# Valuing the social? The nature and controversies of measuring social return on investment (SROI)

***Malin Arvidson,[1] Fergus Lyon, Stephen McKay and Domenico Moro***

The concept of 'social return on investment' (SROI) has come to play an important role in debates about how social enterprises and charities conceptualise, measure and communicate their achievements. In this paper we analyse the nature and role of SROI as used in the United Kingdom for impact assessment of such organisations. The paper offers insight into methodological and procedural aspects of the framework. Key issues explored include the quantification of benefits, the valuing of volunteering and the ways in which judgement and discretion are exercised. There is a particular tension between the participatory element in the design of each SROI exercise and its use for the purpose of competition. The paper concludes by proposing a research agenda that includes an examination of the context in which discretion and judgement are applied and the use and usefulness of SROI in the new policy and funding environment in which third sector organisations currently find themselves.



## Introduction

Investments in private sector projects might be expected to proceed if their financial returns (suitably discounted over time) exceed their financial costs by a sufficient margin – if there is a 'return on investment', or at least the expectation of such a return. In the public sector, the benefits of public investment – such as the health improvements or extra years of life arising from a new drug, or the travel time saved from a new high-speed train line – are often intangible or not easily converted into money amounts. However, economists have developed the methodology of 'cost–benefit analysis' (CBA) to evaluate whether such investment is economically efficient (eg, Layard and Glaister, 1994). What of the so-called 'third sector' of charities and social enterprises, how should they proceed? These organisations may want to know their social value but the returns on new spending are not traded (and may not be tradable) in a private market and so there is no clear 'price'. Furthermore, organisations in the third sector generally lack the high level of resources and specific economic expertise found in the public sector that are needed for evaluations based on CBA. Into this gap have flowed a large number of different tools for measuring 'social value', and increasingly prominent among them is the approach known as 'social return on investment' (SROI).

An increasing demand for tools for impact assessments of third sector organisations reflects a variety of pressures. During the last decade, financial support from the public to the third sector grew considerably (NCVO, 2011). From within organisations there

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is a growing interest in understanding and improving their services, and spending money where its effect may be greatest (Lingane and Olsen, 2004). There are also external pressures and evaluation tools offer a means to exercise accountability for how money from taxpayers or donors has been spent. Third sector organisations are now strongly involved in delivering public services such as offering financial advice funded by the Treasury's Financial Inclusion Fund, helping people return to employment under the Work Programme, and providing many services within social care. Furthermore, impact evaluations can support third sector organisations in demonstrating that they are delivering added value beyond what is easily measured (NPC, 2010). Are these organisations providing services or other outputs with as great a social return, for a given cost, as either the public sector or private sector suppliers? To these public sector-based pressures may be added those of interested philanthropists and others supporting charitable activity such as private social investors, keen to ensure that their donations are well spent. They may wish to consider which charities (or other organisations) are able to deliver the most appropriate or the highest returns for the gifts made to them (Leat, 2006; Daly, 2011). It is in this context that there is growing interest in SROI despite concerns over comparing results of an SROI analysis with other evaluations that may capture different aspects of the functioning of a third sector organisation. The increase in number and use of tools as well as the development of new methodologies to capture added value also reflect a widespread move towards professionalisation, including the introduction of performance measurement and management tools, in social purpose organisations (Hwang and Powell, 2009). There is therefore a need for critical reflection that sets out the strengths of SROI as well as identifying the more controversial or contested areas where research is required.



## What is SROI?

The concept of 'social return on investment' is not new. In the context of third sector organisations, and social enterprises in particular, a SROI tool or framework was initially developed by the Roberts Enterprise Development Fund (REDF) in the United States in the mid-1990s.[1] In the United Kingdom (UK), the SROI framework has been further developed under a government-funded programme on measuring social value, which started in 2008, conducted by a consortium of the SROI Network, the New Economics Foundation, Charities Evaluation Services, the National Council for Voluntary Organisations and New Philanthropy Capital. In this paper we refer to the SROI guidelines that are the result of this project, specified in *A guide to social return of investment*, which was published in 2009 by the Office for the Third Sector in the Cabinet Office (Nicholls et al, 2009). This guide has subsequently been revised, with a new edition being released in January 2012 (Nicholls et al, 2012).

In the UK context, SROI is described as an approach towards identifying and appreciating value created. It differs slightly from the approach pioneered by REDF by involving a diverse range of stakeholders in reviewing the inputs, outputs, outcomes and impacts made and experienced by stakeholders in relation to the activities of an organisation, and putting a monetary value on the social, economic and environmental benefits and costs created by an organisation. As promoted in England, the SROI model outlines a methodology for calculating value as well as prescribing a set of principles for the framework (Nicholls et al, 2009: 9). The seven principles are:

- Involve stakeholders.
- Understand what changes.
- Value the things that matter.
- Only include what is material.
- Do not over-claim.
- Be transparent.
- Verify the result.

The exercise of *mapping impact* involves defining outcomes and impacts. The approach is focused on *attributing financial value* to inputs and outcomes, leading to the process of *calculating* the SROI ratio. In order to estimate the positive (or negative) social value of non-traded, non-market goods, the SROI model uses financial proxies. The outcome, that is, the value created, should be related to the investments made, and is expressed through a ratio; an SROI that is 3:1 means that for every pound invested the organisation generates a social benefit of three pounds. Although using monetary terms, the SROI ratio does not express financial value as such, but is intended to be a comprehensive way of expressing the 'currency of social value'. SROI measurement should be matched by qualitative evidence based on stakeholder inquiry, where the 'stakeholder' is defined as 'people or organisations that experience change, whether positive or negative, as a result of the activity being analysed' (Nicholls et al, 2009: 20). As the ratio is a succinct and powerful way of communicating value and achievements, it naturally tends to receive the greatest 'headline' coverage (Lyon and Arvidson, 2011). The SROI *Guide* emphasises that the ratio should not be seen as the only reason for going through such an assessment. However, arriving at an SROI ratio remains the distinctive feature of the SROI approach, perhaps to the exclusion of other messages.



## SROI and evaluation theories and practice

As a framework for evaluation, SROI relates to several dimensions of evaluation theory and practice and it is of value briefly to point out how the discussion on SROI has significance in this wider research context. These dimensions include:

- questions of what the evaluation is intended for (summative, formative);
- coping with multiple stakeholders and diversity of interests (political aspects);
- how impact is defined (based on user definitions, or predefined);
- the utilisation of evaluations.

SROI aims to both prove and improve: it provides the basis for forecasting, planning and managing interventions and for summative evaluation of the impact of an intervention (see, for example, Wright et al, 2009). SROI recognises that the work of a social purpose organisation is set in a complex web of multiple stakeholders, often with considerable distance between beneficiaries, implementers and funders. It addresses beneficiaries during the very initial stages of the assessment process. In so doing, it not only ascribes to the idea that evaluations should assess predefined goals but also aspires to evaluate social interventions according to how users experience them (Greene, 1994; Pawson and Tilley, 1997). Another aspect linked to the multiple stakeholder context is the intrinsic aim to be useful to a group that hitherto most other evaluation tools have failed to reach out to: through a monetised language it recognises the needs and interests of stakeholders that provide crucial resources, that is, funders and commissioners. This particular aspect of SROI has caused some controversies, an issue we will address later in the paper. SROI emphasises that it provides a framework for a systematic assessment of achievements (Nicholls et al, 2009). Thus, it serves to bridge a gap in communications that comes from a failure on behalf of third sector organisations to demonstrate claims as well as from weaknesses found in other tools thought to provide little more than anecdotal evidence. Credibility is gained through the language with which it communicates social value, and confidence in the results is gained knowing that the SROI is based on a set of standards and principles. From analysing SROI we will also see how it not only provides a framework for systematic assessment, but also neatly fits into a theory of evaluations as social constructions (Van der Meer, 1999) and a perspective that holds that evaluations are art rather than science (Rossi et al, 2004).

In the following we will analyse the SROI framework starting with an exploration of its roots in CBA.



## SROI and cost-benefit analysis

From a technical point of view, there is not much difference, we argue, between classical CBA and SROI (for a comprehensive review on CBA, see Layard and Glaister, 1994). CBA is a form of economic analysis in which costs and benefits are quantified and compared. It is often used by governments or organisations to evaluate the desirability of a given intervention. Because the perspective is that of costs and benefits to society as a whole, and not simply private or commercial financial benefits, this approach is sometimes referred to as *social* CBA – but we use the term 'CBA', standard in economics, which is designed to include all social costs and benefits. Having conducted a CBA, generally a project should proceed only if total benefits outweigh total costs and if the ratio of benefits to costs exceeds a certain figure. CBA generally requires that all costs and benefits (whether tangible or intangible) be expressed in monetary units. 'Tangible' means that costs and benefits are capable of being easily expressed in financial terms, such as the price of land and buildings or income from services provided. The intangible costs and benefits usually refer to the positive (benefits) or negative (costs) externalities that such interventions generate. The measurement – in monetary terms – of intangibles often presents CBA with its greatest challenge. A gain in wellbeing and confidence is one such intangible benefit (a positive externality) that is difficult to measure; it is not easy to determine the value of gains in self-esteem or in confidence, or a reduction in rates of depression. A number of sophisticated techniques have, however, been developed to measure such intangible costs and benefits (Layard and Glaister, 1994; Fujiwara, 2010; Fujiwara and Campbell, 2011). In addition to looking at stated preferences and revealed preferences, increasingly there are attempts to value intangible benefits by recourse to effects on life satisfaction – and how such effects compare with the impact of additional income.

For some interventions that affect health and life expectancy, there are clearly strong intuitive feelings *against* equating lives saved with a monetary value (Broome, 1994). Nevertheless, this is still required within public policy – we see such valuations used in the work of the National Institute for Clinical Excellence (NICE) in assessing whether to approve the use of medicines to prolong life, and in decisions to build relief roads that save traffic casualties or reduce travelling time. There are now calls to have similar approaches for social policy.

CBA is a long-established technique that is routinely used by economists, and others, in a very wide range of fields. There are possibly thousands of published accounts that have appeared in the academic literature, in addition to a much larger volume of government analyses, many of which remain unpublished. By contrast, the technique of SROI is much more recent, and has its focus on the operations of third sector organisations.

At present, the differences between SROI and CBA are largely in the *style* rather than the substance of each of these approaches. The differences relate to four main areas.



### *Stakeholders*

While CBA mentions that '[a]nalysis of who is affected by a proposal, undertaken as part of the appraisal, may be very useful in determining who should be consulted' (HM Treasury, 2010: 40), there is a very strong *explicit* emphasis on stakeholders within SROI and the types of involvement they can and should have. Consultation with stakeholders and their importance is one of the strongest features of conducting an SROI. It appears within CBA, but is given less emphasis. This difference may reflect differences in working within the third sector more generally.

### *Management tool*

SROI is presented as one way that an organisation may learn, and use SROI to direct resources to areas with the greatest impact (Lingane and Olsen, 2004; Nicholls et al, 2009). For example, the process of using SROI by organisations themselves can help to clarify strategy and mission. The active participation in the SROI process by users, staff, board members and others gives greater potential for learning. The extent of this learning depends on the role of the organisation in the evaluation process and the extent to which it is conducted by external agents.

### *Comparability*

Recent SROI guidance does not recommend comparing SROI ratios across different activities, whereas CBA is designed to be comparable in such a way. The emphasis in SROI on stakeholder involvement results in diverse sets of indicators and therefore difficulties in comparing like with like. However, as shown below, the guidance on the dangers of comparing SROI ratios used on their own is not always followed (Lyon and Arvidson, 2011).

### *Proxies and underlying rationales*

Some SROI practitioners have developed 'banks' of proxy information to inform the valuation of intangible benefits, or other benefits that are hard to value (www.sroiproject.org.uk/sroi-database.aspx). So, for example, it is estimated that the extra tax revenue of moving someone from unemployment to work is around £1,700. A CBA uses the underlying tools of economics to help understand the principles behind such valuations. Even so, the *Green book*[3] does publish some more standardised estimates of benefits – such as the value of a life saved from a road death representing around £1.1 million in benefit (HM Treasury, 2010). Again, this is more of a *practical* than an inherent difference between the two approaches.

## Quantifying the value of benefits



There are obvious challenges in attributing monetary values to outcomes and impacts. Some within the third sector are uncomfortable with summing a range of social values into a single financial value. There is a concern that evaluators know 'the price of everything, and the value of nothing' (as Oscar Wilde has Lord Darlington say in Act III of *Lady Windermere's fan*, defining the cynic). Such quantification has to distil the impact and can do little to recognise outcomes such as feelings that are vague to identify but are nevertheless essential goals of a project (Social Edge, 2010). It is, however, not only outcomes that present a challenge to quantification: it is also difficult to put an appropriate value on inputs such as volunteering (discussed further below).

The focus of SROI is expressing social benefits in monetary terms. To achieve this goal it frequently uses proxies for positive social change. And, potentially, that might include any negative consequences too. These financial proxies are an attempt to express in monetary terms positive externalities of various activities. Proxies of impact can relate to benefits to individuals (eg, the willingness to pay for a conservation area, or reduced taxi expenditure when a community bus is established). In other cases a proxy may be based on reduced public sector spending resulting from an intervention, with SROI using the proxy of public funds saved as a financial estimate of impact. The emphasis on public sector savings presents two types of challenge. First it does not capture the social value in terms of improvement of personal utility (ie, quality of life). Second, the extent to which these savings should relate to the variable costs or total costs is contested. For instance, in the SROI *Guide*, the sum £4,964 is claimed as a benefit for every geriatric assessment not requested (Nicholls et al, 2009: 103). This figure comes from the NHS cost book 2007/08 (Department of Health, 2009) and it reflects the average total cost of that specific intervention. But the knowledge of the *average* total cost of such an intervention cannot be translated into £4,964 saving for the National Health Service (NHS) for each specific non-assessment. Savings for the NHS may only be related to the variable costs (or the marginal costs) as it is rarely logistically or politically feasible to reduce fixed costs in the short term. Usually in the NHS the variable costs of such an intervention (drugs, diagnostic check, travel) are much lower than the fixed costs (which include medics' salaries and capital depreciation). Those carrying out SROI can therefore use their discretion to decide which cost to use.

The average cost of a specific intervention that is usually free at the point of use may not reflect what economists call 'the shadow price' of that intervention or the intrinsic value (Gertler et al, 2011). The average price of such an intervention (free at the point of use) does not reflect the real 'willingness to pay' of the beneficiaries, which may be higher or lower than the average cost. There is therefore a debate over whether the benefits estimated should take into account not only possible savings on public spending but also the value of the intervention from the beneficiary's point of view – a principle that is covered in the *Guide*. For instance, assume that a specific activity of a third sector organisation eliminates the probability of suffering from depression and also assume that the NHS will treat every sufferer at an average cost of £1,000 during the first year. SROI will assume that the social value of avoiding someone experiencing depression is £1,000 in the first year. This proxy based on the average cost does not represent the intrinsic value for that person of avoiding depression (which may be either higher or lower than that). The intrinsic value of avoiding depression is based on an underlying perception of its true value, including all aspects of depression, in terms of tangible and intangible factors. On the other hand, the NHS not treating that depression would not result in £1,000-worth of savings in the first year (owing to fixed costs that could not be immediately curtailed). Only in the long term might the NHS have an opportunity to allocate its resources in a different way, achieving a higher saving. Controversially, the SROI is usually calculated over a short-term period – of one to five years.



Finally, there are well-established debates about the process of putting a price on intrinsic values with, for example, a tradition of research on assessing 'willingness to pay' or contingent valuation, which makes assumptions that people can put a financial value on intangible factors (Broome, 1994; Beckerman and Pasek, 2001). Although there are controversies regarding the usefulness of a CBA to assessing intangible values, proponents suggest that it is important to quantify, despite these cautions, as an economic value is able to have more influence over policy.

## Valuing volunteering

The question of how to value volunteering in SROI is debated, and it is problematic both conceptually and practically (Leete, 2006; Rochester et al, 2010). First, volunteering can be seen as both an input or cost (providing resources that result in an impact) and an output or benefit (providing impacts to the volunteers in terms of welfare and skills and experience). Second, there are particular challenges in terms of putting a value on volunteering as an input. While the value produced by paid labour is generally measured by the wage that is paid, this metric is unavailable for measuring the value of volunteering. Furthermore, goods and services produced by volunteers are not commonly sold on the market and so volunteers' value is not easily quantified.

There is a lack of clarity concerning what is being measured. It may be put at the minimum wage or the cost of hiring someone to do the job or the opportunity cost of volunteering. There is rarely a consideration of the consequential opportunity cost for the volunteer: is volunteering replacing hours of work or hours of leisure for the individual? The opportunity cost of doing more hours as a volunteer, instead of paid work, may be higher than the cost of those who replace leisure with volunteering. Clearly it is difficult to estimate which situation is the more relevant.

In its study for WRVS, an older people's charity and voluntary organisation in the UK, Frontier Economics (2011) used the minimum wage as the opportunity cost of volunteering for volunteers aged under 65 – but for those over 65 assumed that the opportunity cost was zero. However, to reflect the value that people gain from volunteering it assumed an hourly benefit of £2 for those over 65, and £1 for those younger than that – although the origin of these precise figures is unclear. In another SROI conducted for a small charity[4] providing mental health support, the evaluator assumed that the benefits the volunteers gain are equal to the opportunity costs. In this case the volunteers are offered training, such as first aid and counselling courses. The evaluator could further qualify the assumption that benefits and opportunity costs were equal through interviews with volunteers that confirmed they had gained transferrable skills and that this was much appreciated.

Although volunteers are unpaid, in using volunteers organisations are likely to incur spending on recruitment, training, management and other overheads of the organisation. This may be particularly relevant in a case where an organisation, as a result of a positive SROI report, is seeking to scale up their activities based on volunteers. Is there a point at which the cost of managing (recruiting, training, retaining) volunteers suddenly exceeds the value of their input due to the increased number of volunteers or the ratio of volunteers to paid staff? The presence of volunteers may also jeopardise the motivation of paid staff (Brudney, 1993). Furthermore, in not having a paid contractual obligation, volunteers may be difficult to manage effectively. This is not to imply that the net effect is negative, only that realistic appraisal should not treat volunteers as a free resource.



## Deadweight, displacement and attribution

Where change is caused by a range of factors, including a change in financial and political climate, and the contribution of a range of activities from different service-delivering agencies, it can be difficult to know the amount of the benefit that can be attributed to the activity of the organisation that is being measured. For example, with programmes aiming to support unemployed people, it is difficult to distinguish the impact of a specific programme from that of other third sector organisations, the public sector and changes in the wider economy resulting in reduced or increased opportunities for employment. To cope with this, analysts often work with the concepts of 'deadweight costs', displacement (or substitution) and drop-off (Nicholls et al, 2009). The concept of 'deadweight costs' refers to activities that would have happened without the programme – a proportion of people would have, say, returned to work even without some kind of assistance with job search or taking part in a specific internship. For instance, a proportion of those who volunteered for v[5] would have moved into higher education or taken a job, even without that experience. In the evaluation of v, a deadweight of around 80–90% was assumed, conservatively attributing a low weight to the effect of volunteering (NatCen et al, 2011). Conversely, in their evaluation of a travel to employment scheme, Wright et al (2009) argued for 0% deadweight, given the difficulties that participants had previously had in obtaining employment. A programme may be subject to 'displacement' if the programme group benefits at the expense of other groups. For example, a group helped into work by an intervention might deny jobs to others, outside of the programme, who might otherwise have taken those jobs. Wright et al (2009) argued for a 0% displacement in their study, as already mentioned, but did concede to a large element of 'drop-off' over time (some 75%). The concept of 'drop-off' implies that the results of programmes may not be maintained over time. In the early days of an intervention, there may be higher levels of staff (and participant) enthusiasm, and this may diminish over time. Conversely, benefits may increase over time if staff improve in skills and confidence.

The ideal way of solving the problem with deadweight and attribution is to find a 'perfect clone' for the individuals or groups that have participated in an intervention and compare the two groups (Gertler et al, 2011). There are statistical tools designed for this end, but it requires expertise, time and resources, and is in practice hard to carry out. SROI relies on evaluators using sensitivity analysis and existing research to ascertain whether the added value claimed truly reflects the contribution of the project or organisation in question. Also, the first principle of SROI, to involve stakeholders, is one way of addressing the question of attribution. Complex social problems often involve multiple agencies, and beneficiaries can be well placed to assess how, in their views, the intervention being measured compares to other activities they are involved in. The challenge remains, however, for SROI, and other evaluation tools, to capture this and it is here the framework requires a degree of judgement and discretion, which is the next topic we look into.



## Judgement and discretion

The mapping of impact in SROI involves defining outcomes and expected as well as unintended impacts of a project intervention. Whereas identifying outputs may be a straightforward exercise (eg, activities such as training provided), deciding what impacts to include in an SROI exercise and how to set indicators requires careful judgement (Lyon and Arvidson, 2011). The choice of indicators is underpinned by a theory of change that holds assumptions about how impact is achieved (Weiss, 1997).

Giving voice to stakeholders, and including beneficiaries, is an important and distinctive element of SROI. There can be diverse views on preferences among participating stakeholders, with different groups emphasising different activities as key to an intervention, leading to conflicts that have to be resolved and that may affect what indicators are chosen for the framework. The choice of indicators is further influenced by access to good-quality data, time constraints and resources available for carrying out the evaluation. For example, Lyon and Arvidson (2011) note how one organisation, providing a wide range of services, decided to measure their impact based on estimates of the reduced attendance at nearby Accident & Emergency units in hospitals as these were the only data available. Although such an indicator would fit into a theory of change, it is arguably too weak to fit into a calculation leading to an SROI ratio. There is also a degree of judgement regarding the sustainability and the period over which benefits are measured. Finally, within evaluation practices in general it is recognised that the use of discretionary choices is influenced by, as well as aims to influence, existing social policies (Pawson and Tilley, 1997; Patton, 2004; Rossi et al, 2004), and may consequently be geared towards indicators that speak to outcomes that policy makers are particularly interested in.

This particular aspect of SROI fits well with the view that evaluations are more craftwork than set recipes: although evaluations should adhere to systematic collection of data and analysis, based on a set of 'standard research tasks', its quality and result also rely highly on skills, care, clarity and creativity as practised by the evaluator (Pawson and Tilley, 1997). It is important to recognise where during the process of evaluation that creativity, such as judgement and discretion, needs to be exercised, what informs this practice and what the results may be in terms of what is valued and what is not.



## The use and usefulness of SROI

A publication by New Philanthropy Capital states that 'the most common reason for charities to undertake an SROI is to attract funding' (NPC, 2010: 5). It therefore seems relevant to ask questions not only about how the SROI has been conducted from a technical point of view but also what underlying motives have prompted an organisation to use SROI to assess and demonstrate its achievements. The use of performance measurement can be driven by a moral obligation (Nicholls, 2009) as well as by the need to gain organisational legitimacy (Nicholls, 2010). Through expressing social outcome as a monetised value, SROI serves as a tool to close a credibility gap between the third sector and funders from government and the private sector (Flockhart, 2005). Other research emphasises how organisations' concerns over their image and competition force them to consider using SROI and similar impact assessment frameworks as marketing tools (Social Edge, 2010; Lyon and Arvidson, 2011).

While SROI has been developed as a learning and management tool for organisations, the motivation to invest considerable resources is justified by the expectation of it leading to increased resources from funders, commissioners and investors (Lyon et al, 2010). Through a language that is right for these groups, it should not only legitimate social outcomes as valid in financial terms but also facilitate 'resource deployment' where resources are scarce (Ryan and Lyne, 2008). Despite caveats by those promoting it about using SROI as a comparative tool, using it in a context of a competitive search for resources (from tendering for contracts or grant applications) may result in SROI being used in the expectation of facilitating decisions that aim to 'pick winners' (Zappala and Lyons, 2009). SROI is useful in promoting an understanding of social value in new terms, and may thereby put third sector organisations and social enterprises on an equal footing with private and public organisations when competing for contracts. However, and as pointed out above when outlining the differences between SROI and CBA, the SROI ratio does not allow for direct comparisons between organisations if different indicators and proxies have been selected by participating stakeholders.

## Discussion

This paper has the objective of exploring the use and challenges of the SROI approach, drawing on a critique of existing experiences, other studies of the use of SROI and published commentaries. While SROI can cover a wide range of social and economic valuation, the one aspect of SROI that stands out is the language of monetisation intended to make the added social value visible for a wide audience, and commissioners and funders in particular. It is here that much of the controversy surrounding SROI arises. It can be argued that CBA-based evaluation frameworks are not just technical tools but also entail a way of defining outcomes and impact in terms of economic variables that ultimately derive from the private sector. This carries political or normative implications (Rossi et al, 2004). The significance of engaging in tools based on concepts and language from the world of private market-oriented organisations could be more than just superficial. The language used in and around social purpose organisations is a topic that attracts research interest, and is explored in, for example, Dey and Steyaert's (2010) study on the politics of narrating social entrepreneurship and Teasdale's (2010) analysis of the various normative meanings attached to the term 'social enterprise'. In the context of evaluations in general, Greene (1994) argues that the language used to express results clearly signals preferences and priorities, and all evaluation frameworks and methodologies need to be seen as politically contextualised: 'Different evaluation methodologies are expressly oriented around the information needs of different audiences' and these audience orientations represent 'the promotion of different values and political stances' (Greene, 1994: 531). Fears about a market-based evaluation tool and the use of money-metric language must be understood in the current context of what is interpreted as a marketisation of non-profit organisations. Some argue that marketisation is leading to the 'potential deterioration' of the distinctive contributions that non-profit organisations make to creating and maintaining a strong civil society (Eikenberry and Kluver, 2004). While the language of SROI provides social purpose organisations with a tool to convince commissioners and the public about their worth and value, it is also seen as adding 'unintentional support to a current dominant business-case perspective' (Gibbon and Dey, 2011: 70).

The ambivalence towards SROI also stems from the ambiguous way in which it has been marketed and used. While on the one hand the SROI guidelines state that it does not lend itself for comparative use, present policies and reforms of the social welfare service provision system promote competitive tendering as a mechanism for improving quality and efficiency in the delivery of public welfare services (HM Government, 2011). Third sector organisations are under pressure to demonstrate their value in an environment that emphasises 'value for money' and where competition for resources is characterising their relations to other third sector organisations as well as private organisations and public bodies. The question is: will the SROI ratio invite inappropriate comparisons of SROI evaluations of different organisations? And will a competitive climate lead to the inflation of SROI ratios, with an ensuing loss in credibility in SROI as a rigorous tool for establishing impact? Will it provide third sector organisations with an instrument with which they can control and guide the way surrounding stakeholders view them? Or will SROI be used by funders and commissioners to force organisations to comply with specific priorities and rationales that are not central to the mission of the third sector organisation? Evaluations can be tailored to advance priorities according to the agenda of certain groups. SROI provides a flexible framework and can address many different agendas, including a focus on project management, accountability and the empowerment of beneficiaries.

Concerns about the nature and role of SROI refer to methodological challenges and its potential as a dominating tool that directs communications and decisions made at the interface between the third, private and public sectors. The methodological challenges include the skills required to carry out an SROI. They also include the perhaps more fundamental criticism of 'the difficulties in aggregating non-financial measures in a meaningful way' (Paton, 2003: 81) and the risks involved with cumulative assumptions, that is, a theory of change combined with a need to demonstrate added value, that have guided the choice of impacts, indicators and proxies.

An ingredient that may add to concerns about these limitations is the cost involved in conducting an SROI. Carrying out a comprehensive SROI analysis has considerable cost implications in terms of resources for training and labour required (Leighton and Wood, 2010). In large organisations this may be justified but in smaller ones this may not be viable without external funding. For example, Gordon (2009) examined the expenditure of a range of organisations and found that smaller SROI projects would cost between £12,000 and £15,000 each, with larger ones rising to £40,000. Lyon et al (2010) examined a diverse range of SROI studies and found costs ranging in size from £4,000 to several hundreds of thousands of pounds. Budgetary constraints will no doubt have implications for what expertise and data quality can contribute to the SROI analysis.

A final concern relates to the effects of a focus on the SROI ratio at the expense of providing an understanding of process. SROI has the potential to play an important role in identifying successful social intervention projects with the intention to replicate and scaling up. 'Scaling up' is a topic that has become 'a key issue for both practitioners and researchers of social entrepreneurship' (Bloom and Smith, 2010: 126). SROI can provide a basis for highlighting and marketing models of intervention that are deemed successful. However, examples of organisations using SROI in Lyon and Arvidson (2011) suggest that the focus is primarily on identifying indicators that can support the calculation of the ratio, and this seems to preclude an in-depth understanding of processes underlying the measured impact. The results are SROIs that can help with identifying models that give a high return on investment, but they do not support an understanding for how and why impacts occur. Hence, to identify successful approaches with the view to replicating models requires a wider understanding of the processes involved. SROI reports that are sensitive to this issue explore and present both qualitative and quantitative data, including data that do not count towards the ratio, and invite a more in-depth understanding of both the impacts and the process of getting there (see, for example, Wright et al, 2009).

## Conclusion

The framework of SROI, as outlined in the SROI UK guidelines, relates to a range of issues raised in established debates around evaluation theory and practice. It provides a pragmatic management tool; it is a framework for knowledge generation and a basis for accountability, providing policy makers and funders with a summary of the extent to which expectations about the outcomes of an intervention have been met or not (Rossi et al, 2004). Furthermore, it aspires to engage stakeholders, including beneficiaries, in capturing outcomes and impact beyond those that have been predefined. SROI is set up to be a useful tool for a particular audience, reflecting their language and priorities (Patton, 2004). All of these areas may warrant more careful analysis, including both the genealogy and intentions of SROI, and the way SROI is being practised and used by organisations and their surrounding stakeholders. More specifically, and based on the analysis presented in this paper, we propose further research in several areas. There is a case for further work on different dimensions of social value, including that of timescale (short- and long-term impact), indicators of social value and how costs and benefits are specified and calculated. We also suggest further research on how discretion and judgement are exercised by organisations. Last, we propose further research on the interaction between evaluations and the financial and political environment in which they are implemented, and in this case, a particular focus on the introduction of a reformed welfare system with new routes of funding for the third sector in the UK.



### Notes

[1] Lead/corresponding author.

[2] A range of publications on the developments and use of SROI as experienced by REDF can be found at www.redf.org/learn-from-redf/publications/119

[3] The *Green book* provides guidance from HM Treasury on evaluating government policies – see www.hm-treasury.gov.uk/data_greenbook_index.htm

[4] Two of this paper's authors (Arvidson and Moro) participated as advisors in this SROI. The final report is yet to be published; hence we have chosen to anonymise the case.

[5] V is the National Young Volunteers' Service. It was established in 2006 as an independent charity to help young people to volunteer, following recommendations of the Russell Commission, a government initiative to develop a new national framework for youth action and engagement.

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**Malin Arvidson**
Third Sector Research Centre, School of Social Sciences,
University of Southampton, UK
m.arvidson@soton.ac.uk

**Fergus Lyon**
Department of Business and Management, Middlesex University, London, UK
f.lyon@mdx.ac.uk

**Stephen McKay**
School of Social Policy, Institute of Applied Social Studies,
University of Birmingham, UK
s.d.mckay@bham.ac.uk

**Domenico Moro**
Third Sector Research Centre, University of Birmingham, UK
d.moro@tsrc.ac.uk