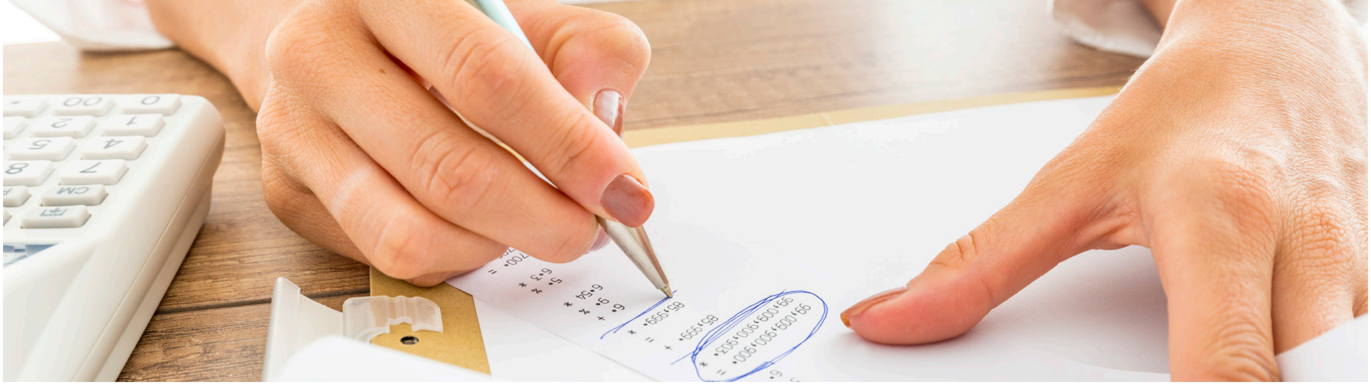

What's the True Value of Your Services?

Use Social Return on Investment to Find Out

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

By John Byrnes

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.

"Take care to identify the actual cost of services."

The results can also show whether an organization is accountable, transparent, and responsible. And those are things all funders – grantmakers, 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-monetary 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.

CONTINUED ON PAGE 30

Fair Market Value is best measured by surveying providers of comparable services. (When you conduct such 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 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.

Formulas for Social Return on Investment

The formulas for the SROI calculations are:

> "SROI measures the "bang for the buck" your services provide."

Calculating the Social Return on Investment

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.

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.

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

$$\text{SROI} = \frac{\begin{array}{c}\text{Outcome valuation basis for each individual Outcome of services (x) Total quantity of units delivered} \\ \text{during appropriate number of years of Outcome effects (x) (100\% less the Deadweight percentage) (x) (100\% less the} \\ \text{Attribution percentage) (x) (100\% less the Drop-off percentage) (x) Net Present Value (time value of money) factor}\end{array}}{\text{Total Current Value of Financial Input Resources}}$$

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.

Broadcast Your Results Widely

You can use your SROI results for a variety of purposes. For example:

Communication: One great benefit of SROI is the way it provides credible numbers and a powerful story about your organization. You can use this information to talk to stakeholders with different values, draw them in to your mission, and highlight your desired impact.

Decision-making: SROI is useful in analyzing trends. It can also help you choose the strategies that will generate the greatest social returns.

Value justification: Your results can prove to the community how effective your services really are. They can demonstrate the impact of budget cuts on community services.

> "Innovative organizations are using SROI as a basis for strategic planning."

Investment mentality: The SROI concept helps people think of grants and loans to your organization as investments rather than as subsidies. The focus shifts from wasted resources to the creation of value.

Once you can prove the value you deliver for your funding dollars, distribute that information far and wide. Those in your organization, as well as your stakeholders, will be glad to have this proof in hand.

John Byrnes (jbyrnes@csaco.org) is the founder and principal of Community Services Analysis LLC (csaco.org), the leading provider of Social Return on Investment measurement for social service and other nonprofit organizations.

What Are You Worth?

For more on gauging, strengthening, and tracking the value of your services, see these articles at NonprofitWorld.org:

Measuring Outcomes in the Real World (Vol. 30, No. 6)

What's All the Fuss about ROI? (Vol. 32, No. 2)

Before You Plan Where to Go, Find Out Where You Are (Vol. 29, No. 3)

Is That Expense Justified? (Vol. 20, No. 5)

Are You Walking Your Walk? Rate Yourself with This Easy-to-Use Grid (Vol. 29, No. 5)

Strategic Planning on a Budget (Vol. 23, No. 4)