

# Social Return on Investment



## Overview

This issue brief is one in a series published as part of the American Public Human Services Association's *Pathways* initiative. Each issue brief is designed to introduce a critically important facet of public human services and explore promising concepts that support *Pathways*, APHSA's vision for transforming how health and human services are provided in this country. Public human services must move in new directions—down new pathways—if we are to meet increased demand for assistance at a time of tight budgets and heightened public expectations for effective outcomes in the work we do. Through *Pathways*, APHSA is articulating a new vision for human services, identifying key outcomes such a system can help achieve, and building support for concrete action to make that vision real.

At the core of *Pathways* are four major outcomes that we seek: **gainful employment and independence; stronger families, adults, and communities; healthier families, adults, and communities; and sustained well-being of children and youth.** Each of these outcome areas must be undergirded by key policy frameworks and strong foundational supports, including accountability that is based on achieving outcomes that are meaningful to stakeholders, communities, those who invest in human services, and those we serve. Our current policy and funding environment is also creating greater need for an “investment orientation” in human services. Within this context, Social Return on Investment (SROI) offers human service agencies an opportunity to measure the community impact and social value of their services and programs. The SROI approach helps agencies translate the social value of human services into an investment framework and communicate this value to key audiences including taxpayers, policymakers, and community members. SROI methodologies weave together financing, programming, and outcomes to show impact and the return on public and private funds invested in human services.

This brief introduces SROI and highlights SROI methodologies, tools, and models that have been implemented by government, philanthropic, and for-profit and nonprofit organizations. It identifies several key considerations in the use of SROI and explores some of the policy and practice implications of an SROI approach to impact measurement. These examples and profiles spotlight innovative approaches adopted by private and government entities to measure sustainable and meaningful outcomes and show return on investment (ROI). A key community benefit to using SROI is that it calls for engagement of a variety of stakeholders, prompting collective thinking and driving local innovation. The brief explores issues and future directions for using an SROI approach in health and human services. This issue brief is part of a series produced by APHSA's Innovation Center in support of the *Pathways* vision. The center provides a “virtual place” to introduce and explore innovative ideas with the potential to promote transformation of health and human services. The



center is addressing four focus areas that include alternative financing, adaptive leadership, the government’s role in the 21st century, and social return on investment.

## Introduction to Social Return on Investment

Human service programs assist individuals and families in many ways, from early intervention services to help young children reach developmental milestones, to programs that promote employment and independence, to home- and community-based supports for older adults. Yet measuring and showing the impact of such services on individuals, families, and communities is an ongoing challenge. As an approach to impact measurement, SROI can help human service organizations tell their story in a way that communicates the value of their services to communities and to society.

As described in the practice and research literature on SROI, this approach is a “framework for measuring social value.”<sup>1</sup> Like return on investment and cost-benefit analysis from which SROI derives, SROI examines the resources invested in an activity, and the outcomes and benefits generated by the activity.<sup>2</sup> Yet unlike a more traditional business approach, SROI seeks to measure benefits that accrue to individuals, communities, and society. These benefits may include cost savings and cost avoidance, such as savings to taxpayers through reducing incarceration rates. Benefits could also include, for example, increased income for individuals, and increased revenues to communities and the public sector. An SROI analysis might even include an examination of more subjective outcomes, such as improved family functioning, if a credible value can be assigned to such outcomes.

While an SROI analysis can produce a number or ratio that compares inputs and outcomes, the SROI approach is not meant to be reduced to a number alone. The SROI approach to impact measurement is intended to include quantitative, financial, and qualitative information to tell the story of an organization’s outcomes and impact. Organizations can also use an SROI analysis to communicate impact and “social value” to external stakeholders and, internally, to help assess program performance and identify areas for improvement. An SROI analysis can be used for evaluative or forecast purposes. An evaluative SROI analysis is based on a program’s actual outcomes. A forecast SROI analysis predicts how much social value will be created if activities achieve their intended outcomes.<sup>3</sup>

As an emerging field of impact measurement, SROI shares similarities with other types of performance measurement but also has unique elements that reflect its emphasis on social value. SROI, for example, is related to cost-benefit analysis but engages stakeholders in a deeper way in helping to define and measure benefits to the community and society. Like cost-effectiveness research, SROI focuses on inputs and outcomes but an SROI analysis assigns a financial value to outcomes.<sup>4</sup> SROI analysis can also complement and build from existing efforts within human service organizations to measure outcomes. An agency that is already collecting outcome data has a foundation upon which to build an SROI analysis.

The key underpinnings and characteristics of the SROI approach are reflected in the principles of SROI. The literature<sup>5</sup> identifies seven principles upon which SROI is based:

**1. *Involve stakeholders.***

Stakeholders should inform what gets measured and how this is measured and valued.

**2. *Understand what changes.***

Articulate how change is created and evaluate this through evidence. Recognize positive and negative changes as well as those that are intended and unintended.

**3. Value the things that matter.**

This principle recognizes that financial proxies may be used to value outcomes that do not have a ready monetary value.

**4. Include only what is material.**

Determine what information and evidence must be included in the analysis to give a fair and true picture so that stakeholders can draw reasonable conclusions about impact.

**5. Do not over-claim.**

Organizations should only claim the value that they are responsible for creating.

**6. Be transparent.**

Demonstrate the basis on which the analysis may be considered accurate. Explain and document the communication of results to stakeholders.

**7. Verify the result.**

Ensure appropriate independent assurance of the analysis.



## SROI Methodology

Agencies choose to approach an SROI analysis in several different ways. Some agencies use external support such as consultants or private-sector partners to develop their approach. Agencies also work with universities to develop a methodological approach to SROI calculation. In other cases, agencies look internally and leverage their own staff resources to undertake an SROI analysis. Program leaders can look to existing resources, networks, or peer groups for help with developing an approach.

Regardless of who develops the model, SROI is predicated on basic business and accounting principles, reflecting the concepts of return on investment and cost-benefit analysis, but tailored by the inclusion of specific social factors in order to measure community impact and social value. The context within which the analysis will take place can also shape the methodological approach. REDF (formerly the Roberts Enterprise Development Fund), for example, developed an approach to measuring SROI that reflects both the enterprise (business) and social value generated by social purpose enterprises.

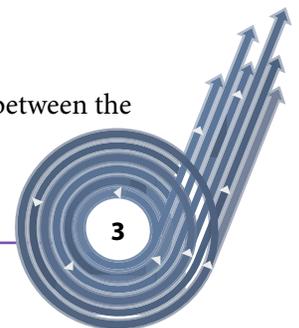
In the United States and abroad, organizations have developed tools, guidance, and methodologies to facilitate an SROI analysis. The SROI Network is based in the United Kingdom and seeks to strengthen the practice of SROI and support SROI practitioners through peer support and a community of practice. The SROI Network has published a generic methodology that can help inform an SROI analysis. This methodological approach measures social value and return through a six-stage process using standard investment analysis tools that are adjusted to apply the idea of social value. These stages are briefly described below to illustrate and highlight the types of activities that an organization might pursue when conducting an SROI analysis.<sup>6</sup> Depending on an organization's overall approach to outcome measurement, some organizations may have a strong foundation for conducting an SROI analysis while other organizations may need more time and effort to identify and measure appropriate outcomes.

### **Stage 1: Establish scope and identify key stakeholders**

In this stage, programs define what is to be measured, who will be involved in the analysis, and how.

### **Stage 2: Map outcomes**

This stage focuses on developing an impact map (or theory of change) that shows the relationship between the inputs, outputs, and the outcomes.





### **Stage 3: Evidence outcomes and assign value**

This stage involves identifying data to show whether outcomes have been achieved and then assigning a value to them.

### **Stage 4: Establish impact**

This stage sifts through the outcomes and removes all of the changes that cannot be attributed to the inputs.

### **Stage 5: Calculate SROI**

This stage summarizes the financial information recorded in the previous stages. The basic principle is to calculate the financial value of the investments and the financial value of the social costs and benefits. The SROI calculation compares the value of the inputs to the value of the results in order to produce a ratio.

### **Stage 6: Report, use, and embed**

Once the results have been attained, this stage involves verifying the analysis and results, sharing the findings with stakeholders, and embedding good outcome processes in the organization.

## **Developing an SROI Methodology**

In the United States, REDF undertook pioneering work in the area of SROI beginning in the 1990s.<sup>7</sup> This effort stemmed from REDF's investments in social purpose enterprises. These enterprises are businesses operated by nonprofit organizations with the dual purpose of generating income through services and/or products and creating social value. REDF's portfolio included a group of San Francisco Bay Area nonprofit organizations that operated social enterprises with the mission of employing individuals with complex needs. By providing job training and opportunities, these social enterprises would assist individuals in moving out of poverty. To understand whether REDF's investment in the social enterprises was resulting in quantifiable benefits to individuals served and society, REDF developed an SROI approach to assess the impacts and costs of the social enterprises. This approach was implemented with nonprofit organizations in the REDF portfolio.

The REDF model calculates a Blended Value that incorporates the financial and social value that may be generated by social purpose enterprises. The model then calculates a Blended Index of Return that compares the blended value of a social enterprise to the investment made in the enterprise. A Blended Index of at least one means that the social purpose enterprise generates sufficient value to meet investors' expectations. Similarly, an index greater than one indicates that an excess value was generated. Interestingly, a low or negative Blended Index of Return does not necessarily denote a poor investment. For example, for some populations with complex needs, a slight increase in access to public services, albeit for a short period of time, may be a desirable outcome that results in lower public costs over time.

In accordance with an initial goal, these efforts have produced an approach to SROI analysis that is available to social service agencies broadly. The elements of this methodology and examples of its use are available at <http://www.redf.org/>.

## State, Local, Nonprofit, and International Examples

There is a general framework for conducting a Social Return on Investment analysis but approaches vary within the framework. As different approaches are used to measure the social impact of health and human services, this brief highlights a range of SROI models including local, county-based approaches; statewide initiatives; university models; public-private partnerships; and international innovations.

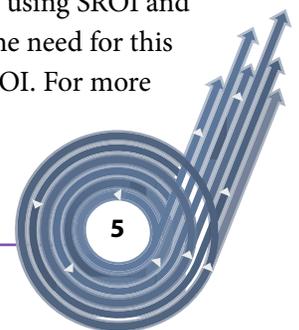
In each of these, SROI findings have informed decision-making and driven policy and practice changes. The examples show that there is no single approach to SROI. An agency can focus on performance management, conduct a cost-benefit analysis, or simply focus on gaining a better understanding of whether a program or system is making progress towards a return on investment. There are similarities across each program, yet the context of each system (and approach) is different. At the same time, a common theme unites the approaches as each seeks to answer the question of whether the dollars invested has produced the desired results.

### *Life Works—Evaluating Impacts through SROI*

For Community Action Opportunities (CAO), a community action agency based in North Carolina, using an SROI approach to help evaluate its Life Works program enables program leaders to tell the story of Life Works in a way that communicates the value and cost-effectiveness of this program to participants and community stakeholders. Life Works assists adults to improve their lives, strengthen their families, and rise above the poverty level. Life coaches guide and support participants to set and advance toward their goals within one to five years. Using a broad performance framework based on results-oriented management and accountability (ROMA), Life Works assesses and reviews participants' progress based on scales that incorporate nine key life domains such as employment, health, housing, parental support, and income management. It is within this context that CAO decided to evaluate the SROI for Life Works graduates.

Recognizing the importance of having reliable and “defendable” results, the community action agency has taken a conservative approach to SROI analysis. Drawing on guidance through the ROMA peer-to-peer network, and the work of Reginald Carter and Frederick Richmond,<sup>8</sup> CAO staff divides actual program costs into quantified outcome data to calculate the Life Works SROI on a fiscal year basis. This outcome data includes estimated tax revenue, the value of cost avoidance related to reduced government assistance, and annualized salary data (based on verified wages). The SROI analysis is careful not to over-claim; staff assesses the difference between income and wages pre- and post-Life Works intervention. The SROI is calculated using this differential. Having access to client-level data greatly facilitates the SROI calculation. CAO maintains a statewide database that supports weatherization and self-sufficiency programs, including Life Works. This database collects longitudinal client data. In Fiscal Year 2010–2011, the SROI for first-year program graduates was \$7.26 for every \$1.00 that Life Works invested.

In a time of fiscal uncertainty and growing demands for accountability, the SROI analysis helps program leaders understand the impact of the Life Works intervention. SROI findings are shared with the community through the organization's annual report. Findings have also helped to inform program improvements. For example, program leaders have built new partnerships to address gaps and began offering a nurturing parenting class. The SROI assessment, as part of the organization's broader performance measurement, also helps program leaders understand trends impacting community residents, such as labor market changes. By capturing, reporting, and using SROI and other outcome data, Life Works is able to show that the program is a good investment. Reflecting the need for this type of approach, the Community Action Agency State Network is considering a broader use of SROI. For more information on Life Works, visit <http://www.communityactionopportunities.org/>.





## Dakota County Community Services—Taxpayer Return on Investment

Government's role in the 21st century comes with a new set of standards. With this in mind, Dakota County (MN) Community Services Division (CCDS) decided to embark on a Return on Taxpayer Investment (ROTI) model to measure improved outcomes attributed by county-level community intervention services. This came with a heightened commitment to the notion of government playing a more meaningful role in responding to the needs of communities, reducing the crime rate as a way to improving outcomes, and providing citizens in need with a clearer path to self-sufficiency.

The Re-entry Assistance Program (RAP) assists jail inmates with histories of multiple jail stays minimize the number of times they return to jail.<sup>9</sup> Dakota County chose RAP as the selected community-based intervention for its ROTI study. The program provides transitional and supportive wrap-around services that assist sentenced inmates exiting the Dakota County jail system with successfully integrating themselves back into their communities. RAP program staff works with these individuals for up to 90 days after their discharge to assure successful implementation of the agreed upon actionable re-entry plan.

Incarcerated residents of Dakota County are often released from jail with significant unmet needs and experience challenges with navigating the social service delivery system. Access to employment, housing, medical, and mental health care is critical to the success of this population. But how can this success be quantified into measurable outcomes?

With the support of the Bush Foundation, Dakota County's journey to using an ROTI approach began by asking the following questions:<sup>10</sup> Is there a business case for a jail recidivism program? How will future changes to the program be attributed to the program intervention? Can funding for the program come from social investing sources? After releasing a request for funding proposal, Accenture, a global management consulting, technology services, and outsourcing company, was awarded the contract to help launch the nine-week ROTI project and collaborate with Dakota County in developing a robust business case model based on systems readiness, infrastructural capacity, program expandability, financial viability and sustainability, and long-term operational sustainability. The methodology would be created with the influence of existing ROTI models in the market place that are known to be durable, defensible and transferrable.

There were six critical elements to this approach:

1. **Cost incurred** by implementing and operating RAP
2. **Risk reduction rate** attributable to individuals' participation in the RAP program
3. **Costs avoided** by preventing criminal behavior
4. **Community benefits** achieved through successful community re-entry
5. **Net benefits** as a result of the intervention and how improved outcomes can be translated into dollars and cents
6. **Outcomes** identified that the intervention seeks to achieve. This goes beyond the financial ROI impact mentioned above and strictly focuses on the social impact on the community—we can save money and improve outcomes at the same time.

In using the ROTI approach, Dakota County takes it a step further exploring the community benefits and not just hard costs associated with taxpayer investment. This included the risk factor<sup>11</sup> that RAP provides to the criminal justice system and its impact on the community, which were essential to measuring the true value of the program.

Dakota County's ROTI model considered the social benefits of avoiding criminal justice costs, such as those related to arrests, pre-trial detentions, dispositions, probation, and jail and prison placements, and included this as a part of its measurement. These were identified as concrete variables for determining expenditures related to the costs avoided and tax revenue and/or cost savings generated as a result of RAP. The ROTI calculation also recognized that there were benefits and cost savings realized by other entities.<sup>12</sup>

Because Dakota County's ROTI method was designed to be durable, defensible, and transferrable, the county decided to consider quantifying the potential community benefits such as incremental child support paid, decreases in emergency room visits, decreases in the utilization of public support, and decreases in the cost of crime (i.e., recidivism and entry into criminal institutions) at a later time and make this a multi-jurisdictional effort to assess similar interventions within Minnesota.

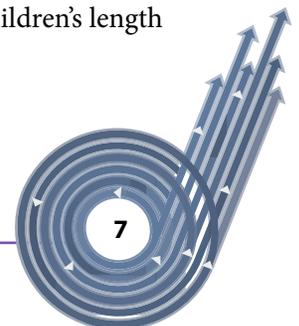
## ***Tennessee's Shift to Performance-Based Contracting—Managing Return on Investment***

As public agencies look for new ways to improve outcomes for the children and families they serve, given the economic constraints they must work through, they are increasingly interested in understanding the return on their investment. And, as these systems explore innovations to improve outcomes, the data indicate that performance varies—for every pocket of excellence the system may have an area to target for improvement. Understanding the difference is critical—for every dollar invested in new interventions, the expected return is inextricably linked to how much better the outcomes can be.

Today public foster care systems have embraced the concept of continuous quality improvement (CQI). CQI is about assessing the extent to which a system is achieving positive outcomes for children in care and then using that information to make practice and policy decisions about how to improve those outcomes. But using ROI to help leverage these innovative efforts takes more than that. Because changes to foster care policy and practice are constrained by the resources available to make those changes, the interventions selected in the course of CQI must be chosen based on their expected impact balanced against their cost. In other words, agencies must select interventions expected to have the best value—the ones the system expects will bring about the most benefit for the investment.

Social valuation is the process of determining where to dedicate resources in order to bring about the greatest possibility of success. Because foster care outcomes vary across a wide range of domains, between age groups, placement types, and geographic areas, agencies cannot expect that the same intervention will have the same impact across all subgroups. Social valuation, therefore, is the process whereby systems can identify which interventions will work best for which children and direct resources accordingly.

One early example of social valuation can be found in Tennessee's implementation of performance-based contracting (PBC) with its private foster care service providers. Throughout most of its history, Tennessee's Department of Children's Services (DCS) contracted with private foster care service providers using a basic fee-for-service payment system—a provider was paid for each day a child was in its care with no mechanism to prevent that placement from lingering on and on. In other words, providers were paid to deliver a service, not to achieve permanency for children. As such, the reimbursement structure worked against DCS's goals of improving outcomes; if providers got better at reducing the amount of time children spent in foster care, their revenue would be adversely and directly affected by how well they accomplished their goals. The formula was simple: reduce children's length of stay in care and lose the revenue needed to sustain quality programs.





That was the issue DCS was facing in mid-2005 when its leadership began to look at whether alternative payment mechanisms might incentivize providers to improve permanency for children in their care. DCS looked hard at the link between investments in service providers and investments in outcomes and decided to partner with Chapin Hall at the University of Chicago to build a prospective payment system that paid agencies for success.

Using Chapin Hall's database and analytical tools, DCS was able to look at how permanency outcomes varied across the state—by service provider, by region and county, and by key child- and placement-related variables such as child age. Then, for each provider, Chapin Hall calculated baseline and target performance on a set of primary outcomes related to permanency and re-entry. Over time, if the provider was able to achieve permanency for children at a rate demonstrably better than its own past performance, the state would preserve for the provider a portion of the funds the provider would have otherwise lost under the old way of doing business.

DCS's implementation of PBC highlights two major examples of social valuation. The first was DCS's choice of PBC to answer the question, "What can we do differently to get better outcomes for children out of the investment we make in service providers?" Thus, at the state level, social valuation informed the selection of a fiscal innovation—DCS changed its "business as usual" by matching the innovation of PBC to the opportunity to improve outcomes and cut costs.

Social valuation also entered into the picture at the provider level. With its individualized baselines and targets in hand, each provider had to ask itself, "What can we do differently to improve permanency for children our care? And if we succeed, how should we reinvest any cost savings to improve those outcomes even further?" Here, the social valuation process called on providers to reflect on their own "business as usual" approach and consider new innovations that drive better outcomes for the children and families.

### ***Washington State's Return on Investment Efforts***

As states enhance efforts to evaluate programs for effectiveness and manage investment of public dollars, many look to Washington State's model of examining the collective impact of implementing evidence-based practices through a return on investment approach. Washington's work began in the mid-1990s when the state legislature directed the Washington State Institute for Public Policy (Institute) to calculate the ROI to taxpayers on selected evidence-based prevention and intervention programs.

The focus on the ROI approach was expanded when the Department of Social and Health Services set a goal to promote comprehensive community approaches based on the science learned from the Adverse Childhood Experiences (ACE) study.<sup>13</sup> The ACE study was conducted by Kaiser Permanente and the Centers for Disease Control and Prevention, and the results found a correlation between childhood maltreatment and poor health outcomes over a person's life.<sup>14</sup> Agency leaders believed that applying the ACE science (addressing traumatic childhood experiences to promote improved physical and mental health) could improve outcomes and lead to better state investments. Below are two examples of the state's efforts to empower families, improve communities, and reduce public costs associated with serving children and families (demonstrating a positive return on investment).

#### **Family Policy Council**

Washington was one of the first states to use the ACE data to measure the impact of community capacities on reductions of ACEs and better physical and mental health, as well as conduct the related return on investment analysis. This work was done through the Family Policy Council (FPC)—Community Network Partnership. The

FPC partnered with 42 local affiliates to address a number of health and human service matters, including child abuse and neglect, youth substance abuse, and out-of-home placements. For 16 years, the FPC worked to help communities understand the costs and causes of serving children and families and improve community capacity to decrease the need for formal services (while improving the effectiveness of services). The FPC statistical analysis showed a positive link between higher community capacities and reduced rates of mental, behavioral, and physical disorders in young adults aged 18 to 34, increased resilience, and higher social/emotional support. These findings show overall improvements in key outcomes and taxpayer savings. Applying the principles of ROI, Washington was able to verify the short- and long-term savings for taxpayers. The savings were achieved through reduced demand for direct services and increased tax revenues resulting from higher earning power. The latter connects the general cost benefit analysis to the social return on investment framework.<sup>15</sup>

The state is currently in the initial phase of conducting a ROI to determine priorities for investments. This work is being done in partnership with the University of Washington, Partners for Our Children (POC), and was commissioned following discussions on the use of Social Impact Bonds. State leaders will calculate the ROI (monetizing nine key outcomes) through predictive modeling. This work completes the first step in an SROI approach. All stakeholders vested in the safety, permanency, and well-being of Washingtonians identified nine core outcomes to focus the agency's work. POC will create an integrated database (to include a public portal) that will incorporate child welfare, juvenile justice, and public health data to create a comprehensive picture of child welfare. The database will include public financial data to calculate the costs of services provided (and to calculate the ROI). Through this integrated data system, POC will use the cost modeling approach developed by the Institute to calculate the cost of preventing/intervening across the nine outcomes and the associated costs of any reoccurrence of safety concerns (regarding children in out-of-home placement resulting in a re-contact with the system).

### Washington State Institute for Public Policy

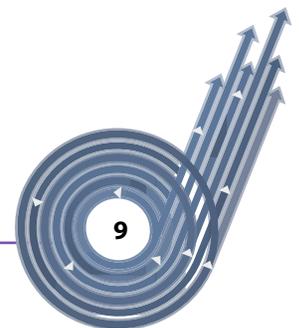
The Washington State Institute for Public Policy (Institute) was created in 1983 by the Washington Legislature. The group was charge with carrying out non-partisan research assignments and in the early 2000s, the Institute began to apply a cost-benefit approach across various public policy areas, including early childhood education, substance abuse, and child welfare. The Institute established a general research approach<sup>16</sup> (similar to the SROI methodology) when examining return on investment.

#### Step 1. Systematic assessment on what does and does not work to improve outcomes

- Researchers analyze high-quality studies to identify well-researched interventions that have achieved outcomes (or not) similar to those of interest in Washington State. A conclusion is made on a program that has been rigorously evaluated and shows a causal pathway.

#### Step 2. Calculate cost and benefits and produce a ranking of public policy options

- Application of these basic questions in the analysis: (1) How much does it cost to produce the results found in the first step and (2) How much is it worth (to people in Washington) to achieve the outcome? The group developed an economic model that provides a consistent valuation to measure benefit-cost. The valuations are presented through three different lenses: (1) benefits to program participants; (2) benefits to taxpayers, and (3) any other measurable monetary benefits.





### Step 3. Measure the riskiness of conclusions by testing variation when estimates and assumptions change

- Assessing risk, analyses are performed using a simulation to determine the odds that a particular approach will at least break even (referred to as the Monte Carlo approach).

An illustration of this is shown in an analysis of the Functional Family Therapy program (FFT).

1. Reviewed all research on FFT and found eight credible evaluations examining whether FFT reduced crime
2. Estimated program cost per participant
3. Estimated total benefits of FFT per participant (reduced crime, increased probability for graduation, labor market)
4. What percentage of the total benefit will be received by taxpayers?
5. Show net present value (benefits minus costs) and the cost benefit ratio<sup>17</sup>

The analysis showed that when the FFT model is delivered competently, the program reduces felony recidivism, by as much as 30 percent. At a cost of \$2,500 per program participant, a reduction of recidivism at this level produces a positive return for the taxpayer—gaining approximately \$7.50 in benefits for each dollar of program cost.

### *Looking Abroad—International SROI Projects*

Human service agencies in this country can benefit from the information, resources, and lessons learned from SROI projects implemented abroad. In particular, governments in the United Kingdom (UK) and Scotland undertook complementary SROI projects designed to advance the SROI approach and to promote and support its use. The UK Government's Office for Civil Society commissioned the Measuring Social Value project in 2008. This project focused on standardization of an approach to SROI and development of guidance. The project also sought to make SROI more accessible to investors, policymakers, commissioners of public services, and nonprofit organizations, as well as foster a network of practitioners. The Scottish government supported a similar SROI Project. This project intended to raise awareness of SROI and facilitate its use. Among other activities, the project supported training and development of an indicator bank (a databank of indicators and financial proxies).

Both projects have left an important legacy of information, guidance, and support.<sup>18</sup> The projects were also evaluated to assess their impact on promoting awareness and use of SROI and the principles on which it is based (Hall Aitken<sup>19</sup>). This evaluation provides valuable insight into the adoption of SROI to measure impact. The evaluation found, for example, that the projects successfully raised awareness and understanding of SROI principles, modestly increased use of SROI, and fostered organizational learning through the application of SROI. At the same time, the evaluation showed that SROI is seen as difficult and complex by both practitioners and funders. The evaluation report explores these findings in more depth.<sup>20</sup> The concept of SROI continues to influence policy and practice in the UK. The Public Services (Social Value) Act 2012, which became effective in early 2013, requires local authorities to consider the economic, social, and environmental well-being of community members in regard to procuring public services.<sup>21</sup>

While efforts in the UK have had an important influence on SROI practice, human service leaders can draw on resources and lessons learned from other countries as well. In Australia, for example, the Center for Social Impact (CSI) is a collaborative effort to build capacity and facilitate innovation in areas such as demonstrating social

impact and SROI. CSI is a partnership of several business schools at the University of New South Wales, the University of Melbourne, Swinburne University of Technology, and the University of Western Australia. Resources are available on the center's web site.<sup>22</sup> Social Ventures Australia, in partnership with CSI and PricewaterhouseCoopers, undertook an assessment of the state of SROI in Australia. This report highlights valuable lessons learned for program leaders and funders on the use and take-up of SROI, and includes case studies.<sup>23</sup> Lessons learned include:

- An SROI analysis gives organizations deeper insight into the impact they are having on all their stakeholders,
- SROI informs investors and managers of the true costs associated with delivering an organization's social impact,
- Extensive uptake of SROI is dependent on organizations giving appropriate priority to ongoing measurement, and
- Nonprofit managers should be exposed to, and be trained in, SROI as SROI introduces a new language that can be difficult to comprehend.

## Issues and Considerations

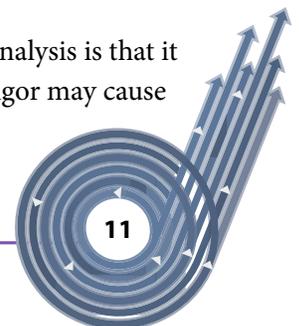
As an emerging field of impact measurement, there are important issues and considerations when using an SROI analysis. While SROI analysis can help human service agencies communicate impact and value, agencies themselves must evaluate whether SROI analysis will meet the needs of program leaders, staff, stakeholders, and those served. Agencies also need to consider their capacity and readiness for a new approach to performance measurement. Drawing from the literature on SROI and from interviews with program leaders, this section identifies several key issues and considerations when using SROI in a human service context.

***There is no single approach to SROI analysis.*** As noted in earlier sections, agencies approach SROI in different ways, and with different types of partners. While the literature cautions that SROI analysis can be costly and intensive to undertake, the level of effort reflects diverse factors such as the scope of the analysis, the level of capacity to measure social return on investment, and access to quality data.

***Quality data is a key element in SROI analysis.*** Despite different approaches to SROI analysis, there is agreement that access to quality data is essential to a reliable SROI analysis. Agencies also need access to data on costs and other inputs, outputs, and outcomes. Data collection in all of these areas can be demanding, particularly regarding outcomes. Additionally, outcomes need to be assigned a financial value if not already expressed in monetary format.

***Rigor matters.*** Related to the importance of quality data, program leaders stressed that SROI analysis must be seen as reliable and valid, or findings could be discounted by key stakeholders. Program leaders interviewed for this brief chose to be conservative in their approach to data measures, relying on measures such as tax revenue, unemployment insurance data, and wage data for which there are quantitative data sources. Programs were also conservative when seeking measures to demonstrate cost avoidance, again selecting measures such as food assistance and the cost of pre-trial detentions that have a monetary value.

***Agencies are challenged to assign financial value to “softer” outcomes.*** A unique feature of SROI analysis is that it allows inclusion of softer and more subjective human service outcomes. Yet the need to maintain rigor may cause





agencies to hesitate to include outcomes that are difficult to quantify, or where there may be a lack of evidence to justify a “financial proxy.” The lack of a knowledge base on the “social value” of human service outputs and outcomes that are not easily or readily monetized may limit the potential of SROI analysis to fully incorporate the value produced by human service programs. As the field of SROI advances, there may be greater efforts to address this deficit. The Scottish government, for example, supported a project between 2009–2011 to help develop knowledge and capacity to implement robust SROI analyses.<sup>24</sup>

***There are potential risks in the use of SROI analysis to measure impact.*** SROI analysis can help agencies measure the difference that their programs and services have for individuals, families, and communities, but it is also important to recognize potential risks with measuring SROI. For example, agencies should consider the cost and burden of data collection for SROI analysis in light of their own data needs. The literature on SROI also cautions against “over claiming” results. Agencies that over claim results—in other words, claim value that they have not created—risk having their SROI analysis dismissed as inflated or invalid. Another potential concern with SROI is the finding of a low or negative return. However, a low or negative return does not necessarily mean that a program is a poor investment. A low return may reflect, for example, that more resource-intensive services were provided to individuals with complex needs. At the same time, a low or negative return can spur agencies to consider new strategies, partnerships, or other improvements to achieve desired outcomes.

***The time horizon of an SROI analysis can influence findings.*** The impact of human service interventions change over time, a finding that is often reflected in longitudinal evaluation research and has implications for SROI analysis as well. The return on investment after one year of service delivery may be quite different from the return at five or ten years post-treatment. The return on investment may also accrue to different entities over time. It is important for human service leaders to consider the potential time horizon of an SROI analysis and recognize that the time span of an analysis can influence findings.

***Engaging stakeholders internally and externally is critical.*** Stakeholder involvement is a core principle of SROI and a key element to its successful implementation. Both staff and external stakeholders need to be engaged from the beginning to promote shared ownership in the SROI process. Shared ownership allows stronger engagement, deeper embedding, and meaningful contributions to SROI and may have a long-term impact for the agency and the community it serves.

## Implications for Policy and Practice and Future Directions

While there are issues and considerations with the use of SROI, this approach also presents opportunities for human service policy and practice. This section will explore some of these opportunities as well as potential implications for human service policy, practice, and financing. Considerations relating to the potential for expansion and scalability of SROI are also addressed, and connections to other areas of innovation in human services are highlighted.

### ***Opportunities and Implications for Policy, Practice, and Financing***

SROI in the context of health and human services reflects a new business imperative. In the past decade, government has changed the way it does business, prompting shifts in policy and practice. Such efforts have led to meaningful reforms and systemic improvements. To help keep these efforts sustainable, state and local leaders have been measuring the impact of change, committing to a vision that leads to improved outcomes, developing strategies to support and grow innovations, and branding human services in new ways.

As state and local government agencies consider the role of SROI, potential opportunities and implications of this approach for human services are highlighted below.

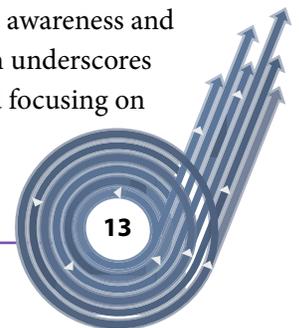
**Develop knowledge and evidence on the “social value” of investments in human services.** It is essential to analyze various SROI models in the marketplace and weigh the potential risks of using an SROI analysis. This might prompt government officials and program administrators to be engaged in an open forum and share ideas and information across state and local governments to learn more about SROI approaches in the field.

**Engage a broad range of stakeholders to assess “what matters” in social valuation to inform public policy development.** It is essential to invite a wide range of stakeholders to collaborate, develop ideas, become engaged, and decide on the outcomes that are important to the community. This informs the use of SROI measurement and analysis. SROI can serve as a tool to help enrich the public’s understanding of government’s role in health and human services. Demonstrating the social value of health and human service programs is critical to help change negative perceptions and shift the focus to promoting better policies and breaking down the barriers that often impede advancement in the field. The community should be a vital stakeholder in this effort.

**Advance outcome measurement in human services.** This would prompt government to think more critically and be more intentional about measurements that demonstrate to the public, policymakers, and stakeholders that these programs lead to improved outcomes. It also prompts human services to show how SROI can be used to translate this into cost savings in terms of tangible dollars and costs avoided often tied to prevention. Agencies thinking about using an SROI analysis have to be committed to presenting reliable data and the use of analytical rigor. Dakota County’s use of risk mitigation in its ROTI model is an example of how the social benefits of human services can be better translated.

**Gain greater understanding of impact in human services.** Once agencies gain community buy-in, they can begin to think more broadly about how SROI can be used to promote credibility in health and human services. SROI can be used to help educate the public and laypersons on the impact and community benefits of investing in these programs and show the return on taxpayers’ dollars. This could also help inform the dialogue in determining the unique needs of communities and how government could do business differently, especially when resources are limited. Moreover, it is critical to develop a message that helps community members understand how their investment is serving others in need and how local initiatives and government interventions are truly making a difference. The SROI analysis and hard data need to be translatable for the community to understand the social benefits and support the notion that government programs can lead to stronger and healthier communities, sustained child well-being, and gainful employment and independence.

**Promote organizational learning.** Applying the principles and stages of an SROI analysis can provide an opportunity for organizational learning within human service agencies. Evaluation of SROI projects implemented abroad has identified both benefits and challenges with the use of an SROI approach to impact measurement, one of the key benefits of which is the organizational learning that derives from applying SROI. Evaluation results from the UK and Scottish Governments’ SROI projects (Hall Aitken<sup>25</sup>) found that “the value to an organization of identifying its outcomes and attempting to place a value on them appears to be very high.”<sup>26</sup> The evaluators suggest that the inclusive and involving nature of SROI analysis can promote more organizational learning than many external evaluation studies. While this evaluation found that the UK and Scottish projects did raise awareness and understanding of SROI principles, the study also points to key areas for improvement. The research underscores the importance of modestly defining SROI principles, breaking them down into simpler terms, and focusing on





the general recognition of value in using SROI. This will enhance and promote organizational learning leading to better outcomes when engaging those involved with impact measurement.

When exploring the impact of SROI on financing human services, several opportunities arise. The approach (1) contributes to the narrative about the role and impact of human services; (2) helps address greater concern and demand among funders for grantees to demonstrate returns and outcomes; and (3) informs investment choices (funders) and investment decisions (agency and program leaders) along with other analytical tools.

***Contributing to the Narrative on Human Services.*** In recent years, the human service system has experienced successive waves of budget cuts. SROI can help state and local agencies engage in strategic conversations when determining how systems can better manage investments and the social impact of these investments. This approach creates a mechanism for moving systems toward a set of outcomes and creating a narrative on—and linkages to—the story of a transformed human service system.

***Demonstrating Return.*** Most of the examples presented in the paper identify a results-oriented framework, meaning the states were able to align their policies and programs toward specific outcomes. SROI links performance to hard dollars to determine if there was indeed a return on investment.

***Informing Investment Options.*** SROI provides data and information for more accurate investment decisions. To respond to growing interest from partners and stakeholders to better manage and report on investments, it is critical to demonstrate the hard dollars, avoided costs, and cost savings. Agencies then use this information for strategic decision-making, leveraging innovations proven to work and focusing on outcomes rather than outputs. As health and human service leaders consider alternative financing approaches, SROI models, and use practices that support business analytics and investment strategies, the field can be better positioned to develop policies that promote gainful employment; stronger, healthier adults and communities; and sustained well-being of children and youth.

## ***Expansion and Scalability***

The implications of SROI for human service policy, practice, and financing suggest that SROI could play a growing role in impact measurement in the years ahead. Yet the application of SROI to date remains limited and constrained by various factors including knowledge, capacity, resources, and data quality. Advancing the application of SROI in human services may call for a variety of partners, including academic and industry partners as well as community and national philanthropic organizations, to help facilitate knowledge development and capacity building in states and local communities. States and local communities are also likely to benefit from opportunities for peer-to-peer sharing on SROI along with access to research, tools, examples, and guidance on methodology. The development of durable and transferable methodologies designed for human services could also help accelerate the application of SROI. Greater understanding of the concept of proportional use in SROI could further help mitigate concerns around cost and complexity. SROI is not meant to be an “all or nothing” approach; agencies could draw on elements of the SROI framework that are most needed or useful, which can also lay the groundwork for additional analysis.

Bringing SROI to greater scale in human services might also require demonstrating the use of this approach with diverse programs and populations, and adapting or developing methodologies in tandem. SROI has been demonstrated with programs such as those that promote employment or reduce jail recidivism. There is a need to

build on current foundations and explore how SROI could be used in other impact areas, including those where individuals may need intensive or long-term services and supports. Finally, as noted throughout this brief, quality data are essential ingredients in SROI. According to one expert, the quality, availability, and interoperability of data are critical to this type of analysis.<sup>27</sup> In this context, expansion of SROI might also call for ongoing improvements in data collection, data sharing, and outcome measurement in human services. Along with such improvements, knowledge development to facilitate measurement of psychosocial outcomes and community impact could help build the field and enable more robust SROI analysis.

## Conclusion—A Look Ahead

SROI can complement other areas of innovation in the health and human service field to drive transformation. This approach is tied to other themes supporting new pathways for human services. Alternative financing, SROI, adaptive leadership, and the government's role in the 21st century are all interconnected themes and are fundamental areas of APHSA's Innovation Center. Building from APHSA's *Pathways* initiative, the center is a "virtual place" for government leaders to learn, adopt and share cutting-edge ideas and theories, bring them to the forefront of health and human services, and create a public forum among state and local governments.

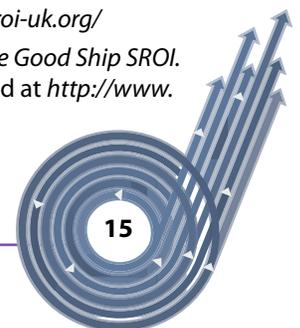
In the midst of a myriad of fiscal, demographic, and policy changes, health and human service leaders will still need to determine viable financing strategies for making effective investments rather than simply managing budgets. There is also a need for government to identify ways where it can implement innovation and adopt cost-effective methods to improve services and at the same time, reduce future costs. Using pertinent tools in the marketplace, especially those that support SROI, alternative financing, and adaptive leadership, can help drive down cost and invoke transformation in the health and human service field.

SROI can prompt government and stakeholders to identify their most urgent priorities, tie this to a vision and strategy for an improved health and human service system and be willing to take risks, accept accountability, and meet specific benchmarks tied to performance. But when government is able to meet these specific benchmarks and they are proven to be successful, this message needs to ultimately be translatable to members of the community.

APHSA will continue to track and report on the issue of social return on investment through its Innovation Center web site.

## Endnotes

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5. *Social Return on Investment Position Paper* and *A Guide to Social Return on Investment*, op. cit., both widely cited resources on SROI.
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8. The Carter-Richmond Methodology incorporates nine questions for human service managers that can be used to organize an agency's data collection efforts, calculate return on-investment scenarios, and answer key questions about the agency's impact on its clients and the communities in which they live. See <http://www.appliedmgt.com/Publications/>.
  9. Welcome to Dakota County, Minnesota. Probation and Community Programs. Re-entry Assistance Program. <http://www.co.dakota.mn.us/LawJustice/RestorationPrograms/AdultPrograms/Pages/re-entry-assistance.aspx>
  10. Harder, K. "Paying For Success: A Model for the Future" Presentation. 2011 Human Services Summit. Harvard University. October 7, 2012. <http://hss.lnwlabs.org/sites/default/files/Social%20Impact%20Bonds.pdf/>
  11. Note: Risk mitigation is also critical to understanding how costs can be avoided and determining the expected targeted outcomes attributed by the intervention. This can potentially inform government on how to effectively and efficiently do more with less and prioritize investments in light of constrained budgets.
  12. Harder, K. "Paying For Success: A Model for the Future" Presentation, op. cit.
  13. The ACE study tracked 17,000 people from 1995–1997 who offered detailed information on personal traumatic experiences organized across 10 categories.
  14. *Alliance for Children and Families Magazine*—Issue I 2012, pp. 6–9
  15. As of June 30, 2012, the legislature eliminated the Family Policy Council. The Community Public Health and Safety Network now functions as a quasi-governmental entity and continues to manage the state's ACEs coursework, <http://www.fpc.wa.gov/>.
  16. Lee, S., Aos, S. (2012) Return on Investment: Evidence-based options to improve statewide outcomes, April 2012: Washington State Institute for Public Policy
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