

## **What's the True Value of Your Services? Use Social Return on Investment to Find Out.**

**Prove the worth of your organization's work with this process.**

*By John Byrnes – Principal, Community Services Analysis LLC*

Funders tend to underinvest in social service. That's because the benefits – better education, higher employment, and increased property values, to name a few – accrue to everyone, not just to direct participants. To convince funders, we must provide a clear picture of the value of these benefits.

That's where a Social Return on Investment (SROI) analysis is useful. Such an analysis measures the “bang for the buck” delivered by short and long-term social benefits.

### **Why Should Anyone Fund Your Organization?**

SROI analysis isn't the “magic bullet” of funding justifications. Other methods of justifying funding requests – presenting success stories, describing recipients' needs, and outlining planned outcomes – are important elements of fundraising.

But these methods aren't enough. Consider the California Department of Social Services director who, during televised budget hearings, asked one organization's leader, “Why should we fund your services as compared to someone else's?” The nonprofit leader had no response, and the presentation ended with an unanswered query.

SROI analysis answers that question. It provides the “third leg” of reasoning on funding decisions for decision makers.

SROI results can pinpoint:

The fiscal value of services

The cost efficiency of these services

The long-term financial value to the community.

The results can also show whether an organization is accountable, transparent, and responsible. And those are things all funders – grant makers, foundations, and individual donors – want to know.

### *Key Terms & Definitions*

Before we give the formulas and steps for determining social return on investment, here's some terminology to keep in mind.

#### *Defining Inputs*

Inputs are resources provided to the activity being analyzed. SROI analysis focuses on resources (such as money and time) that you can measure in financial terms and that are used up in the course of the activity.

Units of Measure (UOM) may be dollars, hours, portions of hours, or other measurements appropriate to the resources being measured.

Value per Unit of Measure is the financial impact of each input element. (This value can also include non-monetized inputs such as contributions of goods and services.)

#### *Defining Outputs*

Outputs are the services being delivered by the organization. The most accurate measurement for outputs is Fair Market Value - what it would cost to acquire the same services if the social services provider didn't exist.

Fair Market Value is best measured by surveying providers of comparable services. When you conduct these surveys, take care to identify the actual cost of these services, as many providers will quote artificially high or low costs as a way to get new business.

#### *Defining Outcomes*

Outcomes are the long-term effects on recipients of services. It may take years to achieve outcomes, but there may be measurable changes along the way. It's important to track these changes to gauge progress.

Duration of Change is the expected useful life of the outcomes' benefits.

Drop-Off % is the percentage of the outcome that is less than expected.

Deadweight % is the percentage of the outcome that would have happened even if the output activity hadn't taken place.

Attribution % is the percentage of the outcome contributed by each output service.

Net Present Value (NPV) compares the value of money today to its value in the future, taking inflation and returns into account. It's used to estimate the current value of costs and benefits that occur over time.

### *Defining the Basis for Valuation*

Several SROI techniques use proxy methods to estimate financial values:

Contingent Valuation is defined by people's willingness to pay, or to accept compensation, for a hypothetical product or service. This value is found by surveying people.

Revealed Preference finds a value by comparing a good or service to the price of similar goods and services.

The Travel Cost method recognizes that people are generally willing to travel some distance for goods or services they value. The inconvenience and expense of travel can be translated into money to estimate how much people value those goods and services.

An SROI analysis can take many forms. It can measure the social value generated by an entire organization or just one aspect of the organization's work. There are two types of SROI analysis:

Evaluative analysis is based on outputs and outcomes that are in process or have already taken place.

Forecast analysis predicts how much financial social value will be created if the activities meet their intended outcomes.

In both cases, the steps to calculate the SROI are:

1. Identify each type of service provided.

2. Calculate the units of each service delivered.
3. Determine the Fair Market Value of Output services.
4. Assess the long-term community benefits from the Outcomes of these services.
5. Estimate the effects of negative factors, such as participant drop-off rates.
6. Measure the relative weighted value attribution of Outcome effects between multiple factors.

*Formulas for Social Return on Investment:*

The formulas for the SROI calculations are:

1. Replacement Value of Output Services

$$\text{SROI} = \frac{\text{Output valuation basis for each service (x) Quantity of Units Delivered}}{\text{Total value of Financial Input Resources}}$$

2. Long-Term Value of Outcomes

SROI = Outcome valuation basis for each individual Outcome of services (x) Total quantity of units delivered during appropriate number of years of Outcome effects (x) (100% less the Deadweight percentage) (x) (100% less the Attribution percentage) (x) (100% less the Drop-off percentage) (x) Net Present Value (time value of money) factor

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(Divided by) Total Current Value of Financial Input Resources

**The SROI results can be used for a variety of purposes:**

- **Funding Justification:** By proving to your funding sources the actual short and long-term value of your services, you can answer the question of comparative value and community financial benefits resulting from their funding.
- **Communication:** By providing credible numbers and qualitative and narrative value information, and the systematic story to support all of these, it can “talk”

to stakeholders with different values. It can help in communicating information with stakeholders and provide a means of drawing them into the mission and focus on the socio – economic impacts desired.

- **More effective decision making:** If being used for planning the focus on stakeholders can highlight interrelationships and help define activities with stronger synergies and increase planned social value. It allows management to think about whether their strategy is optimum in generating social returns, or if there may be a better means of using their resources. It can help donors and contractors to more efficiently select investments that are aligned with their value objectives.
- **Focusing on the important issues:** By focusing on the critical impacts, a SROI analysis can be completed relatively quickly and is an effective way of defining management information systems necessary.
- **Investment mentality:** The concept of social economic return on investment helps people understand that any grant or loan into an organization can be thought of as an investment rather than a subsidy. The focus shifts to the creation of value, and away from the concept of wasted resources.
- **Clarity on governance:** If community organizations are more sustainable, then understanding and explaining these impacts and then responding to them is critical. A SROI analysis will help clarify impacts and focus the understanding of the value propositions.

### **Build SROI into Your Planning**

Innovative organizations are using SROI as a basis for strategic planning. Doing so results in:

- More effective business development;
- Increased operational efficiency;
- Greater understanding of the actual value of the organization's service outputs and outcomes.

If you're unaware of your community's perception of your organization's value, you may encounter unpleasant surprises. Examining your services to measure the value received by the community should be a vital part of your planning.

An example is the MARC Center in Mesa, Arizona. The Center commissioned an SROI analysis to compare the value of its major operational groups. The results proved what the Center's leaders had started to suspect: The community value of one line of business was far less than the values delivered by their other operations. As a result, they made a change in their strategic plan. They reduced their efforts in the lower value area of service and emphasized a higher value area. This decision was instrumental in their continued financial success and the community's understanding of the values of their services.

Likewise, an SROI analysis of United Cerebral Palsy in Birmingham, Alabama, revealed a trend that changed the organization's plans. The leaders discovered that the social value of their early childhood education services was decreasing. Analysis showed that this decrease was a result of other providers offering similar services. Thus, they decided not to expand their own services in this area, as they had planned to do. Instead, they emphasized adult day treatment.

This change in focus had a dramatic effect. After several years, the organization's social value to the community has increased. Their finances reflect this fact.

***UPDATE – the recent SROI projects completed for the Legal Aid organizations in Arizona have already been used in several strategic planning areas – and more are planned:***

- Community Legal Services and Southern Arizona Legal Aid are using the SROI process to examine their strategic advocacy efforts. The goals of these advocacy efforts, which may not be related to individual cases or matters, are to develop new legal procedures, qualifications and restrictions, and processes to increase the availability and effectiveness of the legal system for future clients. These organizations are using the SROI process to determine the future fiscal impacts of these projected changes both as a comparative analysis of which areas will deliver the most benefit and as a value justification during the change process.

- These organizations are also looking at the SROI value of individual problem classification codes as an additional tool during the intake and assessment phase as a basis for acceptance of the client given the limited resources and growing community demand for their services.

These examples show that SROI analysis provides a new tool for strategic planning with demonstrated results for those initial adapter organizations who have included SROI information in their strategic planning process.

The National Legal Aid & Defender Association has been investigating various methods of providing needed information to LSC and other funding sources on the fiscal benefits of our Legal Aid services.

NLADA conducted a detailed review of the approach, methodology, and results of the SROI analysis projects completed by Community Services Analysis for the three Legal Aid organization in Arizona. Their approach and methodology develops Legal Aid results from the “bottom up” and analyzes the results data in detail. This approach delivers valuation reporting in extremely focused detail and provides very accurate, understandable, and “defendable” results.

Based on our reviews, NLADA has entered into an exclusive agreement with CSACO to provide SROI analysis services to the NLADA members.

Through the efforts of the Arizona Legal Aid organizations (Community Legal Services, Southern Arizona Legal Aid, and DNA People’s Legal Services), and the funding provided by the Arizona Foundation for Legal Services and Education, CSACO has developed a “template” for analyzing this detailed information and developing the valuation results tailored for the economic factors and impacts for individual areas and providers.

This standardized approach will allow each Legal Aid organization to realize the benefits of these studies for their own localized fundraising, stakeholder relations, and strategic planning actions. It will also allow NLADA to deliver these same benefits on a national basis using detailed data and a consistent methodology.

NLADA believes that it is very important for our members to participate in these types of SROI analysis projects. Our ability to deliver equal justice benefits throughout the country depends on the continuation of our funding – and we are under significant pressure to convince our funding sources that our operations are efficient, cost-effective, and provides measurable value to our communities – both in the immediate term and over longer time periods.

The Social Return on Investment results provide that proof of value.

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