What is SROI?

…and how do you apply it?

June 2008

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OVERVIEW: For many of us who are looking to start up a social enterprise, the framework of Social Return on Investment (SROI) could prove to be crucial in both understanding and presenting our social impacts in economic terms. Anything that helps us raise funding and support has to be worth taking seriously, so here's a short overview of SROI.

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What is SROI?

According to the SROI-UK Network, Social Return on Investment (SROI) is an approach to understanding and managing the impacts of a project, organisation or policy. It is based on important impacts that stakeholders identify and puts financial value on outcomes that do not have market values. SROI therefore is a framework. It's a story, not just a number.

The story should show how you:

- Understand the value created
- Manage it
- Can prove it

It was developed in the early 1990s, by a non-profit social enterprise called The Roberts Enterprise Development Fund [REDF] who began to analyse its SROI to help illustrate in monetary terms the value generated through an investment in its social programmes.

Value Creation

For social entrepreneurs there are 3 avenues of value creation:

1. **Economic**
   Creating services or products that have greater market value than their inputs
   e.g. any commercial business
2. **Social**
   Creating services or products that have a provably beneficial impact on society
   e.g. anti-racism initiatives
3. **Socio-Economic**
   Creating services or products that increase the market value of inputs but also generate cost savings for the public system or environment
   e.g. employment programs

Why should you care?

The key point to note is that the SROI analysis is essentially a robust argument for your non-profit or social enterprise to be at least partially compensated or credited for the value it creates in the marketplace. This could be either through public funding or CSR investment.

SROI Analysis

To create your SROI analysis you need to do the following:

1. Examine your social service activity over a given time frame (usually 5 to 10 yrs)
2. Calculate the amount of "investment" required to support that activity and analyze the capital structure in place to support that social activity
3. Identify the various cost savings, reductions in spending and related benefits that accrue to your public system as a result of what you're doing
4. Calculate the economic value of those cost savings and related benefits
5. Discount those savings back to the beginning of the investment time frame using a net present value (NPV) and/or discounted cash flow analysis
6. Finally present the Socio-Economic Value created during the investment time frame, by expressing that value in terms of NPV and SROI rates and ratios.

And yes, it clearly points towards needing a decent accountant!

Benefits

Still, the benefits of having an SROI framework are clear. It will help you

- Understand the real value of what your enterprise/organisation does
- Raise finance more easily
- Get public sector support more easily
- Improve reporting on positive changes caused by your organisation
- Develop a better organisational structure, with improved strategies, systems and accountability
- Improve your ability to manage risks and identify opportunities required to achieve your mission

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References

- *Harvard Business School Overview:* [*http://hbswk.hbs.edu/archive/1957.html*](http://hbswk.hbs.edu/archive/1957.html)
- *London Business School SROI Primer:* [*http://sroi.london.edu/*](http://sroi.london.edu/)
- *SROI-UK Network:* [*http://www.sroi-uk.org/*](http://www.sroi-uk.org/)