

# **SROI Methodology: an introduction**

## SROI

Calculating the financial return on investment (ROI) is quite straightforward and commonplace within many organizations. The ROI is the number of times an investment is earned back *by the investor*. The ROI, however, fails to incorporate other returns like the social, environmental or cultural values (or *social impact*) that have been created for *different stakeholders*. The method of Social Return On Investment (SROI) is designed to ascertain these values.<sup>1</sup>

### Why SROI?

While other methods of performance measurement use output such as attendance numbers to assess social results, SROI expresses social value in monetary terms. This process is called *monetization*. The advantage of monetization is that it allows a relative impact assessment to be made. Since the investment in the social enterprise is monetary (or at least can be monetized<sup>2</sup>), the social value should be monetized as well. This makes it possible to say something about just how large the impact has been, relative to investments.

The benefits of SROI analyses are:

- **More Effective Decision-making**  
If used for planning, the focus on stakeholders can highlight interrelationships and help define activities with stronger synergies. It can also increase planned social value. Monetized indicators can help management to analyze what happens if they change their strategy. It allows them to think about whether their strategy is optimum for generating social returns, or whether there may be a better means of using their resources. It can help investors more efficiently select investments that are aligned with their value objectives.
- **Improved Communication**  
Providing credible numbers as well as qualitative and narrative value information – and a systematic story to support all of these – enables you to ‘talk’ to stakeholders with different preferences.
- **Better Focus on what’s Important**  
By focusing on the critical impacts, an SROI analysis can be completed relatively quickly. It is an effective way of defining the management information systems necessary to make it quick in the future.
- **Clarity in Governance**  
If accountable organizations are more sustainable, then understanding and explaining these impacts, and then responding to them, is critical. SROI analysis can help clarify impacts and focus the response. Responding to stakeholders enables them to influence the organization. As a result, the organization’s governance will be more closely related to the stakeholders’ requirements.
- **Growing or Changed Investment Mentality**  
The concept of social return helps one to understand that any grant or loan can be thought of as an investment, rather than as a subsidy. The focus shifts to the creation of value, and away from the risk mentality and opportunity cost of using money here rather than there.

### Uses of SROI

SROI is mainly used for one of the following two objectives: valuation and monitoring.

#### Valuation

SROI offers a way to assess the success of social investments. It gives answers to questions such as:

- What is the (expected) social value of a social enterprise?
- Just how big was the return or will the return be?

---

<sup>1</sup> SROI analysis is not only applicable to “traditional social issues” such as famine, poverty or unemployment, but also to environmental or cultural ones. For the sake of word-reduction, however, we will refer to all of these issues as “social issues”.

<sup>2</sup> More on monetization of inputs in step 3: input.

### *Monitoring*

Other than as a valuation instrument, (project) managers and entrepreneurs can use SROI as a management tool to monitor their (social) enterprise.<sup>3</sup> SROI allows them to get a sense of the extent to which targets are met, and thus of the relative success of their activities. Functioning as the ‘dashboard’ of the organization, frequently applied SROI analysis enables entrepreneurs to adjust their strategy.

### **SROI Analysis**

SROI analysis consists of several steps, which are reflected in the SROI tool:

1. Project/Business **Description**
2. Describing a **Theory of Change**
3. Recognizing **Stakeholders**
4. Determining **Input**
5. Determining **Activities**
6. Determining **Output**
7. Determining **Outcome, Impact & Attribution**
8. Determining **Indicators**
9. Using **Monetization**
10. Making **Projections**

Every step in the process is dependent on the actions taken in the previous step. The steps will be discussed in detail below.

### **The Steps of SROI**

#### **1. Project / Business Description**

This is the first step in any plan: the introduction of your idea, your project, your business. It gives the name, provides a short description of the general idea, and focuses on the business sector you are working in and the country in which you are working (and currency used in this country and/or this business plan).

#### **2. Theory of Change**

The *theory of change* defines the social issue you want to alleviate. It describes the urgency and scale of the problem, how you plan to address the issue and what your specific objectives are. The usefulness of an SROI analysis depends heavily on the thoroughness of the theory of change.

##### ***The Issue Itself***

It seems easy enough to describe the very thing for which your organization was founded. However, experience with social enterprises has shown that the mission statement is not always as crystal clear at all layers of an organization. If the problem you are trying to solve is described well, the goals and solutions can be designed more easily and they are more likely to be effective.

##### ***Urgency and Scale***

Gaining good insight into the urgency and scale of the social problem that has to be solved is the next important step for building a theory of change. This is important because, without clear insight into the urgency and scale of the problem, it will be very difficult to formulate realistic objectives. For example: how many people can you expect to help when you don't know how many people are in need? To figure this out,

---

<sup>3</sup> With ‘social enterprise’ we mean a project, initiative, action, or social business that has the objective of alleviating a social issue.

'social market research' must be conducted which explores the demand of the target group for the solutions being offered. This brings us to the next step in building the theory of change: your instruments.

### ***What are the means to your end?***

An SROI analysis will be built on the understanding of *how* the organization creates change. Social issues can often be addressed in many different ways. The key is to choose the most effective approach. This is not a straightforward matter. For some social issues, a short-term solution is not always beneficial in the long run. For other investments, the results are only visible after a longer period of time. Also, experts might disagree on the effectiveness of a certain approach. Therefore, it is important to base your activities on as much 'evidence' as possible. This evidence can be found in:

- Past experience gained in your own projects
- The experiences of others who have dealt with the same social issue
- (Scientific) theory and research

### ***Objectives***

In order for the change you are making to be really effective, it is important to make your objectives SMART:

Specific Objectives should specify what they are intended to achieve.

**Measurable** You should be able to measure whether or not you are meeting the objectives.

**Achievable** Are the objectives you set attainable?

**Realistic** Can you realistically achieve the objectives with the resources you have?

**Time** When do you want to achieve the set objectives?

## **3. Stakeholders**

### ***Stakeholders, Shareholders and Value***

Social, environmental, cultural and economic values that are generated by your social enterprise can accrue for many different stakeholders, some of whom might not even have contributed (provided input) to the creation of these values. While this also applies to most for-profit organizations, they tend to measure only shareholder value: i.e. the money created for the person or organization that has invested in the business. This marks a fundamental difference with social enterprises. The main goal of social enterprises is to address a social issue, to choose the economic model that will enable them to do so in the most efficient and effective way. Social investments are not necessarily made to create money, but to create *value*. The fact that social enterprises aim to create social value for society as a whole makes it important to ascertain all values for all (significant) stakeholders.

### ***Categories of Stakeholders***

Stakeholders can be divided into four categories:

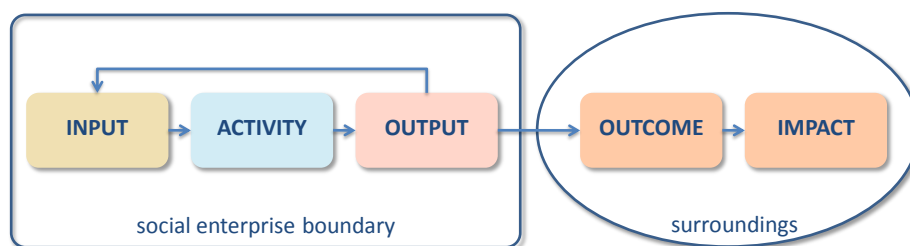
1. The target group of your objective(s)
2. The financiers of your social enterprise
3. Your own organization
4. Customers
5. Other organizations

### ***Identifying and Ranking Stakeholders***

Since it is very likely that your social enterprise will affect numerous individuals, organizations, government agencies, etc., to varying degrees, it is important to identify the stakeholders you expect your social enterprise to impact the most. In the SROI tool, the maximum is set at 6 stakeholders. Knowing your stakeholders, and then identifying the most important ones, is not as straightforward as it may seem at first. You can find yourself spending considerable time trying to figure out who is affected by your social enterprise. And you might discover parties which are your biggest stakeholders that you had never really thought of before. Thinking

about your stakeholders and ranking them in order of importance also helps to distinguish the primary objectives from secondary ones.

*After identifying your stakeholders, you then describe what the input (if there is any!), activity, output, outcome and impact is for each stakeholder. We call this the “Logic Model” or input/output model.*



#### 4. Input

To calculate the SROI ratio, you basically need two ingredients: input and impact. Input are the investments made in the social enterprise. Impact is total (social) value created. The SROI ratio is the impact divided by the input. Step six will focus on outcomes and impact in greater detail.

##### ***Ascertaining Total Input and Monetization***

Input is the sum of all investments made by the separate stakeholders. It represents the (value of your) social enterprise’s resources. These resources can consist of money, time or people (e.g. advice, volunteers) and in kind donations (e.g. free rent, free inventory, etc.). The last two categories are often not seen as value (they are given for ‘free’, after all?). But when you are tendering for a (multi-year) contract, for example, this view can be a crucial mistake. The following year, you might not receive the free organizational advice you need or you might have fewer volunteers at your disposal. As a result, you will have to incur greater costs while the conditions of the contract remain the same. So, important as it is to ascertain all the value of a social enterprise created for different stakeholders, all the input given by stakeholders has to be included as well.

To be able to add up all input and use the total to calculate the SROI ratio, it has to be converted into measurable units: money. As mentioned earlier, this process is called monetization.<sup>4</sup> The point is to calculate what the ‘time of people’ and ‘in kind donations’ would have cost you in the marketplace. In the case of free advice given by a consultant with a fixed hourly rate or free housing, this is quite straightforward. But how do you put a price on a volunteer’s time and effort? The answer is: you just do. The work done by volunteers is

---

<sup>4</sup> More on (the advantages of) monetization can be read in step eight.

provided at a certain (educational) level which has a wage indication. In this way, a monetary value can be assigned to this type of resource.<sup>5</sup>

Credit and loans provided at a social (below market) rate are also an investment. But because they are loans or credit, the entire amount of the loan cannot be seen as an investment by the investor. Actually, the difference between the market-rate value of the loan and the soft-loan given is the amount of the social investment.

Sometimes it is difficult to define exactly what the monetized value of an investment is, but it is *always* possible to present this in monetary terms. Be sure you can explain the reasoning behind your calculations (transparency!).

Other important issues here are:

- *Avoid double counting*: whose input are we talking about?

If an organization receives funding from an external source, the input of the organization itself is normally 0! Only if an organization has extra input (extra volunteer hours or management time, extra investment of its own) – separate from the investors' input – can you include these.

- *Opportunity costs*: the costs of volunteer-time are (fairly) easy to monetize: simply determine what it would have cost had you been obliged to hire these people at a market rate. But what about time invested by participants/clients/students? The best way to value this is to look for opportunity costs: what would these people do if they did not join your project? Would they earn money in another manner (did they have to leave their job); would they have any income if they did not participate in your project? These costs are called opportunity costs and can be monetized.

**Note: Not all stakeholders provide input!**

Although stakeholders all have an interest in the social enterprise, this doesn't mean that they all provide input. In fact, some stakeholders might be the primary beneficiaries but make no investments whatsoever.

## 5. Activity

Based on the theory of change, in which you develop a way of addressing the social issue at hand, the social enterprise turns input into output through activities. This is done by all stakeholders that have an input. In this step, you describe the activities of each separate stakeholder who has an input. These can be entirely different and multiple.

Determining the activity per stakeholder should be taken quite literally. Although, for instance, many of the activities are financed with the resources of one particular stakeholder (say, 'the investor'), the only activity of this stakeholder will probably be 'making payments' and 'monitoring', unless the stakeholder is actively involved in running the business or promoting it.

Note: stakeholders can only perform an activity if they have an input. So if you find some activity for a stakeholder and did not fill in an input, you will have to go back to input and include it. Because no one can perform an activity without an input!!

---

<sup>5</sup> Note that volunteers might spend considerable time on a certain task that a paid 'professional' would take half the time to do. It is therefore not always correct simply to charge a market-level hourly wage for each hour spent by the volunteer.

## 6. Output

### ***The Products of Activities***

Output is the tangible results of the stakeholders' activities. They are measurable units of production, e.g. goods, services, annual reports and business plans, marketing-related activity (e.g. flyers, ads, public appearances), etc. For each stakeholder with an activity, the output is described.

### ***No Input, No Activity, No Output***

Note that only the stakeholders with an input have an activity and only stakeholders with an activity create an output. It is recommended, however, that you think of input, activity and output separately for each stakeholder. For example, if you find a stakeholder to be responsible for some kind of output, but you haven't acknowledged an input and an activity in steps three and four, it forces you to rethink the contributions of this stakeholder. All individual steps of the SROI analysis therefore contribute to a better understanding of how your social enterprise works and the roles each stakeholder plays.

It is important to note here that output is different from outcomes. Any stakeholder with an input also has an output, but does not necessarily have an outcome. For example: a funder can have an input (money and time), activity (donating and monitoring) and output (number of donations, hours spent on monitoring and advising) but not an outcome (they do not expect any outcome for their own organization).

## 7. Outcome, Impact & Attribution

### ***Outcome***

In cases where output is some kind of directly tangible product, outcome is the relevant result that the endeavours of the social enterprise have brought about for each stakeholder. Outcome can accrue for every stakeholder regardless of any input, activity or output that has or hasn't been contributed. Outcome represents some kind of gain or loss for stakeholders.

### ***Impact***

Social enterprises are initiated to alleviate or, in the best case, solve a social problem. It is however almost certain that some outcomes would have come about without the active attempts to do something about the problem at hand. For instance, in case of a social enterprise which provides work to people with impaired hearing, it is possible that a fraction of the target group would have found a paid job elsewhere on their own. For the individual stakeholder in a 'social enterprise', the outcome might only be 'turnover' – which of course wouldn't be realized without the existence of the social enterprise. Impact therefore is outcome, minus what would have happened anyway without efforts to alleviate the problem by your enterprise or any other initiative. To estimate the net contribution to the impact of your specific social enterprise, a percentage for attribution has to be applied as well.

### ***Attribution***

Impact might not be fully attributable to your social enterprise. Although your social enterprise might address an underexposed issue, it is likely that other organizations have also had a positive influence. Measuring attribution is possible when you know, for example, how many hours of work your social enterprise has put in and how many hours others have been spending on the same problem. Of course all of this relies on the assumption that the work done is comparable and 'hours of work' is a good indicator for the contribution made to solving the problem.

### ***Verification and Exaggeration***

Sometimes organizations tend to exaggerate their outcomes and impacts, or their stakeholders. There are times when you think you will have an impact on other people or organizations – but is this borne out by the facts? Or is it just wishful thinking?

So it is very important to verify with your stakeholders whether the impact you claim to have for them actually occurs. If there is no evidence for this impact, it simply cannot be claimed! Bear in mind that you will have to show evidence to underpin your claim of having an impact! This can be done through interviews, by citing quotes/reports from stakeholders, etc.

## 8. Indicators

A crucial part of SROI analysis is making the impact of your social enterprise measurable. Only then can you gain a sense of the extent to which an impact has been realized – and this is crucial for the next step: monetization of social impact and calculating the SROI ratio. The first step towards making impact measurable is to determine the indicators for impact. In 1984, the United Nations defined indicators as follows: “Indicators are variables that help to *measure changes* in a given situation”. This means indicators have to be easy to count and must be defined in units such as number of hours, kilometres, visitors, etc.

### **How to determine indicators**

If no (examples of) indicators from other social enterprises or (scientific) literature are available, you will have to determine indicators on your own. Thinking comprehensively about the positive changes being achieved by the actions of your social enterprise normally makes this a fairly straightforward matter. One tricky aspect, however, is to formulate indicators that actually say something about the contribution to the problem. It is therefore important to check whether they are realistic – i.e. is measuring the indicator time-consuming and expensive or is it a relatively easy matter?

It is possible to measure impact through a set of indicators. But bear in mind that indicators do not measure similar things, because then the same thing would be counted twice. And having too many indicators would make things too complicated (three is usually a maximum).

#### Tips and tricks for setting indicators:

- Divide objectives that are more difficult to achieve (or mission statements that are too general) into achievable secondary objectives and involve several people in the formulation of the objectives in order to simplify their acceptability.
- The more precise the formulation of the objective is (in number, in quality, in time ...), the easier the determination of indicators will be.
- Express them in terms of desired results and not as activities that should lead to intended results.
- Do not make too many impacts, each with too many indicators. If 10 impacts are named for a company (for different stakeholders) and each of them have 4 indicators, this produces 40 points of measurement. Select the most important ones, the ones that are really essential.
- Determine indicators that will change considerably (higher/lower) if the goal is achieved.
- Ensure that the indicator is unambiguous and simple. The indicator should not be open to several interpretations; the indicator must be understandable and consistent. Regardless of who conducts the performance measurement, the indicators should be objective and verifiable. Indicators that can be manipulated to a high degree should simply be avoided.
- Finally, an indicator should be ‘valid’. A performance indicator is valid when it actually provides a picture of what one wants to measure (am I measuring what I think I am measuring?).

One could ask whether ‘the number of complaints’ is a valid performance indicator for the quality of the services. One point of criticism could be that only the negative experiences of customers are heard. The reliability is affected when the complaints are received at place that is also responsible for providing the service. An attempt could be made to remedy the complaint on time or to increase the threshold for potential complainants (“submit complaints in triplicate, please”). This phenomenon is called “gaming”. If the number of complaints is a performance indicator against which a department is assessed, then it can undertake different actions to deal with or block complaints in an informal (i.e. unregistered) preliminary stage.

“But how can ‘feeling’ be measured? Can that be done?”

‘Feeling’ is just like ‘self-confidence’ – on its own it does not say much. It will be difficult to find financiers that are willing to subsidise ‘a better feeling’ or ‘greater self-confidence’. These types of abstract concepts are

descriptions for a changed or changing behaviour. If someone feels better or has more self-confidence, this will lead to a change in behaviour in a desired direction. Someone that feels better will perhaps go out more often, maintain his house better, meet agreements reliably, etc.

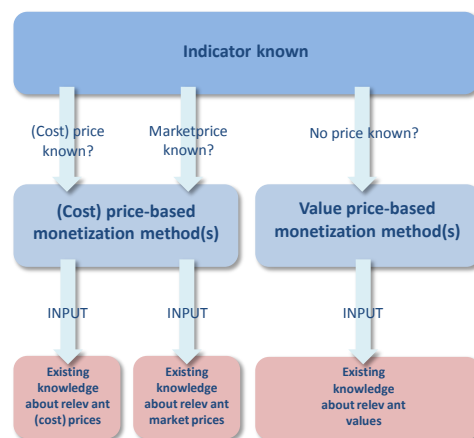
It must first be determined, therefore, what the cause and consequences are of a bad feeling or of a lack of self-confidence. Because there the indicators will be found for the thing one wants to change.

## 9. Monetization

### Monetization methods

There are two options:

- either comparable (cost) prices are known for the indicator (e.g. it has been calculated how much one year of social assistance benefits will cost); or
- no data is known or available and this must be determined on the basis of research (e.g. the value of having a job).



Analogous to these two situations, there are two types of research methods: the (cost) price-based and the value-based monetization methods (see the diagram above).

### 1. Cost price-based methods

Cost price-based methods or 'direct methods' primarily come from the infrastructure and large construction projects. In the Netherlands, writing an Environmental Impact Report has been required for a number of years for large, sweeping construction projects. These reports use the cost effectiveness analysis and highlight the total social costs and benefits of a construction project. It highlights not only the costs of construction, but also the costs of any restoration, repair or replacements, the costs of the loss of natural habitat, the effects on public health, etc.

In these sectors, these methods are widely known and used on a daily basis.

A disadvantage of this method is that it primarily highlights the cost savings and not the total creation of value. On the other hand, the cost savings do show the *minimum* value. If, for example, one looks at the value of finding a job, then the savings booked by not having to pay a social assistance benefit (incurred losses method, see later) is a minimum expression of the value. After all, the costs of the benefit payment are saved, but perhaps there are other values which can be named less directly that are important. For example: 'the feeling that one is involved again'.

## 2. Value-based methods

This method is focused on making it possible to measure the value that a change creates for all stakeholders for which no direct cost method is available. This method is particularly important for social entrepreneurs because they are focused on the often less direct effects of a change. Impact such as cohesion, feeling, etc., can in this way – and with the right indicators – produce valuable information.

Both methods (cost-based and value-based methods) are independent of one another, but can be used together (such as in the example given of finding a job). The choice of one of the methods is often determined – in addition to relevance and suitability – by the availability and accessibility of information.

### (Cost) price-based monetization methods

For the category of ‘cost price-based methods’, there are a large number of methods available from the construction and environmental sectors. Some of them can also be applied in the social sector. These methods are named below and the most important ones for social entrepreneurs will be discussed further.

The following methods have been identified:

- Incurred Losses Method (ILM)
- Cost Reduction Method (CRM)/ shadow-costs method
- Averting Behaviour Method (ABM)
- Hedonic Price Method (HPM)
- Cost Prevention Method (CPM)
- Travelling Costs Method (TCM)
- Restoration Costs Method: compensation of loss (RCM)
- Production Factor Method (PFM) / productivity change method
- Added Value Method (AVM)

For social organizations and social entrepreneurs, the following are particularly useful:

10

---

#### Method: Incurred Losses Method (ILM)

This is a method used to calculate the costs of the losses incurred in an undesirable situation. A strong point of this method is that it is easily calculated using figures. Losses are often easy to indicate in market prices.

##### *Example:*

##### *The costs of an accident*

Someone ends up in hospital as a result of an accident and must stay there for 5 days. The cost price per night is € 1,200. The costs of the accident can be valued at € 6,000.

##### *The costs of unemployment*

Someone loses his job and is given a social assistance benefit. This benefit amounts to 13,000 euros a year. The person continues to be unemployed for three years. Total loss is: 39,000 euros.

#### Method: Hedonic Price Method (HPM)

This monetization method derives the value of the environmental factors from the value difference created by these factors for an object in this environment. The strong point of this method is that it can be explained in simple terms and people know exactly what is being measured. A weak point of the method is that it requires a large amount of data to calculate the different factors in a correct manner.

##### *Example:*

It is easy to imagine that two identical houses at different locations have different values. A house in a fashionable neighbourhood is worth much more than the exact same house in a disadvantaged area. Researchers used this method in a study conducted into the value of security in a Utrecht city district (Doorten, 2006). The *increase* in the value of the houses

(WOZ/property appraisal value) was used as an indicator to determine the value of the increased feeling of security in the district.

#### **Method: Cost Prevention Method: (CPM)**

This method calculates the cost price of measures that prevent a further worsening of an undesirable situation. A strong point of this method is that the values given are often simply the market values. The weak point of the method is the question of whether the substitute is really an equitable alternative for the same users.

##### *Example:*

Akzo Nobel distributes apples every day to its employees to reduce the high rate of illness-related absenteeism. The costs of this fruit become preventive to reduce the costs of absenteeism. This involves 2,000 FTE employees in the hope that the absences are limited to 4% and do not rise to 5%. A 1% prevention of illness-related absences translates annually to a reduction of 20 FTEs in costs. 1 FTE costs approximately €30,000, so 20 FTEs is valued at €600,000. These are the 'outcomes' of the measures. The cost is 500 apples per day. This cost (1 apple = €0.20) €100 per day. Based on 200 workdays per year, this comes to €20,000 in prevention costs. With €20,000 in costs, €600,000 is 'saved'.

#### **Method: Travelling Costs Method (TCM)**

Description: The costs people are willing to pay to get somewhere (faster). The strong point of this method is that, in general, the outcome is unambiguous and understandable.

##### *Example:*

This method was used in a study conducted into the value of a woodland in Flanders (KU Leuven, 2001). One of the aspects of the value of the woodland was its recreational value: i.e. the pleasure that people derived from strolling through the woodland.

The value of this 'pleasure' was calculated on the basis of the travelling costs people had to incur to get to the woodland. In interviews, the walkers were asked what means of transport they used (train, car) to get to the woodland and how much it cost.

---

11

#### **Method: Restoration Costs Method (RCM):**

Description: The costs of restoration after destruction of an old situation; with compensation of the loss. A strong point of this method is that it provides an exact calculation of the costs of new construction. A weak point of the method is that the new situation is often a little bit different from the old situation. This means it is possible that apples will be compared with oranges.

##### *Example:*

The city of Ede decides to construct buildings on wooded land, but wants to compensate for the natural environment lost as a result. It decides to purchase a piece of farmland, prepare it for planting and then plant new trees on it. The piece of land, equal in size to the lot on which buildings will be built, is 20,000 m<sup>2</sup>. The city pays 20 euros per m<sup>2</sup>. In total this purchase costs the city 400,000 euros. One tree will be planted on every 10 m<sup>2</sup>. A tree costs 30 euros and 2,000 are required. The trees cost the city 60,000 euros. In total, this compensation for the loss of natural environment amounts to 400,000 euros + 60,000 euros = 460,000 euros.

#### **Value-based Monetization Method**

This method, also called the "contingent valuation method", links a value to an indicator for impact at the moment that no direct market prices or cost prices are available.

The value of a situation change is determined by asking the stakeholders about it. This can be asked in two ways: the 'willingness to pay' and the 'willingness to accept' (how much people are willing to accept). A strong point of this method is that it asks the stakeholders directly about their perception of a change in their living environment. The weak point of this method, on the other hand, is that by asking people for their

opinion, the method can be fairly subjective. There can always be a discrepancy between the expressed 'willingness' to pay and the actual making of a payment.

### **The Price Sensitivity Meter**

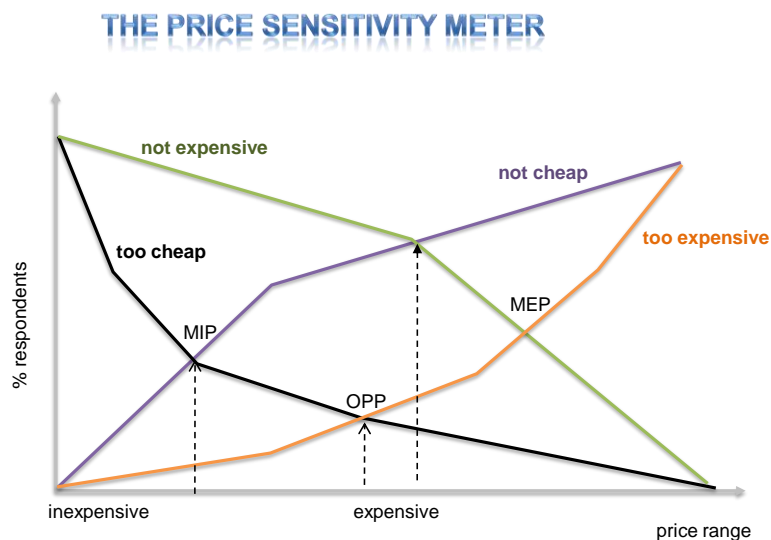
Instruments have been developed in the marketing world to gain an idea of what value a consumer attaches to a service or product. This enables an amount to be established for the sale price. One of the best-known instruments for this is the so-called price sensitivity meter or price meter (Kooiker, 2003).

In this method, a study is conducted into what the perceived value in the consumer's mind is in order to quantify it. In practice, a new service is shown to a consumer – he is then asked:

- At what price would you find this product or service inexpensive?
- At what price would you find this product or service so cheap that you would start to have doubts about its quality?
- At what price would you find this product too expensive?
- At what price would you find this product or service so expensive that you would not be willing to pay the price asked?

In situations in which a marketer would enquire about the 'perceived price', a social entrepreneur would ask about the perceived value.

Based on this, a table can be composed such as the one shown below during a subsequent large study.



Four points can be derived from this diagram:

1. The marginally inexpensive point (MIP): the point at which the 'too cheap' perception turns into an 'inexpensive' perception;
2. The optimal price point (OPP): the point at which the smallest number of people find the product or service to be 'too cheap' or 'too expensive'. At this point, the penetration will be the highest. This will optimise sales;

3. The Indifference Point (IDP): the point at which the number of people that find the product or service inexpensive is equal to the number of people that find the product or service too expensive. A price equal to the IDP is seen as a 'normal' price. At this price level, sales will be lower, but the margin will be higher;
4. The Marginally Expensive Point (MEP): the point at which the 'expensive' perception turns into a 'too expensive' perception.

The acceptable price range of a product or service is found between the marginally inexpensive point (MIP) and the marginally expensive point (MEP).

The gap between the MIP and the IDP is known as the 'inexpensive' segment. The gap between IDP and MEP is known as the 'expensive' segment."

So, in principle, it is possible to set up the same type of price meter analysis for social services (and their effects) in order to establish a maximum price (perceived value!) for a service. This price between the IDP and MEP ("acceptably expensive") is then the best available approach to the perceived value in the mind of the customer.

What was discussed in Chapter 2 should be reiterated here: if the government takes on the role of purchaser, the individual consumer's naming of a 'value' or 'price' will be somewhat more non-committal.

The monetization of social impact is still in its infancy in the Dutch social sector. Although there are a fair number of examples available from other sectors.

So this not only requires a 'technical' change in thinking; it also requires a cultural change – you may monetize, but is it ethical to do so?

## 10. Projections and Monitoring

### *Argued Prediction*

Investments are made in the hopes of getting a future return, meaning that the (Social) Return on Investment must be calculated over this longer period of time. To integrate this, the step Projections have been built into the tool. A unit has been chosen to measure the social impact. A prediction is made concerning the number of these units (for example: people/participants/clients, or kilometres, etc.) that will be reached over the coming years. As with financial projections or budgets, a prediction is made of the expected size of the social impact. It is important that the prediction is underpinned and documented. It is easy to reach the number of clients or achieve an increase in CO<sub>2</sub> savings by a certain percentage per year on paper (or in the tool!). But on what assumptions and information is this based? And can these results be achieved with this investment or will additional investments be required? These new investments can be filled in per year and will be included in the final calculation. People have difficulty making these 'predictions', since they are difficult to prove scientifically. Yet it is unnecessary to do so. Predictions – also the ones made by commercial companies or government – can never be proven scientifically. But they can be grounded in assumptions based on historical data or research. This step also shows different scenarios; what happens when your growth varies. The effect on the SROI ratio will immediately become clear. As with a business plan, a worst and best case scenario can be made. Or the social break-even point can be calculated: at what number of units do the investment costs equal the social value created? There is no space in the tool for these assumptions; however, the projections have a large effect on the evaluation of the SROI ratio. The person assessing the SROI analysis (for example the financier/investor) will always ask questions about the basis of the predictions for this step in the tool. Another risk inherent to predictions is the chance of counting the same effects twice. The effects for the target group often occur over a longer period of time. So in the value per participant (or saved CO<sub>2</sub>, or another unit), the value has already been counted for several years. This means that in projections, only new participants and new savings can be counted. It is often the case that these same participants or savings are already included. This leads to a higher SROI ratio and is not realistic. The projection sheet will therefore always show new and unique participants or units per year. In the tool, the number of years for the projections is five. That does not mean that each investment must be made for five years. Of course shorter periods are possible (and the other years will then be 0). Longer periods are also possible for investments; sometimes even 10 to 20 years. A period of five years has been chosen as a standard, as the attribution and deadweight are harder to determine for a longer period.

People wanting to make projections over a longer period of time can do this manually. This table becomes a “social budget” of social value for the years to come.

Note: in the previous stage you were asked about the number of years covered by your impact. Because some interventions will have an impact that will last longer than one year. Some impacts can last for perhaps 3 to 5 years.

If you filled in more than one year, you have to make sure that you do not include the same people twice in your projections. In other words: in your projections you can only insert the number of unique ‘units’ (such as participants, clients, people, etc.). If you do not do this, you will start ‘double counting’. Your SROI ratio will be (extremely) high, but very unreliable!

It is appealing for a manager to be able to steer and guide within the confines of a budget. What happens when the results do not meet expectations? Or when they exceed them? The last sheet to be filled in the Social Evaluator is meant for monitoring. It is the management tool that can be filled in at the end of every year. It is a simple table and is the same as the one used for Projections. In this Monitoring table, it is not the expected units that have to be filled in, but the realized numbers. On the basis of this factual data, one will be able to see how the SROI ratio has developed: this will be higher (with better performance) or lower (with less) than expected. Does that matter? Many people are afraid of showing results that are less than expected. This is a shame because it provides useful information for steering. Where did we fall behind? Which impacts are smaller than we thought, etc.? Just as a commercial organization is not closed down when the financial results lag behind, so too a social venture will not immediately run into difficulty if the results come up short. It is (with any luck) simply an opportune signal to adjust the falling curve.