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REDF's Current Approach to SROI

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REDF devoted considerable time and resources over the past decade to developing a model for measuring social return on investment (SROI) that is now taught in schools around the country, such as UCLA and Harvard Business School, and has been a foundation of subsequent adaptations now widely used by non-profits and philanthropy in the US and globally. REDF applied this model to our portfolio of nonprofit organizations which operated social enterprises that had the explicit mission of employing people with the most significant barriers to work.

REDF launched the SROI effort because we wanted to answer a series of questions important to practitioners and philanthropists/investors, including:

- How can we measure the success of our efforts?
- How do we know whether we're accomplishing what we set out to do?
- How can we make informed decisions about the ongoing use of our resources?
- How can REDF test and convince others of what we believe to be true: that for each dollar invested in our portfolio agencies' efforts, there are impressive, quantifiable resulting benefits to individuals and to society?

The breakthrough insight of SROI was to bring together financial and social cost savings analyses. This resulted in a snapshot that we called the "blended value" – the financial and social return achieved by these social enterprises. After we implemented the SROI "blended value" approach with the six nonprofits in our portfolio, we produced SROI reports for each one (http://www.redf.org/publications-sroi.htm).

REDF then assessed the possible broader impact of this work on grant making and other kinds of socially-motivated investments. While we concluded that the model was an excellent starting point, we also identified a number of flaws, and several questions that remain to be answered.

On the positive side, our work resulted in an approach to analyzing SROI that helps practitioners and investors understand more about the cost and impact of their work. Community cost savings data and revenue generation data, in combination with other social impact findings, can be a powerful tool for social sector managers to use in advocating for financial support of their work. This data is also central to analyzing a community's return on its investment, and in assisting the nonprofit to understand how to improve its' performance.

We also learned that:

- The SROI analysis process is resource intensive;
- Engaging the practitioner is essential and time-consuming;
- SROI analysis can give clarity to our work;
- Metrics are important, but metrics aren't everything;
- SROI is a good tool, but SROI isn't everything.

One of the primary flaws was that the model was built on, and had the tendency to focus attention upon cost savings to society, while it did not adequately incorporate many of the ways that social enterprise employment improved peoples' lives. For example, while social return could and did measure the dollar value of reduced time in prison or jail, we were not able to incorporate factors that we were unable to quantify, such as improved family relationships or mental health status.

In addition, while SROI and the 'blended value' assessment did provide useful information on the cost effectiveness of the effort, it was incomplete. It did not offer a viable approach that we could use to compare to other methods of moving people into the workforce, because the cost of the underlying systems required to measure social return were so high, and most comparable workforce programs did not have access to these systems. Second, the model did not allow us to explicitly attribute the social return to employment in social enterprise, as opposed to other programs or changes in peoples' lives. We could not prove causality, as some other approaches can.

At the same time that we made the SROI model available for "open source" improvements, we proceeded with developing a core element of it - the element that told us the most about the impact of the portfolio's work - how and how much had portfolio employees' lives changed? You can find our Social Impact Report, which highlights some of the results of RISE, on our website (http://www.redf.org/publications-past.htm).

The close relationship of this work to our work on SROI is not commonly understood; but it was only through our metrics showing the ways in which people's lives had changed that we were able to come up with the value and cost comparisons underlying the SROI work.

In our work with our current portfolio, we are looking both at how people's lives are changed, and on social impact. We continue to learn more about the interaction between these outcomes, and how to compare performance of different groups across these metrics.

Our thinking about social return on investment is described in more detail in a brief paper "A Report From the Good Ship SROI", http://www.redf.org/publications-sroi.htm#ship, which also raises six specific questions that we have not yet fully answered:

1. How can we minimize the disadvantages of using public sector savings as a measure of success?
2. How can we better address the attribution and causality challenges that are prevalent in SROI analysis?
3. How can we capture the costs and benefits that are not reflected in our analysis?

4. How can we improve the ways we offset our lack of industry comparables?
5. How can the complexity and cost of SROI analysis be further reduced?
6. How is REDF's SROI approach applicable to other fields of practice?

While we continue to consider these, we also believe that there are some other fundamental questions to answer before we know how to make SROI more useful and relevant to grantmakers and other social investors.

We are working on a set of white papers that we plan to produce over the next two years in consultation with our colleagues in the field. We aim to identify and adapt several specific methods from the venture capital sector in order to offer new tools to grantmakers and other social investors that will help them as they work to improve efficiency and impact.

One of the key questions we will investigate is that of risk/return alignment. Private sector investors have a risk/return profile: how much risk is an investor willing to take and what return is s/he looking for? Professional investment managers (such as equity funds) analyze, shape, and make known their risk/return goals so as to facilitate an accurate matching of investors to investments. Though informal investors may not state their risk/return requirements, all investors, including nonprofit donors, have some sort of risk/return preferences and goals.

In the nonprofit sector, these preferences and goals are often not evaluated and articulated. This lack of articulation, fueled by the difficulty of assessing "return" in a nonprofit context, is a major cause of grantee and investor confusion. We expect to use SROI as an example of the fact that social investors and grantmakers can in fact generate "returns" and can measure them.

As a way of re-engaging in modifying SROI, we will consult with others in the field as we prepare and disseminate these white papers to continue to learn more about what types of returns grantmakers and other social investors expect from their investments in nonprofits. We will probe how and whether they calibrate their expectations to the investments they are prepared to make.

We will assess lessons from private sector investing that might improve nonprofit funding practices. As this process moves forward, we hope to find ways we can build and deepen the effectiveness of private giving on the most challenging problems we face. There may also be lessons applicable to the public sector.

Meanwhile, our SROI model and all its documentation and results are available on our website (http://www.redf.org/publications-sroi.htm). We have made it and our thinking readily available to others with the explicit hope that others would build upon and improve it. While the REDF model is being used in academic institutions and as the basis of work of some consultants in the social enterprise arena, we are not aware of any radical improvements to it. We urge all of our partners and collaborators to share such improvements with us by sending them to info@redf.org.

More to come!