National
Social Value
Standard

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SROI

The 55 Group (Holdings) Limited

The National Social Value Standard - SROI

Social Return on Investment (SROI) is one of many methodologies used to calculate the proxy financial value that best represents the impact of changes on individuals and communities. It is a relatively immature methodology compared with others such as Cost Benefit Analysis (CBA) and was created by philanthropic organisations to help demonstrate their value in the late 1990s (Banke-Thomas et al, 2015).

The National Social Value Standard (SVS) does not use the SROI approach in its framework. Although there is a lot of overlap with the methodologies SVS does use, it has been more closely aligned with HM Treasury Green Book guidance (and its recent developments around capturing wellbeing). Every methodology has its strengths and weaknesses, and this document aims to summarise why SROI is not the right fit for the SVS.

Commentary on Fujiwara's 7 Principle Problems of SROI (Fujiwara, 2015) [1]

Given the purpose of this document closely aligns with this previously published document by Daniel Fujiwara it makes sense to first cover the points raised in this piece of literature before discussing further.

1. "SROI lacks a clear principled normative approach"

We agree this is an issue and feeds back to issues of consistency with how SROI is practiced. Essentially though CBA was built on utilitarian foundations (greater good) but has over time begun to incorporate Rawlsian and equity considerations. SROI lacks a clear way of linking 'what matters' to society in a clearly defined way.

2. "SROI is silent on the issue of interpersonal comparisons and perversely places greater weight on the outcomes of the rich"

We do not agree with this statement. We think whether equity and equality considerations are included is often down to practitioners or economists as individuals. There is no reason that SROI might not take specific account of these issues, so we don't see this as a fundamental issue with SROI. We think this is more a comment on general practice. Perhaps it is true surveys themselves will be biased away from those most in need though. Bespoke surveys however will hold information about the impact on those particular people which therefore does take account of 'who' receives the benefit.

3. "SROI's view on stakeholders can be too narrow"

We would certainly agree with this problem, and it stems from the compromises needed to be made to do SROI efficiently. You might miss interviewing stakeholders who hold relevant impacts or ask the wrong stakeholders, or the view of the stakeholders themselves is too narrow and misses a wider economic, social or environmental outcome. Additionally, if you take for instance carbon emissions impacting the global population, the first-person experience of stakeholders can miss some of the broader and less tangible impacts on them.

[1] Fujiwara, D. (2015). The seven principle problems of SROI. London: Simetrica Ltd.

4. "The ratio calculation is susceptible to biases"

This is an issue of how ratios are communicated. And it should be clear whether you are referring to societal benefits per £1 in societal costs or investment costs. Both ratios have their own value and indeed neither is wrong, how it is conveyed is what is important. This inconsistency will impact on general comparability.

5. "Statistical methods for inferring causality are problematic in SROI"

We would agree with this statement. Following the best practices of research, especially primary research should be adhered to. Research compromises must be made in SROI and if they are not then the cost of studies go up significantly. For this reason, we don't believe its practical to perform primary research on all outcomes, valuations, and additionality analysis. Therefore, the inferences made on causality are usually also problematic and instead are based on the subjective judgements of the practitioner.

6. "The valuation methodology and methodology in SROI are outdated and incomplete"

We agree there are issues with the methodology and in particular the methods used in establishing value. There are methods of valuation which are not endorsed by academics, which are being used as part of evaluations in the interests of efficiency and make it achievable to complete SROIs within a reasonable budget. Methods such as valuation based on anchoring are not recommended by sources such as the HM Treasury Green Book but are widely used by SROI analysts.

7. "The meaning of the SROI ratio is vague"

This is a wider issue of the inconsistency of how 'investment' is defined but also what is included within 'social returns' as well. For this reason, SVS defines its ratio differently as 'social value'. Specific definitions are used for the different aspects of this ratio and therefore it is transparent what the ratio is.

Technical challenges with SROI

Building on those comments, below are set out some of the key technical challenges with SROI.

1. Stakeholder inputs

- There are three main issues with how stakeholder inputs are gathered and used in SROI compared to SCBA (Social Cost Benefit Analysis). The first is how SROI requires direct engagement with stakeholders.
- The result of this due to practical limitations with time and cost can be a small and not necessarily random or truly representative sample. This, therefore will impact the robustness of the proxy value calculated. SCBA can include conducting primary research but it also looks to use existing academic/scientific studies and national survey datasets to provide stakeholder inputs at scale and with the representation and counterfactuals required to mitigate issues like the bias of smaller groups.
- The second issue is how to robustly capture the impacts on stakeholders that aren't as tangible or plausible for them to accurately measure or understand. Take for example an intervention

that statistically reduces the chances of car crashes. An average stakeholder does not have this information and so their lack of perfect information limits their view on the scale of impact. Also, they have not crashed their car 'less' so how are they going to report this? Whereas SCBA would look to find research which would help estimate that based on the intervention it would on average save x number of lives. It combines the stakeholder inputs with broader research and a statistical and economist based approach.

- The last issue is that SROI recommends narrowing down on relevant stakeholders, likely to help manage the resource intensive process, but that risks excluding stakeholders and the value being created and moves away from the original purpose of SROI looking to capture broader impacts that aren't measured.

2. Resource intensive

- Another interesting challenge put forward is that SROI can be costly and time consuming due to its bespoke nature and its central focus on primary research and engagement.

- Gordon felt its use as an evaluation tool was unproven and that research had shown conducting SROIs could cost from £12k to £40k depending on their size.[2] Other research has shown a range from £4k to several hundred thousand [3].

- All of this raises concerns both about its accessibility, particularly to smaller organisations, but also the risk of compromises being made on the best practice approach in order to mitigate its resource intense nature.[4]

3. Internal validity (cause and effect)

- Put simply by Yates & Marra, "SROI analyses often ignore the complexity of causal claims they depend on" [5].

- This is an understandable challenge and one faced by all evaluations, but it is felt that the SROI process can push a practitioner towards having to use their assumptions about how the world works. Naturally, sometimes assumptions about how x will affect y are incorrect and are not as a person would assume. When using SCBA an economist can try to mitigate this by taking further steps to understand the impacts. For example, by carrying out statistical analysis or using robust existing literature.

- In SROI there is often a high risk of over counting under the guise of reporting separate benefits. For example, an intervention causes someone to feel happier, be more confident and feel less lonely. All these outcomes are all highly linked or correlated with one another and to suggest these are all distinct separate outcomes could lead to over counting. Therefore, using a more recognised approach such as a WELLBY measure, can help to take account of the correlations between these impacts. Using statistical analysis as well to ensure factors are not causing double counting by the

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[2]Gordon, M. (2009) 'Accounting for making a difference', Social Enterprise Magazine, November.

[3]Lyon, F., Arvidson, M., Etherington, D. and Vickers, I. (2010) 'Social impact measurement (SIM) experiences and future directions for third sector organisations in the East of England', Norwich: East of England Development Agency, www.the-guild.co.uk.

[4]Corvo, L., Pastore, L., Mastrodascio, M., & Cepiku, D. (2022). The social return on investment model: a systematic literature review. Meditari Accountancy Research, 30(7), 49-86.

[5]Yates, B. T., & Marra, M. (2017). Social Return On Investment (SROI): Problems, solutions… and is SROI a good investment?. Evaluation and Program Planning, 64, 136-144.

multi-collinearity between impacts that are counted. This requires advanced statistical knowledge.

- Linked to the point above about SROI sample sizes, which means samples are often used which are not adequate in size to draw confident conclusions. Having a small sample size decreases statistical power and increase the likelihood of Type II errors. Type II errors are where we would infer an intervention is deemed insignificant and ineffective when in fact it is effective. This impacts internal and external validity. Decreasing a sample size also increases the margin of error. There are recommendations on adequate sample sizes but in many cases this may not happen in practice.

- SROI is always going to be limited by the quality of data available. With the gold standard for research being a randomised controlled trial. The real world rarely offers this perfect data scenario but by using established research we can find the best option available[6] . Too many compromises can be made in the quality of the survey, research and statistical analysis which can then lead to results which we cannot be sure of.

- The above combined impacts of not being able to adhere to strong research and statistical standards risks a lack of confidence in the cause-and-effect relationships trying to be established. In addition, the magnitude of the impact is also affected by these same shortcomings.

4. Valuation methodology

- There are many ways of valuing market and non-market benefits. However, there are methods used in SROI which are not robust academically or HM Treasury Green Book approved methods of demonstrating value.

- Techniques such as anchoring are not robust and so will lead to inaccurately deriving value. Anchoring is a technique which would rely on some initial proxy monetary value and then roughly equate the preferences elicited from the survey as being directly relevant to the value. One immediate issue is that all values will then be biased by the initial proxy monetary valuation, so all estimates are built off one estimate. It is going to lead to large inaccuracies and inconsistencies. There is a lack of documentation about the validity of this valuation method but it is still a current practice within SROI.

- We disagree that markets cannot be factored into valuations. They can provide valuable inputs but as with other areas the appropriate caveats need to be placed on that data and it is not appropriate to use in all cases. Analysis can be conducted to make sure it is not used inappropriately and it should be considered a useful piece of the puzzle.

5. Additionality analysis

- In SROI - one approach is to ask people what would have happened to establish a baseline. This has obvious drawbacks of limited information and requiring a large enough sample size. Surveys can be set up in a way that people reveal their behaviour rather than it being stated which is preferable. Because of the resource constraints SROI is asking people what they will do or have done and are essentially trying to work around the resource constraints of not practically being able to conduct adequate primary research.

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[6]Fischer, R. L., & Richter, F. G. C. (2017). SROI in the pay for success context: Are they at odds? Evaluation and program planning, 64, 105-109.

- Research on published SROIs showed that most additionality analysis and deadweight is based off interviewing participants, which is therefore based on the value judgements of survey participants and cannot be considered objective analysis[7]. Furthermore, most studies do not include displacement and have difficulties understanding a reasonable estimate for drop off which leads to educated guesses.

6. Duration

- Using SROI methodology it is extremely difficult to use the survey information to establish duration. This can result in subjective estimates being made and highlights the difference between the theory and practice. Whereas having a process of using all the established research that has been produced in the past by searching available literature means that robust estimates of duration can be established for different outcomes.

7. External validity (consistency and comparison)

- Research by Cooney & Lynch-Cerullo[8] , highlights that within SROI alone there are three different approaches to calculating it. And with each of those approaches there is a lot of room for individual practitioners to produce different outputs from the same inputs. This all impacts the consistency and comparability of results.

- A comprehensive literature review of over 200 SROI studies showed that consistency issues arise from bias in methodological positions, resource constraints and sectoral related differences[9].

- Currently it is not recommended to compare SROI results across different activities because of the 'diverse range' of indicators. Which limits its use in benchmarking and decision-making. However, this guidance is often not followed, and ratios are compared across industries[10]. This highlights a potential tip of the iceberg issue with SROI, if the ratios are not to be trusted, then the values, and methodology in general are also undermined.

- Research was conducted which allowed Yale masters students to conduct 7 different SROIs on the same project[11]. The resultant differences in ratios were as follows: 3.69, 6.07, 1.39, 1.16, 6.6, 6.3 and 0.04. This shows that even with the bias of these students being taught in the same place (they are not randomly assigned), they still produce incredibly different results which comes from variations in approach at different steps throughout and highlight how subjective SROI can be.

- The above differences in this simplistic evaluation show how many different methodological decisions can be made by practitioners.

- The combined impacts of different methodological decisions, imprecise nature of methodological and statistical methods means external validity of SROI could be considered low. Or the ratios and total values will vary significantly and are limited in terms of comparison.

[7]Solórzano-García, M., Navío-Marco, J., & Ruiz-Gómez, L. M. (2019). Ambiguity in the attribution of social impact: A study of the difficulties of calculating filter coefficients in the SROI method. Sustainability, 11(2), 386.

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[9]Corvo, L., Pastore, L., Mastrodascio, M., & Cepiku, D. (2022). The social return on investment model: a systematic literature review. Meditari Accountancy Research, 30(7), 49-86.

[10]Arvidson, M., Lyon, F., McKay, S., & Moro, D. (2010). The ambitions and challenges of SROI.

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8. Monitoring and evaluation

- There is a need to monitor and evaluate and whilst SROI does not stop this from happening the resources involved often mean a trade-off is made on whether to forecast, monitor and evaluate, or to only do 1 of the 3. This means for instance if only a forecast is made, there is no further follow-up to understand how close the forecast is in terms of actual outcomes. This is also a drawback of CBA as resource constraints can also be a factor but less so perhaps than SROI.

Conclusion

In research by Vik [12], which was evaluating the purpose of SROI, they recommend rather than trying to fix all the deficiencies of SROI, that are considerable. The focus should be on acknowledging all the limitations and it instead remaining as a framework of determining 'potential' societal value.

The National Social Value Standard (SVS) is in the fortunate position of being able to mitigate many of the technical challenges listed above by using SCBA and other methodologies, and having a team of social value economists carry out the analysis. And by structuring that work in a large framework of metrics which provides the opportunity for organisations to measure a broad range of impacts it can achieve the aim that SROI was originally developed for.

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