may be found in an organisation that runs youth activities, employment training, and a door-to-door recycling programme. It may report resources used by breaking it down into the amount spent on running the youth activities, as distinct from running the employment training. An example might look like the following table:

Table 2

Sources of revenue	Uses of revenue	Detailed use of revenue
Government contract	Social: After school club	Salaries
Grant from Trust or Regional Development Agency		Expenses
Sales	Economic: Work placement scheme	Salaries
Donations		Expenses
	Environmental: Door to door recycling programme	Salaries
		Expenses

Although this is an oversimplification of what the financial accounts may look like, looking at your financial accounts in this way can help you to see where funding that comes in relates to activities that create social, environmental, or economic value.

Step one: Summarise financial data

▲ 8.1

Within your draft SROI report, record the main financial information. Note that this stage does not include looking at the finances of the social savings outside the organisation - this is done later.

You can use the following headings, although as not all financial accounts are identical, you may have fewer or more headings than the ones below:

- Sources
 - Sales income
 - Donations
 - Grant income
 - Contract income
 - Subscriptions
 - Private investment
 - Loan funding
 - An estimate of the value of volunteer time
- Uses
 - Rent
 - Insurance
 - Equipment
 - Utilities
 - Salaries
 - Programme related expenses
- Record any additional relevant information if the financial accounts do state links to social impact.

Step two: Will the benefit of investment continue for several years or is it an investment that would need to occur every year in order to achieve the benefit?

When reviewing an organisation's financial accounts and determining the investment, we need to understand if we are looking at the investment in terms of one year and part of normal operations, or if there is a multi-year investment which is out of the ordinary and to be used for a specific purpose.

Accountants treat revenue differently from capital and the main difference between them is the time period in which the money is spent and the purpose behind the spending. Simply put, the term *revenue* describes money that comes into an organisation, which is then used for day-to-day operations over one financial year. Therefore, the way that same money flows out of the organisation, how it is used up, is then referred to as *revenue expenditure*.

However, in order to assess how healthy an organisation's finances are, accountants separate out money that comes into the organisation to purchase something out of the ordinary that will last more than one year. This money inflow is referred to as *capital* and the way this money is used up is described as *capital expenditure*.

You will need to consider whether you are exploring the social return on:

- A single year's grant- *revenue expenditure*
- An investment in the business where the benefit will occur over several years –*capital expenditure*

We do this in order to determine whether or not we need to project our social return on investment over a period of more than one year. In doing this, we ask whether or not the costs incurred are one-off, or purchase items that last a long time (buildings, machinery, computer systems). In order to better understand what is considered a regularly occurring expense and a capital expense, as how this is defined is determined by how much money flows through the organisation in a given year, seek the guidance of the organisation's accountant or finance director, as appropriate. In this example we do not project over future years, however, in most SROI analyses it is common to do so, where the outcomes are deemed to last over a period of time. Outcomes can have longevity even if the organisation is no longer supporting the participant, for example if they were responsible for helping them on their road to recovery.

MillRace IT

In terms of MillRace IT, the benefits were not projected out to future years. The assumption was that participants benefited from the organisation while they were actually there. This is often the case in Social Firms, where employment is the key benefit obtained, and thus most enjoyed when participants are directly employed. Further, there were no material capital investments made in 2004. For these reasons, capital expenditure was not considered in the SROI analysis.

It is important to remember that a SROI analysis is comprised of a series of 'judgment calls'. As long as a researcher's assumptions are made explicit, the findings of the SROI analysis can be best interpreted, and organisations can change their assumptions as their programmes evolve in future years. It would be possible in the case of MillRace IT to do a separate analysis that did project the benefits and then track participants to see if they continued to benefit over time.

Step three: Identify the costs that relate to the scope as determined in Stage 3

If you are analysing all the activities of the organisation then you will need to include all the costs. If you are only analysing part of an organisations work, it will be necessary to identify the costs that relate to only those activities. Some of these will be clear from your analysis in Step one. For other costs it will be necessary to split the costs between the activities. For example the rent of a building could be split between the time the building is used for each activity or between the space used by each activity. The way in which you allocate costs between activities is up to you and may vary for each type of cost. For example, the manager's time could be split on the basis of time spent on each activity whereas the heating bill could be split according to the amount of space being used. The choice will depend on how much time you have and how much information is available. Your SROI report should state what method you have used. You may need to carry out some analysis of your accounts and you may want to get help from your organisation's accountant.

Step four: Identify the costs that relate to the value determined in Stage 5

Which expenses relate to the activities that produce the 'value' that is part of your SROI analysis?

At the end of Stage 5 you will have made decisions about which stakeholders and which of their issues you are going to be able to include in the SROI calculations. As in Step two you can analyse the income and expenditure to identify the costs that relate to these issues. This will enable you to calculate the return on the investment that does not relate to the selected impacts on stakeholders alongside the social return on the investment.

In some of the broader SROI literature this process is discussed in terms of analysing financial accounts in order to differentiate costs between what is used for a 'social' purpose and what is used for a 'financial' purpose. However, because this methodology is centred on stakeholders, we prefer to analyse costs according to different headings - 'stakeholders' goals and/or 'activities.'

We suggest that you can analyse costs in this way, as it can be a useful part of telling the story of your impact. However often a lack of information or a shortage of time means that the analysis can stop at Step three. In this case all the income and costs of the organisation are included in the SROI calculations in Stages 8 and 9 and compared with the value of the benefits.

Things to keep in mind:

If you have separated the accounts between social and non-social expenditure in Stage 8 you will need to calculate a social return on the social expenditure and a financial return on the non-social expenditure. These are then combined to produce a blended return but a SROI analysis would include both. However you may decide that all the organisation's income and expenditure relates to its social purpose. In this case separate analysis will not be necessary, as was the case with MillRace IT.



Stage 9: Calculate SROI

Finally, we come to the magic show! Learn how to do the following: social return on investment calculation, payback period, and find the total value added.

Understanding and practising key concepts

In this stage, we will:

Come up with a figure for total value added, pay-back period, and the social return on investment

Use sensitivity analysis to identify the relative significance of data

Step one: Value added (net present value)

Value added measures the social value created through an organisation's activities and expresses this in financial terms. For example, where the social return on investment may state for every £1 invested, £1.50 is generated in social returns, value added expresses that in a given time period, £100,000 in social value was created, minus the £10,000 investment, leaving £90,000 of *value added*. It is the difference between the present value of net benefits and the present value of net investment.

$$[\text{Value Added}] = [\text{Present Value of Net Benefits}] - [\text{Present Value of Net Investment}]$$

MillRace IT and Value Added

In the table below, we determine the 'value added' by MillRace IT. To arrive at these figures, we take the total benefits created per year, or the 'aggregate benefits'. Next, we multiply the new figure of £118,150 by the attribution rate of 75% to determine how much is MillRace IT's share, arriving at £88,613. From there we subtract the investment amount from the MillRace IT share of value created to determine the MillRace IT share of 'value added', or £78,288.

	Total value created	MillRace IT share	Investment	Value added	MillRace IT share	VA per participant	MillRace IT share
Aggregate benefits	£ 118,150	£ 88,613	£ 10,325	£ 107,825	£ 78,288	£ 3,692	£ 2,446
Less deadweight	£ 116,200	£ 87,150	£ 10,325	£ 105,875	£ 76,825	£ 3,631	£ 2,401

We can then divide this number according to the number of participants to arrive at a share per employee or participant. We then run through the same calculations on the second row to factor in the deadweight from the recycling. In the end, we arrive at MillRace IT's share of value added, which is £76,825, or £2,401 per participant.

Step two: Calculating the Payback period

Payback period describes how long it would take for an investment to be paid off. Specifically, at what point does the amount of the investment equal the value of the social returns generated by a project or organisation? Many funders and investors use this kind of calculation as a way to determine how risky a project is. While a short payback period is generally desirable. However, a long payback period is a feature of activities that can generate significant, long-term change, thus requiring longer-term core funding.

To calculate, first divide annual net benefits for all participants by 12 to get net benefits per month. Then divide net investment by net benefits per month to get payback period in months.

When aggregate benefits differ each year, you will need to calculate one year at a time. For example, the payback period for YouthWork is between one and two years, so the 'net investment' in the second year is the initial funding less aggregate benefits created in year 1. The basic formula is below.

$$[\text{Payback Period in Months}] = \frac{[\text{Net Investment}]}{\left(\frac{[\text{Aggregate Annual Net Benefits}]}{12} \right)}$$

Step three: If applicable, determine the discount rate, part of 'time value of money'

Because earnings from a job today are worth more than earnings in the future, you need to discount future earnings to obtain a present value. For example, if someone offered to give you either £100 today or £100 two years from now, which would you choose? The discount rate you use should reflect the uncertainty (or risk) of achieving the estimated benefits, as well as the uncertainty of your assumptions. **nef** normally uses the HM Treasury recommended rate for project proposal as set out in the Green Book, which was 3.5 per cent in September 2004. Other organisations, especially those in the United States, often use a government bond rate, such as the London Inter-Bank Offered Rate (LIBOR, which can be found in financial newspapers), plus a risk premium.

Step four: Consider the 'benefit period'

Be as realistic as possible about assuming a time period over which your model will account for accrued benefits. The period should be long enough to comprise most of the benefits your activities will generate, but not so long as to overestimate your impacts. The longer the period, the more likely other interventions will contribute to the impacts, such as another training course that leads to a promotion.

Step five: Calculate the present value of benefits

To calculate the present value (PV) of each year's net benefits generated over the specified period, use a discounted cash flow model, set out in the formula below. You can calculate the present value of multi-year grant funding disbursements in the same way, by substituting grant funding received in a given year for 'net benefits' in the formula below.

$$\text{PV of Benefits} = \frac{\text{Net Benefits Year 1}}{(1+r)} + \frac{\text{Net Benefits Year 2}}{(1+r)^2} + \frac{\text{Net Benefits Year 3}}{(1+r)^3} + \frac{\text{Net Benefits Year 4}}{(1+r)^4} + \frac{\text{Net Benefits Year 5}}{(1+r)^5}$$

Continuing with the YouthWork example (see below), we can calculate the present value of benefits. Using a discount rate of 3.5 per cent, the present value of all benefits over the five-year period is £2,464,750.

YouthWork example: Present value of benefits

Below are the present value calculations for the social benefits created by YouthWork. We also provide calculations that include assumptions for deadweight and drop-off to illustrate the potential impact of these factors

PV of benefits

$$\mathbf{£2,464,750} = \frac{£498,750}{(1.035)} + \frac{£517,575}{(1.035)^2} + \frac{£557,050}{(1.035)^3} + \frac{£573,625}{(1.035)^4} + \frac{£590,750}{(1.035)^5}$$

PV of benefits less deadweight

$$\mathbf{£2,218,275} = \frac{£448,875}{(1.035)} + \frac{£465,818}{(1.035)^2} + \frac{£501,345}{(1.035)^3} + \frac{£516,263}{(1.035)^4} + \frac{£531,675}{(1.035)^5}$$

PV of benefits less deadweight and drop-off

$$\mathbf{£1,750,444} = \frac{£498,750}{(1.035)} + \frac{£414,060}{(1.035)^2} + \frac{£389,935}{(1.035)^3} + \frac{£355,648}{(1.035)^4} + \frac{£319,005}{(1.035)^5}$$

Grant funding obtained at the start of a programme does not need to be discounted, since it is received 'today'. However, some funding is distributed over several years during a programme, and any funds received in future years would need to be discounted along with any forecasted benefits.

Top Tip: getting help from Excel Software

Microsoft Excel software has a function for determining present value. It allows you to enter the discount rate, time period and amount. Depending on what you are looking for in terms of present or future value, the equation you set up may change. However, the help function in Excel can walk you through how to set up the calculation.

Next, use the data in your model to calculate value added, SROI ratio, and payback period. Importantly, perform a sensitivity analysis to see how changing your assumptions can impact results.

Although it is possible to produce a single result without any sensitivity analysis we strongly recommend that some sensitivity analysis is included and that the social return is presented as a range.

Step six: Calculate the Social Return on Investment

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is the ratio of the net present value of the benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

$$[\text{SROI}] = \frac{[\text{Value of Benefits}]}{[\text{Value of Investment}]}$$

Case study: MillRace IT

SROI

The returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing training and support for disabled people. Therefore, no benefits are projected forward. Therefore, the calculations that we do in this instance for SROI are simply:

$$\text{SROI} = \frac{\text{Net benefits}}{\text{Net investment}}$$

Therefore, to determine the SROI we complete the following calculation:

$$\text{SROI} = \frac{£76,825}{£10,325}$$

SROI generated by MillRace IT

	Total value created	MillRace IT share	Investment	SROI	MillRace IT share
Aggregate benefits	£107,825	£78,288	£10,325	10.44	7.58
Less deadweight	£105,875	£76,825	£10,325	10.25	7.44

MillRace IT Sensitivity Analysis

Indicator	Baseline assumption	New assumption	SROI
Grant income (£)	10,325	5,000	15
		20,000	4
Number of participants that enter full time employment	3	5	9.6
		0	4.1
Share of outcome (attribution)	75%	90%	9.2
		60%	6.2
Cost per client to NHS (£)	20,561	30,000	11
		10,000	3.3
Number of participants that no longer need intensive health treatment	5	10	15.4
		0	-0.5

Understanding the sensitivity analysis

Since our calculations depend largely on assumptions, it is prudent to test the sensitivity of those assumptions. We change five areas in the MillRace IT case:

- Amount of grant income (or investment)
- Number of participants that move into full time employment
- MillRace IT's share of outcome (or attribution rate)
- Care cost per client to the National Health Service
- Number of participants that no longer need intensive treatment

These categories were chosen because they are the ones that are most important in framing the SROI model for MillRace IT. The key finding of the sensitivity analysis is that the SROI ratio remains well above 1:1 for all assumption adjustments, except if the number of people no longer receiving in-patient care, or a similarly priced Government funded health service, drops to zero. Again, it is important to stress that the use of in-patient hospital care is a proxy to stand in for the total amount the Government spends on treating those with mental ill health, until more specific data becomes readily available.

Step seven: Conduct the Sensitivity analysis

After calculating an SROI ratio, it is important to assess the extent to which your results would change if your assumptions changed. This is referred to as a 'sensitivity analysis'. This shows which assumptions have the greatest impact on your model. For example, in MillRace IT, if we assumed that no people moved on to full time employment, but 80% of participants no longer required NHS care, how would our SROI ratio change?

Within a sensitivity analysis, we create a table and then change one assumption at a time, re-calculating the SROI at every step. When we are done, we can see clearly which assumptions cause the greatest change in the SROI figure.

The indicator most sensitive to changes in value is the number of participants that no longer require in-patient treatment. Doubling this number from 5 to 10 raises the SROI ratio from 7.4 to 15.4. Conversely, if none of the participants in a given intake has moved on from in-patient care to MillRace IT, the SROI ratio changes from 7.4 to -0.5. The next most sensitive indicator is the number of participants that move into full time employment per intake. If the number of people who gain employment increases from 3 to 5, the SROI ratio changes from 7.4 to 9.6. Conversely, if none of the participants' gains employment but all of the other assumptions remain constant, the SROI ratio drops from 7.4 to 4.1.

These numbers indicate that to some extent, people no longer requiring significant Government funded support is almost equally important to people gaining employment.

9.1

Calculate the social return on investment, value added, payback period, and sensitivity analysis for your organisations.

Checklist

- Have you included all data in your model, referencing all sources?
- Have you been clear about what assumptions you are making?
- Have you performed a sensitivity analysis on the assumptions in your model?



Stage 10: Report

Consider and present the results in a way that brings out the subtleties and underlying limitations and assumptions.

Your final report should comprise much more than the social returns calculated. It is important that the report is a transparent reflection of what you have included. Consider including the following quantitative and qualitative information to produce a comprehensive and considered report:

- Information relating to the organisation and discussion of its work and activities
- A financial analysis of the organisation
- A stakeholder map (Stage 2)
- Description of the process undertaken to carry out the SROI analysis, and the scope and restrictions of the analysis (Stage 3)
- An impact map and relevant indicators (Stages 5 and 6)
- Calculated returns (Stage 8 and 9)
- An analysis of the results, including a sensitivity analysis
- Description of indicators that have not been measured or monetised
- Discussion of all assumptions, estimates and proxies used
- Supplemental information such as participant surveys and other data that help to convey the story behind the results
- Case studies of participants
- Statement informing readers seeking to use results for comparative purposes
- Independent auditor's appraisal
- How would this analysis be presented to an employee of a social firm?

Presentation of social return calculations

In presenting the social return calculations, be sure to supplement the quantitative results with a qualitative discussion that highlights the assumptions and limitations underlying the analysis. For example, include a table that shows the results of the sensitivity analysis and which describes the effect of varying your assumptions on social returns. Also discuss how any excluded programmes, stakeholders, or stakeholder objectives may limit the analysis. If comparable data is available for a similar programme or for your sector, then comparing your organisation's social returns to other organisations' returns will also give you more context.

Issues to consider

In presenting the results of your analysis, consider your audience, tailoring the qualitative discussion to each stakeholder. Stakeholders will have different objectives, and the relationship of each stakeholder to your organisation will vary. A bespoke approach can provide an impetus for new dialogue with your stakeholders.

Case study: MillRace IT

A portion of the executive summary of the MillRace IT SROI report follows and is an example of how to combine the rest of the story about social value creation along with the numbers generated by the calculations.

The aggregate social value created by MillRace IT each year is projected to be approximately £76,825. MillRace IT's SROI ratio of 7.4:1 implies that, for every £1 invested, £7.40 of social value is created each year for society in terms of reduced health care costs, reduced benefits costs, and increased taxes collected. However, there are a number of other benefits, such as increased self-confidence of those recovering from mental ill health, suggesting that the social return calculations likely underestimate the true social value created by MillRace IT.

As the SROI analysis demonstrates, MillRace IT creates value in two key ways. First, by participating in MillRace IT, clients extend the time for which they are supported and avoid a relapse in their condition. Second, a number of participants leave MillRace IT to go on to employment. By creating a supportive environment and teaching marketable skills in an area where there is much demand, MillRace IT effectively combines financial sustainability and high quality support for those recovering from mental ill health.

This report is aimed at creating a baseline for future measurement. Even without a formal evaluation system in place, SROI is a tool that meaningfully demonstrates added value.

A SROI analysis for a Social Firm, Pack IT, follows this section in Appendix C. It is an example of a complete report that can help demonstrate lessons shared within the main text of the Guide.

▲ 10.1

Prepare your SROI report. Include findings, analysis, and recommendations as to what the organisation can learn from the information generated through the entire SROI process.

Checklist

- Have you included a qualitative discussion of the assumptions and limitations underlying your analysis?
- Have you included clear statements at each stage to show where you have dropped activities, stakeholders, their issues or indicators
- Have you tailored the presentation of your results to each stakeholder?

Glossary

Attribution	The consideration of what share of an outcome is attributable to, or results from, the organisation.
Boundaries	Something that indicates or fixes a limit on or extent to your analysis
Contingent valuation	A survey-based method to establish individuals' willingness to pay for a good or service. (e.g., "Would you accept a tax of £x to pay for the programme?").
Deadweight	The effect of what would have happened anyway, without your organisation's intervention. For example, a certain number of participants in an ILM likely would have obtained a job without the programme.
Displacement	A substitution effect that occurs when the benefits claimed by a programme participant are at the expense of others outside the programme.
Distance travelled	The progress that a beneficiary makes towards an outcome objective.
Drop-off	The deterioration of an outcome objective over time, such as the number of participants each year who lose a job gained as a result of the programme. See durability of outcome.
Durability of outcome	Sustainability of the outcome objective, such as length of time a participant remains in a new job. See drop-off.
Impacts	Outcomes less deadweight and displacement.
Indicator	Information that allows performance to be measured. It is a statistical value that links an organisation's activities to their outputs and outcomes.
Inputs	The resources used to run the activity: money, people, facilities, and equipment. The investment against which the value of the impact will be compared.
Intermediate labour market company	A company with the principle objective to stimulate temporary employment and sustainable new jobs for long-term unemployed people in disadvantaged communities, which will substantially increase employability and be of direct and valued benefit to the community. The heart of an ILM company is the provision of paid work together with high quality training, personal development and active job seeking. The work experience is a stepping stone to obtaining permanent employment.

Materiality	Importance and significance of information. Information is material if its omission or misrepresentation could influence stakeholder decisions.
Monetise	Assign a financial value to an indicator. For example, jobs can be monetized through net change in participant income.
Net present value	The present (discounted) value of future cash inflows minus the present value of the investment and any associated future cash outflows.
Outcomes	Changes in the individual participants (or other stakeholders) resulting from the activity: for example, a new job, increased income or improved stability in life.
Outputs	The direct and tangible products from the activity: for example, the number of people trained.
Present value	The current value of one or more future cash payments, discounted at some appropriate interest rate.
Proxy	A value that is deemed to give a close approximation of the desired indicator.
Scope	The range or extent of activity or influence.
Social Enterprise	A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.
Social Firm	A market-led business set up specifically to create employment for disabled people.
Socio-economic	Of, relating to, or involving a combination of social and economic factors. For example, a new job can bring both economic (e.g., increased income) and social (e.g., improved life stability) benefits.
Stakeholder	Those people or organisations that affect or are affected by your organisation.
Willingness to pay	The amount an individual is willing to pay to acquire a given good or service. This may be stated or determined through revealed preference approaches.

Appendix 1. Case Study: Pack-IT

A social return on investment (SROI) analysis

Based in Cardiff, Pack-IT is a Social Firm that provides mailing, storage and distribution, and on-line fulfilment services to a variety of customers. Approximately half of the company's employees have a learning disability.

Social Firms UK, the national advocacy and support organisation for Social Firms, commissioned **nef** (the new economics foundation) to conduct an evaluation of Pack-IT to assess the company's social and economic returns to its stakeholders.

In this report we present the findings and conclusions of our evaluation, as well as estimate the social return on investment (SROI) generated by Pack-IT. Finally, we offer several recommendations to help Pack-IT more effectively deliver its social mission.

Contents

Pack-IT: A report on social return on investment

Executive summary

1. Pack-IT background
2. Social Return on Investment
3. Conclusions
4. Recommendations

Pack-IT: social return on investment framework and analysis

This report was researched and written by Susan Mackenzie.

Executive summary

Social Firms, a type of social enterprise, are businesses set up specifically to create employment for disabled people. As with strictly commercial businesses, their business models differ, as do the type of disabled people they support. Social Firms are distinctive in that they are going concerns, as opposed to time-limited, stand-alone programmes. According to Social Firms UK, the umbrella body, they are 'businesses that support' rather than 'projects that trade'. Further, as these organisations' relationships with their beneficiaries are continuous, they are better able to both capture outcomes data and to sustain their impacts. As private businesses, they also have the potential to generate meaningful independent income, reducing their dependence on grants and subsidies.

Based in Cardiff, Pack-IT is a Social Firm that provides mailing, storage and distribution, and on-line fulfilment services to a variety of customers. Approximately half of the company's employees have a learning disability. Moreover, the company tends to take on those who are especially disadvantaged and who have the greatest difficulty obtaining and sustaining employment.

This SROI analysis of Pack-IT, commissioned by Social Firms UK, focuses on the *incremental* social value created by the company by employing disabled people, over and above what would be expected if all of its employees were non-disabled. The returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing employment of disabled people. Therefore, no benefits are projected forward.

The aggregate social value created by Pack-IT each year is projected to be £71,600, which translates into value added of £33,700 after adjusting for the value of the grant and wage subsidies. Pack-IT's SROI ratio of 1.9:1 implies that, for every £1 invested, £1.90 of social value is created each year for society in terms of reduced welfare costs and increased local purchasing. However, there are a number of other benefits, such as increased self-confidence and independence of the disabled employees, suggesting that the social return calculations likely underestimate the true social value created by Pack-IT.

Standing out among Social Firms, Pack-IT has achieved its success and sustainability by effectively blending business acumen with personal commitment to its employees. Moreover, while Pack-IT's senior management take a business approach to running their organisation, they also actively support the personal and professional development of all its employees. The impact of this active support and encouragement is evident in the increased self-confidence and independence of Pack-IT's employees. It is this 'distance travelled' that is Pack-IT's most significant social impact, but which is also the most difficult to monetise. As summarised by one of the company's partner agencies, "Pack-IT is truly special".

Based on our evaluation, **nef** makes the following recommendations to help Pack-IT more effectively deliver its social mission.

1. Maintain collaboration with partner agencies;
2. Uphold employees' welfare as an integral factor in business strategy development;
3. Seek external advocates to more effectively promote Pack-IT's mission and model; and
4. Better capture social outcomes data.

1. Pack-IT background

In 1988 Pack-IT was established as a day care facility to provide training opportunities and permanent paid employment for people with learning disabilities. Today Pack-IT is a Social Firm providing mailing, storage and distribution, and on-line fulfilment services to a variety of clients, including blue chip companies, government departments, printers, agencies, and Internet retailers. In addition to its three main business functions, the company also offers database/address management, electronic data transfer, laser printing, list management, bulk label production and bulk storage. Pack-IT operates from a 30,000 sq ft warehouse in an industrial area located in the eastern side of Cardiff.

Approximately half of Pack-IT's 16 employees have a learning disability. Moreover, the company tends to take on those who are especially disadvantaged and who have the greatest difficulty obtaining and sustaining employment. Pack-IT's non-disabled employees range widely in age and come from varied backgrounds, though all of them feel 'part of the team' and share a desire to make a positive impact on the company. Staff turnover is very low, with several employees having been with the company for over 10 years.

Managing Director John Bennett, has been with Pack-IT since 1995 and is largely responsible for the company's turnaround, having achieved profitability in 1999. His employees and their Employment Development Co-ordinators at Pack-IT's partner agencies praise him for being approachable and for taking an active interest in their welfare.

The company's strategy is three-fold: (1) to continue growing its direct mail, address management and on-line fulfilment businesses; (2) to replicate its business model in related markets; and (3) to secure a stable future for all those connected with the Pack-IT Group.

As stated in its business plan, Pack-IT's strategic objectives are:

1. To grow its business by locating similar opportunities within related markets;
2. To set up two replications of the Pack-IT model by March 2006;
3. To be a technically sound company able to proffer help and advice to new customers while supporting the growth and development of existing customers;
4. To be considered by its peers as a company of good worth and good reputation; and
5. To maintain the company's ethos and endeavour to give people with learning difficulties opportunities to contribute to the continuing success of the company.

2. Social Return on Investment

nef's SROI framework helps organisations understand and quantify the social value that they are creating. It is a measurement approach, developed from traditional cost-benefit analysis, which captures social value by translating social objectives into financial, and non-financial, measures.

What is SROI analysis?

SROI analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. The SROI ratio is the discounted, monetised value of the social value that has been created and which can be measured by an organisation. Comparing this value to the investment required to achieve that impact produces an SROI ratio. An SROI analysis should not be restricted to one number, however. Rather, it presents a framework for exploring an organisation's social impact, in which monetisation plays an important, but not exclusive, role.

What is different about nef's approach?

SROI was pioneered by REDF, a San Francisco-based venture philanthropy fund. The concept has since evolved into a widely used, global framework, which has been supported and co-developed by **nef**.

In 2003, **nef** began exploring ways in which SROI could be tested and developed in a UK context. An important goal of the project was to advance an approach to SROI that is as widely applicable and usable as possible.

The four key features of **nef**'s SROI analysis are incorporated in an approach to engaging with stakeholders to determine (1) who and (2) what is important, or material, to an organisation; (3) the development of a story about how the organisation effects change (referred to by **nef** as an *impact map*); and (4) an estimation of the value that would have been created if the organisation had not existed (referred to by **nef** as *deadweight*).

Stakeholder approach

Given that SROI is about giving a financial voice to excluded values and benefits, the process of engaging with stakeholders and selecting the important benefits is critical. Stakeholder engagement is at the heart of SROI.

Materiality

SROI analysis focuses on the important, or material, impacts of an organisation – that is, those areas that should be included in order for stakeholders to make decisions based on the SROI analysis. Materiality can be identified through consideration of its stakeholders, its internal policies, the activities of its peers, public policy, and the pragmatic question of what the organisation can afford.

Impact map

The impact map tells a story about how the organisation effects change – that is, how it delivers on its mission. Based on stakeholder objectives, it links inputs (i.e., funding and other resources) through to outputs, outcomes, and impacts. Value can also be determined at the individual stakeholder level.

Attribution - in calculating impacts, the organisation must recognise the contribution made by others to the outcomes. Attribution also encompasses deadweight (what would have happened anyway, calculated through the use of available benchmark data and proxies) and displacement (i.e., substitution effect, which occurs when the benefits claimed by a programme participant are at the expense of others outside the programme).

SROI analysis of Pack-IT

SROI analysis is particularly suitable to Social Firms, which typically generate monetisable social benefits through employment of disadvantaged individuals who otherwise may not enter the workforce. For example, we can measure and monetise the social value of increased employment through reduced welfare payments and increased income paid to these individuals. The social value created by Pack-IT is assessed against the extra support received by the company, measured by grant funding and wage subsidies.

Our analysis does not attempt to measure less tangible benefits, such as increased independence and self-confidence of the disabled employees, which are important and potentially significant. Various proxies to monetise this personal development benefit to the individual employees were considered, but it was decided not to include a monetary value in the final SROI calculations. In summary, due to the exclusion of these personal development benefits, the social returns calculated in this analysis will understate the true social value created by Pack-IT.

In this section we present a summary of the social return calculations. We also consider the impact of *deadweight* (i.e., what would have happened anyway, should Pack-IT had not existed). Please refer to Section 6 for more detail on **nef**'s SROI analysis of Pack-IT.

Attribution

The outcomes achieved by Pack-IT's employment of disabled individuals are also influenced by the support network of these employees, which primarily constitutes their family members, Employment Development Co-ordinators at Remploy and Shaw Trust and caseworkers from Social Services. **nef** believes that Pack-IT by far makes the greatest contribution, due largely to the fact that it provides the means for employment, as well as to the type and amount of personal support provided by each stakeholder.

Families are perhaps the next most significant factor, although circumstances vary by employee. For example, for three of the interviewees, one has parents who are actively supportive, another has parents whose impact is probably neutral, and the third lives in a home environment that is arguably detrimental to her personal development.

Remploy and Shaw Trust also offer valuable support, although their interaction with the clients is, with one exception, relatively limited, at roughly four-to-six visits annually, compared to the day-to-day contact by Pack-IT management.

Finally, we estimate the contribution of Social Services to be marginal, based on the minimal contact the caseworkers have with Pack-IT employees.

Value added

Value added measures, in absolute terms, the value that an organisation has created through its activities. It is the difference between the net present value of benefits and the net present value of investment.

$$[\text{Value Added}] = [\text{Value of Benefits}] - [\text{Value of Investment}]$$

The aggregate social value created by Pack-IT each year is projected to be £71,600. This translates into value added of £33,700, which is the social value of the programme over and above the costs of the investment (£37,900 in grant funding and wage subsidies). Value added per disadvantaged employee is £4,800.

$$\text{Pack-IT value added: } £33,700 = £71,600 - £37,900$$

SROI

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is the ratio of the net present value of the benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

$$[\text{SROI}] = \frac{[\text{Value of Benefits}]}{[\text{Value of Investment}]}$$

The projected SROI ratio for Pack-IT is 1.9:1. Thus, for every £1 invested, £1.90 of social value is created each year for society in terms of reduced welfare costs and increased local purchasing. Although availability of comparable data for other Social Firms is limited, any return greater than 1:1 is a good result and argues for further investment.

$$\text{Pack-IT SROI: } 1.9:1 = £71,600 / £37,900$$

Sensitivity analysis

Since our calculations depend largely on assumptions, it is prudent to test the sensitivity of those assumptions on the SROI ratio. Table 9 in the Appendix details the sensitivities of these assumptions.

One indicator that is fairly sensitive to changes in value is our deadweight assumption for the number of disabled employees who would have obtained and

sustained employment elsewhere. Lowering this number from 1 to 0 raises the SROI ratio from 1.9 to 2.2. Conversely, the investment 'breaks even' at four employees. That is, the SROI ratio drops below 1.0, implying a negative return, when the number of disabled employees who would *not* have found sustainable employment elsewhere is fewer than four.

Similarly, eliminating from the model all day-care benefit costs saved to government lowers the SROI ratio to 1.0. However, these savings accrue to local government, which supports Pack-IT through an annual grant from Social Services. Thus Social Services may reconsider its investment should Pack-IT (1) recruit employees who were not otherwise likely to use day-care services, or (2) recruit insufficient numbers of disabled people. Social Services would break-even on its £22,000 investment with only two disabled employees at Pack-IT who otherwise would be in day care. Further, elimination of the grant, all else being equal, more than doubles the SROI ratio, from 1.9 to 4.5.

Summary

1. The aggregate social value created by Pack-IT each year is £71,600, which translates into value added of £33,700 after adjusting for the value of the grant and wage subsidies. Pack-IT's SROI ratio of 1.9:1 implies that, for every £1 invested, £1.90 of social value is created *each year* for society in terms of reduced welfare costs and increased local purchasing.
2. For those impacts that have been monetised, government is by far the greatest beneficiary. For each disadvantaged employee, national and local government each gain £7,000–£8,000 annually, primarily through reduced welfare costs.
3. Local government receives a direct return on investment on its grant from Social Services. Each year its grant of £22,000 returns, on average, £54,000 in social value, translating into an SROI ratio of 2.5:1. Social Services would 'break-even' on its grant at two day-care beneficiaries being employed at Pack-IT.
4. On a strictly economic basis, the employees' net increase in income is marginal, and for some employees may even be negative. However, the greatest benefits to these individuals are other outcomes that advance their personal development, such as increased self-confidence and independence, which are difficult to monetise.
5. Pack-IT's value added per disadvantaged employee is £4,800 annually, which is comparable to several other initiatives that seek to help disadvantaged individuals obtain and sustain employment.
6. The SROI ratio is sensitive to our deadweight assumption for the number of disabled employees who would have obtained and sustained employment elsewhere, with Pack-IT's social returns becoming negative when the number of disadvantaged employees who would *not* have found sustainable employment elsewhere is fewer than four.
7. As mentioned previously, there are a number of other benefits that have not been monetised, such as increased self-confidence of the disadvantaged employees and respite from care for their parents, suggesting that the social return calculations likely underestimate the full social value created by Pack-IT.

Acknowledgments

nef would like to thank John Bennett and his team at Pack-IT for their information, input and patience, as well as Sally Reynolds at Social Firms UK, for her essential support.

3. Conclusions

Standing out among Social Firms, Pack-IT has achieved its success and sustainability by effectively blending business acumen with personal commitment to its employees. Management takes a business approach to running its organisation, selling its services based strictly on quality and cost. In fact, few of its customers are even aware that Pack-IT is a Social Firm. However, the company

does incur social costs by employing disadvantaged individuals. For example, unlike its strictly commercial competitors, Pack-IT carries higher overhead costs due to the extra support required. Therefore, the wage subsidy received from Remploy and Shaw Trust provides an important contribution to these social costs.

Yet, Pack-IT is able to remain competitive with its purely commercial rivals by cultivating a work force that meets or exceeds its customers' demands. Senior management is skilled at matching individual aptitude to individual tasks, "focusing on employees' abilities rather than their disabilities", and has created an open and supportive working environment in which every employee feels part of the team.

Crucially, management takes an active interest in the personal and professional development of the staff. For example, senior management works collaboratively with its partner agencies and the employees' families to provide personal, one-on-one support to the employees. An Employment Development Co-ordinator at one of the partner agencies' estimated that management had spent 60–70 hours over an 18-month period with one of her clients who has complicated personal circumstances. Furthermore, management encourages its employees to advance in the company by obtaining professional qualifications and earning (and accepting) promotions; and then recognises them for their contributions. This recognition is duly appreciated: the Employee of the Month award is very popular among the staff. Pack-IT was successful in applying for IiP (Investors in People) in 2005, illustrating its commitment to workforce support.

The impact of this active support and encouragement is evident in the increased self-confidence and independence of Pack-IT's employees. For example, since joining the company they have become both more assertive and more socially active. It is this distance travelled that is Pack-IT's most significant social impact, but which is also the most difficult to monetise. Given these employees' special needs, it is doubtful that they could have obtained other employment that would have been both sustainable and conducive to the level of personal growth that they have achieved at Pack-IT. As summarised by one of the company's partner agencies, "Pack-IT is truly special".

4. Recommendations

Based on our evaluation, **nef** makes the following recommendations to help Pack-IT more effectively deliver its social mission.

1. Maintain collaboration with partner agencies

Remploy and Shaw Trust provide important support to Pack-IT and its employees and contribute meaningfully to the social impacts generated by the company. First, they foster the personal development of their clients through the impartial championing of their interests. Second, they contribute to the sustainability of the business through wage subsidies paid to Pack-IT.

2. Uphold employees' welfare as an integral factor in business strategy development

Pack-IT has already made its commitment to its employees a strategic business objective. However, as the company considers geographical expansion and model replication, it is important to recognise and acknowledge the crucial role played by senior managers, especially the Managing Director, in the personal development of its staff.

In order to successfully replicate its business model, Pack-IT must also replicate its culture of mutual support; its 'relaxed', 'friendly' working environment; its 'direct' and 'approachable' management style; and, perhaps most importantly, the strong personal commitment to each employees' personal and professional welfare that is promoted and upheld by the company's Managing Director.

3. Seek external advocates to more effectively promote Pack-IT's mission and model

Given internal resource constraints, Pack-IT should seek external resources to help publicise the company's successes, to better educate the public about the Social Firm model and its employees, to engage the local community, and to advocate on its behalf on public-policy matters relevant to Social Firms. In this regard,

management should consider how it might best utilise its non-executive directors as well as available resources at Social Firms UK. Specifically, management should consider how it might work, to mutual benefit, with Social Firms UK to share its learning with other Social Firms.

4. Better capture social outcomes data

For a more accurate SROI analysis, Pack-IT should collect more accurate data on the welfare benefits of disadvantaged individuals at the time of joining the company, as well as the 'distance travelled' of these employees over time. To date, this information has been captured largely through anecdotes and estimates. Further, management should track the progress of work placement trainees after they leave the programme, as Pack-IT is partially responsible for these outcomes, which may be significant.

Pack-IT: social return on investment framework and analysis

SROI framework and analysis

This appendix sets out the framework for **nef**'s approach to SROI analysis and our estimation of the social returns achieved by Pack-IT. **nef** derived the programme's SROI through a 10-stage process, defined in Table 1.

Table 1: The 10 stages of a nef SROI analysis

Understand and plan

Stage 1: Understand the nature of the impact you want to measure - is it one project, or the whole organisation? Create the scope for the analysis - how much time do you have to spend on it, and who will comprise the team?



Stakeholders

Stage 2: Now that you know what you want to measure, who are the stakeholders? Identify who they are and gain input to understand what their goals and objectives are for the organisation or project.



Boundaries

Stage 3: Create the framework for the analysis and begin to prepare background information. Describe how the project or organisation works, decide the time period you want to collect data for, and learn more about the main target group, or beneficiaries.



Impact map and indicators

Stage 4: Understand how stakeholders participate through inputs, outputs, outcomes, and impacts. In answering this, it becomes clearer how social value is created.



SROI Plan

Stage 5: At this point, we consolidate where we are in the process by summarising what we know so far. Lay out a plan and timetable for collecting the remaining data, completing the calculations, writing up the report and sharing findings with stakeholders



Implement the plan and Data collection

Stage 6: Collect the remaining data.



Projections

Stage 7: Determine whether or not the monetised values of the costs and benefits can be projected over future years. The choice of the number of years to be used for projections will be determined by the nature of the project or organisation.



Analyse income and expenditure

Stage 8: Examine financial accounts. Look at how resources used relate to different project areas. Investigate whether or not financial information is reported in a way that links it to social, economic or environmental objectives.



Calculate SROI

Stage 9: Create a discounted cash flow model using gathered data and projections. Calculate the present value of benefits and investment, total value added, SROI ratio and payback period. Use sensitivity analysis to identify the relative significance of data.



Report

Stage 10: Consider and present the results in a way that brings out the subtleties and underlying limitations and assumptions.



Stage 1: Understand and Plan

At this stage an initial project plan was developed. We established that the study would evaluate the social return on the financial investment of employing disadvantaged people. The main audiences would be:

- the managing director of Pack-IT as the decision maker in the organisation
- the advocacy organisation in their role of promoting the benefits of Social Firms
- the current and potential investors and funders of Pack-IT

The SROI study would cover a one year timescale. **nef** was engaged to carry out the study. The necessary information was taken from existing records or through interviews. Pack-IT and the **nef** researcher discussed the aims and benefits of an SROI study, and drafted a work plan together.

The aims of doing the SROI study were:

- To show how employing disadvantaged people brings social and economic benefits to this group and other stakeholders.
- Evaluating the potential use of SROI for Social Firms UK
- Making recommendations to the managing director for future planning and evaluation.

At this stage the purpose, objectives and long-term vision of Pack-IT were documented.

Stage 2: Stakeholders

Key Pack-IT stakeholders and their objectives are listed in Table 2. The information is based on in-person interviews with five disabled and four non-disabled employees and the families of two disabled employees; and phone interviews with both partner agencies and one non-executive Board member, who is also a customer. No interviews were conducted with other customers and suppliers, as their objectives were believed to be purely commercial. Local community representatives also were not interviewed owing to resource constraints. Objectives for national government and the local council, which includes Social Services, were determined through guidance from Pack-IT management, Remploy and Shaw Trust.

Table 2: Pack-IT stakeholder map

Stakeholder	Indicator	Objectives
Disadvantaged employees (7 FTE)	<ul style="list-style-type: none"> • Learning disabled (6) • Disadvantaged (1) 	<ul style="list-style-type: none"> • Increased self-confidence • Increased independence
Non-disabled employees(9 FTE)	<ul style="list-style-type: none"> • Employees without a disability or disadvantage 	<ul style="list-style-type: none"> • Responsibility in job role • Professional advancement • Income • Increased self-esteem (want to 'feel valued')
Board of directors (2)	<ul style="list-style-type: none"> • Executive directors (2) • Non-executive directors (2) 	<ul style="list-style-type: none"> • Run a sustainable business 'with an ethos'
Disadvantaged employees' Families	Family members, typically parents or partners of the disadvantaged employees	<ul style="list-style-type: none"> • Increased independence and self-confidence of family member • Respite from care of disabled family member
Partner agencies (2)	<ul style="list-style-type: none"> • Remploy and Shaw Trust, national charities that help disadvantaged people find and sustain employment 	<ul style="list-style-type: none"> • Sustained employment for clients • Increased independence and self-confidence of clients
National government	<ul style="list-style-type: none"> • Internal Revenue • National Insurance • DWP 	<ul style="list-style-type: none"> • Increased tax contribution • Reduced welfare benefit costs
Local government	<ul style="list-style-type: none"> • Local council • Social Services (part of local council) 	<ul style="list-style-type: none"> • Reduced Social Services costs • Increased local employment • Increased local purchasing
Local community	<ul style="list-style-type: none"> • Residents • Community organisations 	<ul style="list-style-type: none"> • Increased corporate support/sponsorship • Increased local employment • Increased local purchasing
Customers	<ul style="list-style-type: none"> • Commercial businesses • Local government 	<ul style="list-style-type: none"> • Competitive prices • Quality work
Suppliers	<ul style="list-style-type: none"> • Suppliers of COGS 	<ul style="list-style-type: none"> • Repeat business

Stage 3: Boundaries

This SROI analysis specifically concerns the disadvantaged employees at Pack-IT for the current year. As of June 2005, six of Pack-IT's employees had a learning disability, and one was otherwise disadvantaged. For six of these employees, Pack-IT received a wage subsidy from its partner support agencies, Remploy and Shaw Trust.

Pack-IT also has nine non-disabled employees; however the SROI analysis excludes these employees as the analysis focuses on the *incremental* social value created by the company by employing disabled people, over and above what would be expected if all of its employees were non-disabled.

The company also supports workplace training for 7–10 disadvantaged individuals each year, which lasts approximately 6 weeks per trainee. However, as Pack-IT management believes that the trainees typically do not progress immediately to open employment, they are excluded from the SROI analysis due to the projected immateriality and uncertainty of the outcome.

All employees are residents of greater Cardiff, where Pack-IT is located.

Finally, the returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing employment of disadvantaged individuals. Therefore, no benefits are projected forward.

Stage 4: Analyse income and expenditures

As the study looks at the social return on the investment required to employ disadvantaged people over and above non-disabled people, the sources of finance and uses of resources relate to the incremental revenues/costs for this group. This information was found in the Pack-IT accounts.

Incremental sources of finance received: total of £37,900 consisting of:

- Social services grant of £22,000
- Wage subsidy of 30% from partner agencies

Incremental use of resources: nil

Note: although the organisation pays the employees, this is not considered an expense because, like all employees, they are paid for their work.

Stage 5: Impact map and indicators

In this stage we drop certain stakeholders from the analysis. For example, non-disabled employees, company directors, customers and suppliers are excluded due to the immateriality of their outcome objectives to the analysis. The outcome objectives of the disadvantaged employees' families, partner agencies and the local community are also excluded to avoid double-counting objectives, as their objectives are the same as those of the disadvantaged employees – namely, increased independence and self-confidence of the client/family member/employee; or to local government – namely, increased local employment and purchasing. However, partner agencies are still included in order to capture their inputs of wage subsidies.

Inputs and outputs

As illustrated in Table 3, inputs vary by stakeholder, with local government (i.e., Social Services) and partner agencies providing the financial inputs of grant funding and wage subsidies, respectively. Due to the nature of a Social Firm, the material output for all stakeholders is employment of disadvantaged individuals.

Outcomes

Outcome objectives for the disabled employees relate primarily to increased independence and self-confidence. Income was not cited as an objective by any of the interviewees, but is presumed to be a means to achieving greater independence and self-confidence. Moreover, several of the interviewees exhibited pride in having their wages paid in their name to their own bank account. Furthermore, we estimate that the net income gained (i.e., wages less taxes and welfare benefits lost through becoming employed) is marginal, although this would vary by individual.

As explained above, outcome objectives of the partner agencies are the same as those of their clients, and so will be excluded to avoid double-counting. Government's outcome objectives relate largely to increased tax contribution and reduced welfare benefits costs. The objectives of the local community are presumed to be increased local employment and purchasing – both of which are shared objectives with local government – and corporate sponsorship of local initiatives.

Increased local purchasing, an objective of both local government and the local community, is captured through a proxy measure for local government – but not for local community, so as to avoid double-counting the value generated. Due to the increased self-confidence and independence gained from working at Pack-IT, the disadvantaged employees engage in, and spend money on, more social activities, such as going to the cinema, shopping, and attending classes as part of a weight loss programme. Thus, this increase in local procurement is likely to be incremental to that undertaken by non-disabled employees, who likely were already part of the workforce.

Impacts

Impacts are outcomes less attribution effects, which includes the extent to which the outcomes are achieved due to the efforts of other organisations and individuals, as well as consideration for what would have happened anyway had Pack-IT not existed, referred to by **nef** as deadweight. Thus, we focus on the *incremental* benefit of employing disadvantaged individuals, over and above what would be expected if all of its employees were non-disabled.

For example, because Pack-IT could choose to fill the roles of its disadvantaged employees with all non-disabled people, the same amount of Income Tax and National Insurance contribution would be generated, implying that deadweight is 100 per cent – that is, taxes paid are the same whether the employee has a disability or not. Similarly, the objectives of increased local employment (local government and the local community) and corporate sponsorship (local community) could be met regardless of whether the employees were disadvantaged or not, and are consequently excluded from the calculations.

Deadweight for the disabled employees is reflected in the assumption that a certain number of them would have found and sustained work elsewhere. However, although two of the five interviewees suggested that they would get another job should they be forced to leave Pack-IT, this is largely attributed by their parents and Employment Development Co-ordinators to the self-confidence gained and new skills learned while working at the company. In fact, most of the disabled employees have held jobs before joining Pack-IT but could not sustain them, due largely to a lack of a 'constructive' working environment. Meanwhile, all of the interviewees cited the working environment at Pack-IT as a key benefit, describing it as 'friendly', 'supportive', 'informal' and 'relaxed'.

Notably, both Remploy and Shaw Trust expressed confidence that they would be able to place all their Pack-IT clients in other, strictly commercial, jobs; however, other stakeholders – including Pack-IT representatives, the clients' families and the clients themselves – raised concerns that the clients could sustain or even desire such employment given past experience. Importantly, the assumption for 'what would have happened anyway' is what would have been the expected outcomes if Pack-IT had never existed, rather than if the company ceased to exist now. That is,

social value has already been created by Pack-IT. We test the sensitivity of our assumption for this 'deadweight' in Stage 6.

We assume displacement to be nil, given the inherent difficulty of this target population to obtain and sustain employment. Attribution is addressed at the end of the process, by estimating the portion of the impacts achieved due to Pack-IT, relative to other related parties, such as the partner agencies, Social Services and the employees' families.

Table 3: Impact Map

Stakeholder	Inputs	Outputs	Outcomes
Disadvantaged employees	<ul style="list-style-type: none"> • Time and resources 	<ul style="list-style-type: none"> • Employment 	<ul style="list-style-type: none"> • Increased self-confidence • Increased independence • Increased income
Partner agencies	<ul style="list-style-type: none"> • Wage subsidy 	<ul style="list-style-type: none"> • Employed client 	<ul style="list-style-type: none"> • Increased independence and self-confidence of clients
National government	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Employed disabled person 	<ul style="list-style-type: none"> • Increased tax contribution • Reduced welfare benefit costs
Local government	<ul style="list-style-type: none"> • Grant funding 	<ul style="list-style-type: none"> • Employed disabled person 	<ul style="list-style-type: none"> • Reduced Social Services costs • Increased local employment • Increased local purchasing

Indicators have been assigned for each objective in the Impact Map, and are listed in Table 4. The values for these indicators are detailed in *Stage 5: Data Collection*, as are sources of the data and explanations for proxies and estimates. Please also refer to *Stage 3: Impact Map* for further discussion of these indicators.

As stated previously, we do not monetise the benefit gained by the disabled employees through increased self-confidence and independence, and thus have not assigned indicators to these benefits.

Table 4: Indicators

Stakeholder	Inputs	Outputs	Outcomes	Impacts
Disadvantaged employees	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Number of disadvantaged employees • Annual wages per disadvantaged employee 	<ul style="list-style-type: none"> • Net increased income 	<ul style="list-style-type: none"> • Number of disadvantaged employees who would have found and sustained work without Pack-IT
Partner agencies	<ul style="list-style-type: none"> • Amount of wage subsidy 	<ul style="list-style-type: none"> • Number of employed clients 	<ul style="list-style-type: none"> • See outcomes for disadvantaged employees 	<ul style="list-style-type: none"> • See impacts for disadvantaged employees
National government	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Number of disadvantaged employees • Annual wages per disadvantaged employee 	<ul style="list-style-type: none"> • Amount of Income tax and National Insurance contribution • Amount of welfare benefit costs saved 	<ul style="list-style-type: none"> • Taxes: amount of taxes paid resulting from employment of disadvantaged individuals • Welfare benefits: amount saved resulting from employment of disadvantaged individuals

	Inputs	Outputs	Outcomes	Impacts
Local government	<ul style="list-style-type: none"> Amount of grant funding 	<ul style="list-style-type: none"> Number of disadvantaged employees 	<ul style="list-style-type: none"> Amount of Social Services costs saved Net increase in local employment Incremental increase in weekly local procurement 	<ul style="list-style-type: none"> Social Services: amount saved resulting from employment of disadvantaged individuals Local employment: net increase resulting from employment of disadvantaged individuals Local purchasing: Number of disadvantaged employees who would have found and sustained work without Pack-IT

Stage 6: The SROI Plan

At this stage a summary document was circulated together with a resource plan and timescale for the rest of the project.

Stage 7: Data collection

The data collected and assumptions used in the SROI model are detailed in Table 5.

Table 5: Summary of SROI model data and assumptions

Indicator	Value	Source / description
INPUTS		
Social Services grant	£22,000	Pack-IT
Wage subsidy	30%	Partner agencies
Total annual investment	£37,900	Sum of grant and wage subsidies
OUTPUTS		
FTE disadvantaged employees	7	Pack-IT
FTE employees receiving wage subsidy	6	Pack-IT and partner agencies
Average workweek	35 hours	Pack-IT
Annual wages per employee	£8,800	Pack-IT; based on statutory minimum wage
Income tax	0% < £4,615 10% £4,615–£6,575 22% > £6,575	Statutory rates
National insurance	11% > £89/week	Statutory rates
OUTCOMES		
Incremental increase in weekly local procurement	£10	Proxy estimate based on qualitative comments from stakeholder consultation
Cost to Social Services for day care services	£45 /day/person; 5 days/week; 48 weeks/year	Pack-IT; Social Services
Number of employees who would be in day care and number who would stay at home	5 / 2	Estimate based on qualitative information from stakeholder interviews
Other welfare benefits Income Support and JSA	£6,900	DWP statutory rates for Incapacity benefit,

Indicator	Value	Source / description
IMPACTS		
Deadweight (DW): number of disadvantaged employees who would have found and sustained work elsewhere	1	Based on qualitative comments from stakeholder consultation: low likelihood of sustainability of outcome
D/W: Income tax and NI contribution	100%	Government would receive same tax contribution if employees were non-disabled
D/W: Welfare benefits	--	See <i>D/W for employees</i>
D/W: Local employment and corporate sponsorship	100%	Local employment and corporate sponsorship would be unchanged if employees were non-disabled
D/W: Local purchasing	--	See <i>D/W for employees</i>
Displacement	0%	Based on nature of disabled employee population
Pack-IT share of outcome	75%	Reflects Pack-IT's contribution relative to that of other stakeholders, primarily Remploy/Shaw and the employees' families
OTHER ASSUMPTIONS		
Time period	1 year	Returns are calculated annually, due to nature of a social firm
Discount rate	NA	Due to annual calculations

Stage 8: Projections

In this section the benefits from future years would be 'discounted' to give present-day values. As this study is only concerned with the current year, no discounting of future costs or benefits is necessary.

Stage 9: Calculate SROI

The SROI model is detailed in Table 6, followed by the return calculations, in Tables 7 and 8, and a sensitivity analysis of the model assumptions, summarised in Table 9 and discussed further in Section 2. The figures for Pack-IT's share of outcome refer to our assumption that the company contributes, on average, 75 per cent of the social value created through its employment of disabled individuals.

Table 6: SROI model for Pack-IT

Indicator	Value (£)
Benefits to each employee	
Employee wages	8,800
Less welfare benefits lost (weighted average)	(6,900)
Less increase in tax contribution	(700)
Less increase in National Insurance	(500)
Net benefit per employee	£700
Benefits to local government (per employee)	
Social Services benefits saved	7,700
Incremental leisure expenditure	500
Net benefit to local government	£8,200
Benefits to national government (per employee)	
Welfare benefits saved (weighted average)	6,900
Net benefit to national government	102,700
Combined net benefit	
£15,800	
Total FTE employees	7
Less deadweight	6
Aggregate annual benefits	111,300
Less deadweight	95,400
Pack-IT share of outcome	83,500
Less deadweight	71,600

Table 7: Social value added by Pack-IT

	Total value created	Pack-IT share	Investment	Value added	Pack-IT share	VA per employee	Pack-IT share
Aggregate benefits	£111,300	£83,500	£37,900	£73,500	£45,600	£10,500	£6,500
Less deadweight	£95,400	£71,600	£37,900	£57,600	£33,700	£8,200	£4,800

Table 8: SROI generated by Pack-IT

	Total value created	Pack-IT share	Investment	SROI	Pack-IT share
Aggregate benefits	£111,300	£83,500	£37,900	2.9	2.2
Less deadweight	£95,400	£71,600	£37,900	2.5	1.9

Table 9: SROI sensitivity analysis

Indicator	Baseline assumption	New assumption	SROI
Baseline			1.9
Social Services grant	£22,000 / yr	£0	4.5
FTE disadvantaged employees	7	3	0.9
		14	2.9
Day care benefits	£6,900	£0	1.0
D/W: disabled employees	1	0	2.2
		4	0.9
Share of outcome	75%	50%	1.3
		90%	2.3

Stage 10: Report

At this stage the report was written. This document provides the format used and contents created

SROI guide writers

Jeremy Nicholls' work covers a range of areas relating to value creation and accountability. He is a Fellow of **nef** (the new economics foundation) where he is developing approaches to social return on investment. He co-founded the Beta Model Ltd, a business that provides on line access to reports on trends and dynamics in business size and numbers in the UK, and the Cat's Pyjamas which runs programmes to stimulate social innovation and social entrepreneurship. He works with Responsibility North West, a programme to increase the extent to which small businesses manage their social environmental and economic impacts. He is an Associate Fellow of the Said Business School and a member of the European SROI Network.

Susan Mackenzie

Susan Mackenzie is Director of Philanthropy UK, the leading provider of free and objective advice for UK donors. She is Editor of the *Philanthropy UK Newsletter* and of *A Guide to Giving* 2nd ed. (2005), the handbook for philanthropists. She contributed to *Why Rich People Give* (2004) and to *Cultural Giving: Successful donor development for arts and heritage organisations* (2006). Susan's previous consultancy work focused on strategy formulation, donor marketing and charity evaluation. Her work with nef included assessing the social impact of a variety of organisations, as well as the development of an impact assessment toolkit for women's enterprise support organisations. Susan has over ten years' experience in corporate strategy and business development in the private sector, and earned an MBA from Stanford Graduate School of Business, specialising in non-profit management. Susan is a trustee of the Women's Sports Foundation.

Alibeth Somers

Alibeth Somers is Senior Lecturer and Associate Course Director for the MPA Programme at London South Bank University. She specialises in teaching public policy, impact measurement, and research methods to mid-career public and nonprofit managers. Her research interests include the intersection of states and civil society focusing on public service delivery, measuring social change, social entrepreneurship and third sector organisations. Before entering academia Alibeth worked in public policy development and research in the fields of local economic and community development, as well as in the NGO sector, for such institutions as the Department of Economic and Social Affairs in the United Nations, the US Peace Corps, the City of New York, and Social Enterprise London.

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Lisa Sanfilippo is the Head of **nef's** Measurement and Evaluation team. Lisa led the Social Enterprise Partnership (GB) Quality & Impact Project (2003-2005), for which she wrote **Proving and Improving: a quality and impact toolkit for social enterprise**. She leads the Measuring What Matters Research Programme, developing measurement techniques to promote more holistic government and third sector decision-making using the two lenses of social return on investment and well-being. She is a member of the Social Enterprise Coalition's Board, has served on the Social Enterprise Partnership (GB) Ltd. Board of Directors, and is a member of the third sector Performance Hub Partners' Group.

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One of the other things we do

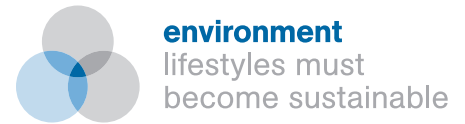


Photo: Marcelo Alves

Tackling climate change: We are living beyond our means. Conventional economic growth based on the profligate use of fossil fuels threatens to bankrupt both the global economy and the biosphere during this century. **nef** believes that improving human well being in ways which won't damage the environment is real growth. Only that can ensure the planet is a fit place to live for generations.

nef works for the environment by promoting small-scale solutions such as microrenewable energy. **nef** is also working to challenge the global system. At the moment the rich become richer by using up more than their fair share of the earth's resources, and the poor get hit first and worst by consequences such as global warming. **nef** pushes for recognition of the huge 'ecological debts' that rich nations are running up to the majority world.

nef works to confront the destructive reality of climate change in many ways: building coalitions to halt climate change and get those under threat the resources they need to adapt; proposing legal and economic action against rich countries who refuse to act; calling for protection for environmental refugees, and for a worldwide framework to stop global warming based on capping dangerous emissions and equal per person entitlements to emit. With original research we expose new problems and suggest solutions.

For more information please call
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Acknowledgments

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