

REDF

Investing in Employment and Hope

SROI Act II: A Call to Action for Next Generation SROI

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Readily available, commonly accepted systems that enable nonprofits to compare their results to their costs do not currently exist. Despite advances in knowledge about what the social sector does and how it does it, we really do not know what it costs to accomplish social mission goals. Until we have systems that address this need, we won't be able to credibly assess social return on investment (SROI).

This is the second article in REDF's "Stepping Out of the Maze" series. The series grew out of our concern for the environment in which nonprofits carrying out critical social change must operate. The series of three articles explores possible improvements and how they might be achieved. We are grateful to **The Aspen Institute's Nonprofit Sector and Philanthropy Program** for funding critical elements of this series.

REDF is a high-impact, hands-on, venture philanthropy intermediary organization. We work with a portfolio of carefully selected nonprofits, providing money and business assistance to support social enterprises that intentionally employ those most disconnected from the workforce. Over the past decade, REDF-supported social enterprises have employed close to 4,000 people overcoming histories of incarceration, addiction, mental illness, homelessness, chronic poverty, and joblessness. We build bridges between for-profit businesses, nonprofits, socially focused capital markets, and government agencies to create entry points to the workforce and more durable job opportunities. We proactively share our insights and lessons through our publications and tools.

Cynthia Gair oversees REDF's programs. In other REDF publications, she has written about social enterprise, nonprofit versus for-profit decisions, the necessity for co-funding, and SROI.

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“As the amount of available information explodes, the wisdom to process it and put it in context becomes exponentially more valuable.... Access to information is no longer a competitive advantage. It is the ability to filter and process the flood of information that sets effective people apart.” – Sean Stannard-Stockton, Tactical Philanthropy¹

We are surrounded by social need and by initiatives to address the need in front of us. Social mission funders and practitioners are faced with a decision-making conundrum: we need to compare different social mission activities in order to make management and resource allocation decisions, but the measures of success across multiple activities differ widely and often are not easily quantified. Further complicating matters, we have not had credible, consistent ways of incorporating costs into our assessments—so we don’t have an easy, relatively objective way to judge the value of our efforts. We do not have the tools to measure the results against the resources required to achieve them. The ability to assess value is at the heart of a functioning capital market, and without it our nonprofit capital market’s development will be thwarted.²

Social return on investment (SROI) is one of several types of analysis that has arisen out of a desire to solve the “how do we know if it’s worth the effort” conundrum. The relevance and usefulness of any of these analyses are dependent on the data and analytical methods used. As one evaluation firm put it, “SROI analysis should be a rigorous methodology—one that is testable, replicable and verifiable.”³

Financial and social program terminology

SROI, social return on investment, is a comparison of the resources invested in an activity to the benefits generated by that activity. In SROI, the “S” denotes social mission and the “ROI” denotes application of the commercial sector’s return on investment (ROI) analysis.⁴ Thus, SROI brings together financial and social program analysis.

Some common social program evaluation terms

Inputs	The resources (money, staff time, capital assets, etc.) required to operate the venture or organization. ^a
Outputs	The direct and tangible products from the activity (e.g. the number of people trained). ^b
Impacts	The long-term sustainable and sometimes attributable change due to a specific intervention or set of interventions.
Intervention	The activity undertaken to solve a problem or change a situation.

a Double Bottom Line Project Report (see Clark, Works Referenced)
 b Measuring & Estimating Social Value Creation (see Tuan, Works Referenced)

While the difference between “investment” and “cost” is important in most contexts, for the purposes of this paper we will use “investment” and “cost” to refer interchangeably to operating costs, capital investment, or resources used. Likewise, though it is generally advisable to distinguish between “return,” “results,” “outcomes,” and “benefit,” we will use “return” and “results” to refer interchangeably to the full range of results that a social mission activity may generate, including “benefits,” “outcomes,” and “outputs.”

1 Sean Stannard-Stockton, “Philanthropy’s Trifecta: Information, Wisdom & Relationships,” *Tactical Philanthropy*, 29 June 2009, WordPress, <<http://tacticalphilanthropy.com>>.
 2 *The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy*, a recent study of social sector information gaps and their effect on social mission work, notes that the sector’s intermediaries need “better data from nonprofits before they can start to add value in the aggregation, analysis and distribution of performance information” (43).
 3 Social E-valuator, “What is SROI?” 27 Aug. 2009 <<http://www.social evaluator.eu>>.
 4 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. Social E-valuator, 27 Aug. 2009 <<http://www.social evaluator.eu>>.

*“Over the last several years, increasing amounts of investment dollars have been allocated to funds and enterprises seeking to generate social and/or environmental impact as well as a financial return. This new type of investment, termed ‘impact investing,’ aims to reduce global poverty, reverse climate change, extend financial services to underserved populations, or achieve other social goals through investments in for-profit companies or funds. The growth of ‘impact investing,’ however, may be limited by a lack of transparency and credibility in how funds define, track, and report on the social and environmental performance of their capital. Measuring impact effectively will be one key to unlocking larger flows of capital into this nascent sector.”*⁵

Over the last decade, much time and thought has been put into ways to assess social sector value; SROI and other methodologies have been refined, giving us some useful decision-making tools. Nonetheless, nonprofits still lack a critical set of tools that for-profit companies have had for years: the technology and processes to reliably compare activities’ results to their costs. Until this gap is addressed, the social sector’s ability to measure social return in a testable, replicable, and verifiable way will be severely limited.

In describing its reasons for devoting time, money, and expertise to create a system for comparing social mission investment and activity, Acumen Fund, a nonprofit global venture fund that focuses on solving the problems of global poverty,⁶ points out that, “Being able to prove impact effectively will unleash more organizations and more capital to impact investors. And beyond that, this set of tools will enable the type of analytics that will drive increased transparency and learning across the sector, making the entire field more effective in generating the type of meaningful impact we all seek.”⁷

Like commercial enterprises, social mission organizations and their funders need credible and practical ways of assessing resource allocation options: Is this initiative succeeding? Are the results commensurate with the resources invested? Is one approach more effective than another? Unlike commercial activity, whose success can be measured by its profit, social mission achievements can be difficult to quantify and compare.

In 2008, the Bill & Melinda Gates Foundation published a report describing some key methods for assessing social value, several of which include cost elements. In the report, a former manager of the World Bank’s Results Secretariat cautions:

*“There is incredible ‘silver bulletism’ around in the donor (and perhaps foundation) worlds—seeking that one special number that will tell us if we are succeeding or failing. This is driven by bureaucratic fantasy, not reality. The chances that we could come up with a metric that avoids an inevitably subjective process of judgment and choice are infinitely small (else politics would be a much simpler and boring topic). It’s usually driven by a desire to define ‘a bottom line’ that will do for philanthropy and public sector management what profit/loss statements do for the private sector. It’s just not going to happen that way.”*⁸

5 Acumen Fund, *Pulse & IRIS: Enabling Performance Management and Benchmarking Across Impact Investment Portfolios* (Unpublished, 2009).

6 See “REDF’s Original SROI and How SROI Approaches Have Evolved Over Time” section of this paper for further reference to this project.

7 Acumen Fund, 2009.

8 Melinda T. Tuan, *Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches*, Final Paper 12.15.08, (Seattle: Bill & Melinda Gates Foundation, 2008) 9.

The value of social mission activities, even more than the value of commercial activities, cannot be boiled down to one measure. One measure is too simplistic to address multiple mission areas and stakeholder concerns. A single number is not sufficiently informative or meaningful for investment and/or operational decision-making. At the same time, we do need to make decisions; we need credible, fact-based information to generate meaningful comparisons, and we need systems that deliver this information in an affordable way.

We at REDF propose a broadened approach to valuing social sector work: an approach that can include comparisons of dollars to dollars and/or comparisons of dollars to non-monetary benefits. The complexities of social mission activity demand that both approaches be available.

REDF's recommendations are presented here as a call to action: to funders, nonprofit organizations, and the companies that provide information software to the social sector. We need to demand and develop systems that increase the quality of data used in assessing social sector value creation and ensure the ease of gathering and analyzing those data. When such systems are available, the social sector will be much better equipped to assess the value of its work.

REDF'S ORIGINAL SROI AND HOW SROI APPROACHES HAVE EVOLVED OVER TIME

REDF's initial SROI work began with seven San Francisco Bay Area nonprofit organizations and their twenty-three social enterprises employing individuals facing a range of work/life challenges. Our SROI work, published in 2000, set out to assess the amount of community good generated per dollar invested. The analysis indicated that investments in social enterprises employing people with the toughest employment barriers would result in substantial net community dollar savings, as well as in other quantifiable and unquantifiable benefits. The work also jump-started discussions about social return among academics, nonprofits, and philanthropists interested in increasing the impact and transparency of their work. This beginning SROI methodology provided a way to quantify the cost and benefits of social mission activities, and to estimate some of the long-term returns realized by a community.

REDF's pioneering work in the development of SROI has been part of our ongoing effort to advance venture philanthropy practices, driven by our more specific goal of expanding employment opportunities for people with significant workforce barriers. In our daily work with social service nonprofits and their social enterprises,⁹ we often encounter cost-benefit/SROI analysis needs, but we have found that the complexity and limitations of existing methods (including our own) discourage regular SROI analysis, no matter how helpful it would be for informing practice.

In our initial SROI work, REDF recognized the importance of non-financial information. For example, in addition to financial data and analysis, a REDF SROI report provided information about the types of barriers participant employees faced and about the social enterprise's strengths and challenges.

One example: Community Vocational Enterprise (CVE) is a San Francisco, California nonprofit that provides employment opportunities to individuals with mental health disabilities. It runs several social enterprises, including a janitorial firm, Industrial Maintenance Engineers (IME). In 2000, REDF assessed CVE's enterprise SROI (Figure 1).

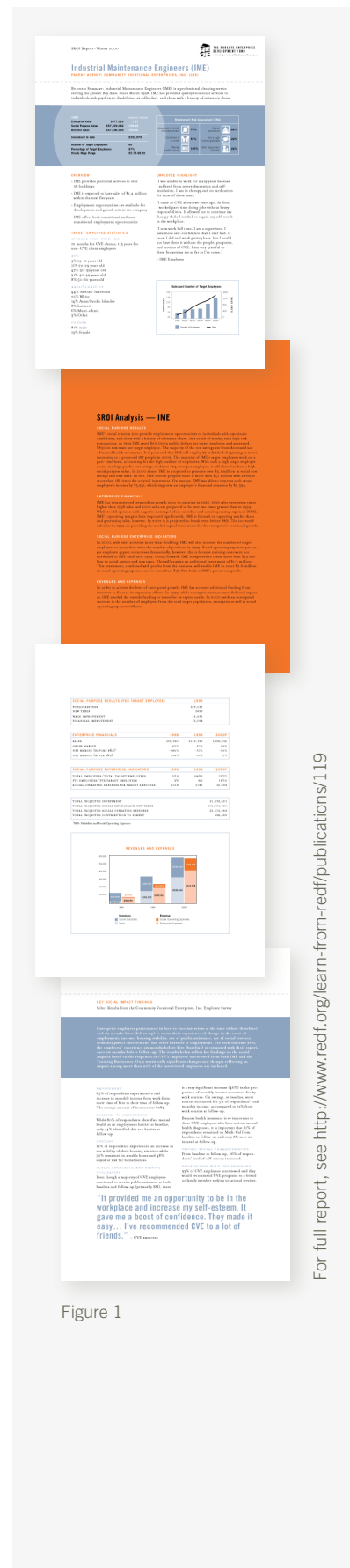


Figure 1

For full report, see <http://www.redf.org/learn-from-redf/publications/119>

9 For more information about REDF's work, visit www.redf.org. For more information about CVE's work, visit www.cve.org.

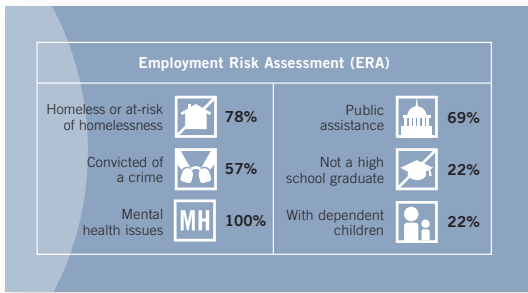


Figure 2

In addition to financial data and analysis, the report included information about the people employed, their challenges and successes (Figures 2, 3, 4).

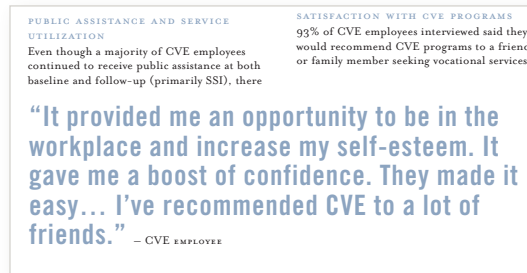


Figure 3

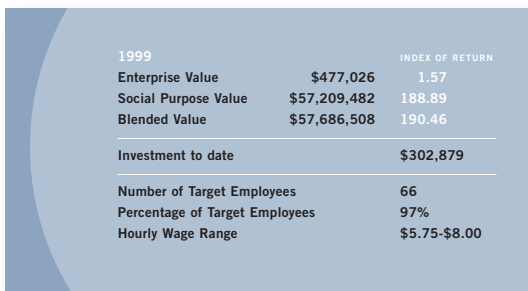


Figure 4

Despite the fact that the SROI reports presented this non-monetary information, the portion of the report that actually compared investment to return focused solely on financial data or the dollar equivalent of non-financial data (Figure 4). This number often became the focus of attention. Thus, while REDF’s

SROI analysis attempted to include all dollars invested in a social enterprise, the readers’ view of “return”—or its results—was only partial. Though intended as a thorough assessment of an SROI, “returns” were primarily made up of the cost savings to government entities, since most other results, no matter how positive, could not be reliably monetized.

Subsequent usage of the term “SROI” has become both broader and narrower: while “SROI” is often used to refer generally to a concept of results generated by social sector activity, at other times it is assumed to be one number, a single metric that expresses the total value of a social sector initiative. Neither of these interpretations is exactly how REDF has viewed SROI, and the narrow, one-metric view is certainly not what we intended.

SROI Approaches Have Evolved—a Little

Cost-benefit and SROI analyses grew out of managers’, board members’, and funders’ need to understand and compare the results of an activity with its required resources.¹⁰ Some of these analyses have generated some useful insights. In today’s environment, with greater needs and more limited resources, effective resource allocation has become even more important for practitioners and their funders. SROI approaches were developed from cost-benefit analysis (CBA) methods¹¹ and have evolved since REDF’s original approach, which built upon financial return on investment (ROI) calculations.

10 A number of social sector results and outcomes assessment approaches do not incorporate cost assessment (Balanced Scorecard is an example). This paper focuses solely on approaches that include cost and investment.

11 For excellent explanations of CBA (also referred to as cost-benefit methods) and other approaches to measuring social value creation, see Tuan’s *Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches*, Final Paper 12.15.08.

Much thought has been given to some of the challenges and nuances that are unique to social mission initiatives, and some progress has been made. However, as Melinda Tuan notes in *Measuring and/or Estimating Social Value Creation*:

“[T]he process of collecting social impact and social outcome data—and the methods of calculating the costs of social program delivery—are not very well developed or established in the social sector. Despite these limitations, some people expect to be able to compare the social value¹² of various social programs. The infrastructure that makes financial ROI calculations possible (e.g. the accounting profession, brokers, financial analysts, financial reporting, financial concept development) has taken a long period of time (some might argue centuries) to develop, and there are still constant debates about how economic value is measured and how much value companies are creating.”¹³

Guidelines for SROI analysis have been further developed by organizations such as Social Venture Technology (SVT) Group and by New Economics Foundation (NEF)'s Jeremy Nicholls. Both have provided the field with approaches that emphasize the theory of change that underlies an assessment, and the importance of linking it to measurement targets that include the stakeholder's perspective. Soup-to-nuts guidelines for conducting an SROI assessment can be found in their publications.¹⁴

Several organizations have documented evaluations of their own or grantees' cost and benefit information.¹⁵ Robin Hood Foundation's description of its approach to assessing the impact of its grants is detailed by Michael Weinstein, Senior Vice President.¹⁶ According to Weinstein, the organization's formula for estimating the poverty reduction effect of each grant focuses on the dollar-impact that grantees' programs have on the living standards of poor New Yorkers. Though complex and very labor intensive to apply (“Metrics are always under revision, a virtually never-ending project”¹⁷), the approach works for Robin Hood. It works because the organization has been able to identify one central, monetized measure of success that all of its stakeholders can agree on. Though an intriguing approach, it would likely be difficult for many other funders and practitioners to implement and would not address their more diverse needs.

No matter how high the quality of an analytical approach, given the current lack of integrated social value tracking systems, it is likely to be idiosyncratic and fed by data that must be entered and updated manually. The challenge of maintaining and updating assessments is daunting. Michael Weinstein notes, “Metrics at Robin Hood is a work in progress. Each year, we tackle metrics for each grantee anew.”¹⁸ Robin Hood's experience is instructive for any organization that chooses to take this on now.

As a whole, SROI analysis has been refined, and helpful guidelines and examples have been developed. But the practice of calculating SROI still holds significant challenges. Some methodologies, like REDF's, have provided a unified approach to measuring impact, but in doing so have blurred important differences in stakeholders' definition of impact, value, and investment. Furthermore, credible implementation is hampered by analyses necessarily built on data that must be pulled from a variety of sources without the benefit of electronic links or built-in accuracy/consistency checks.

12 Tuan uses “social value” and “social value creation” to refer to the measurement of social impacts, outcomes, and outputs through the lens of cost. We accept and assume that meaning throughout this paper.

13 Tuan 6.

14 NEF, *Measuring Value: A Guide to Social Return on Investment (SROI)*, 2nd ed. (London: New Economics Foundation, 2008) <<http://www.neweconomics.org>>; and *Social Venture Technology Group (SVT Group)*. Web. 16 Sept. 2009. <<http://www.svtgroup.net/>>.

15 For a good example, see Steve Aos, “Using Cost-Benefit Analysis in Washington State to Identify & Implement Evidence-Based Public Policies,” proceedings of Conference on Return on Investment, Saint Paul, MN (Olympia: Washington State Institute for Public Policy, 2008).

16 Michael M. Weinstein, *Measuring Success: How Robin Hood Estimates the Impact of Grants* (New York: Robin Hood Foundation, 2009).

17 Weinstein 6.

18 Weinstein 29.

In short, current approaches to SROI continue to be people- and expertise-dependent; they lack the systemization and links to established information systems that can ensure basic levels of reproducible data, data integrity, and comparability. Our detailed analytical frameworks and step-by-step directions must be paired with twenty-first century implementation systems if we want valuations of social sector work that are widely used and trusted. Without such systemization, meaningful and reliable answers will continue to elude us.

MINIMUM BASIC REQUIREMENTS FOR A NEW SROI

REDF interacts regularly with social service nonprofits, foundations, and government agencies, and we hear a variety of perspectives on the need for cost-benefit or SROI information and the limitations of existing approaches. We have concluded that to be useful and usable, SROI analysis must be systemized and streamlined, and that in order to systemize and streamline cost and results comparisons, three minimum basic requirements, detailed below, must be in place.

We put forward these requirements in the hope that nonprofit funders and information system providers will team up with the nonprofits they support to develop software platforms¹⁹ that bring together information from existing accounting and performance management/outcomes tracking systems in a credible, reproducible way. Once a readily available platform exists, Next Generation SROI analysis, fed by electronically linked data, can be conducted via analysis templates and dashboards designed to answer particular stakeholder questions.

Next Generation SROI Must-Have #1

- Use credible financial and social outcomes data from proven systems that are automatically linked
- Create analytical reports fed by these data

Next Generation SROI Must-Have #2

- Capture and analyze “return” in both non-monetary and monetary units of value

Next Generation SROI Must-Have #3

- Design analysis to answer the questions that are being asked

Next Generation SROI Must-Have #1

- Use credible financial and social outcomes data from proven systems that are automatically linked
- Create analytical reports fed by these data

SROI analysis brings together investment and return information. These data are the heart of any SROI analysis. An analysis cannot offer accurate insights unless the data are reliably captured and transmitted.

Current SROI approaches do not link cost and benefit information: the two types of data are often not compared,

and when they are brought together, the process is a manual one. This is because the systems for collecting cost data and systems for tracking program activities and outcomes are different and separate. However, technology has progressed, and electronic links between these two types of data can be systemized. Platforms that link the two will be a key element of Next Generation SROI.

Next Generation SROI analysis will be based on electronic data updates from rigorous financial and social outcomes data systems. Thus, accounting and performance management/outcomes systems must be in place *before* a Next Generation SROI system can be implemented so that data accuracy and consistency are assured.²⁰ Once these systems are in place and linked, information updates will be able to occur automatically, and customized analyses, consistency, and comparability of results will all be easier to achieve.

¹⁹ While it is likely that multiple platforms will be created eventually, a single platform that credibly addresses our three minimum requirements will be a crucial trailblazer. Initially it may be most productive to create and perfect just one system.

²⁰ No system can ensure complete accuracy or consistency, of course, but good accounting systems and performance management systems have methodologies in place to prevent double counting and other common errors.

What financial systems currently exist?

Cost information management is well developed. Costs can be reliably captured in standard double entry accounting systems. Off-the-shelf programs such as Quickbooks, FundEasy, MAS200, or Peachtree are commonly used by nonprofits. Many nonprofit funders require their grantees to have annual financial audits. While these developments and requirements do not guarantee that all nonprofits have completely accurate financial reporting, they provide a level of confidence in the sector's ability to track the costs of social mission activities.

What social program systems currently exist?

Systems designed to track social program activity and results—performance management systems—are becoming more common. These systems are used to capture information such as the kind of interaction a caseworker has with a client, how often the interaction occurs, and how the client's situation changes over time. Software programs such as Social Solutions' Efforts to Outcomes, and Salesforce.com-based systems, can be designed to aggregate information about specific social mission interventions and results.

A few SROI analysis templates are available. The most basic is REDF's Excel model (available at www.redf.org), but other, more sophisticated and user-friendly tools exist, such as Social E-valuator's Tool and SVT's SROI Calculator.²¹ Though helpful for simplifying the SROI calculation process, these tools' big limitation is that the core of their analysis is based on information coming from other sources, and the tools themselves have no means of assuring data integrity, consistency, or accuracy. As one company representative noted, rather casually, when asked whether users could rely on his company's tool for an accurate SROI analysis, "Well, 'garbage in-garbage out' you know." These tools, as well as some of the analysis templates and dashboards associated with them, will be more useful when they can be electronically linked to established financial and performance management information systems.

What needs to be developed?

Although good systems for capturing cost information exist, and systems for capturing outputs and outcomes are becoming more robust and prevalent, these costs and outcomes are separate and they are very different. Links between the two, either in the form of "bridge" software or in the form of software changes within one or both of the two systems themselves (for example, to allow accounting information to be brought into a performance management system), are not commercially available—yet.

Acumen Fund's IRIS and Pulse systems are forward-looking steps toward a comprehensive system for assessing social value. IRIS, a collaborative effort between Acumen, Rockefeller Foundation, and B-Lab, will provide a publicly available common framework for defining and reporting on social sector performance, and Pulse will provide the system that executes tracking and reporting.

Brad Presner, Acumen's Metrics Manager, notes that although the initial release of Pulse (scheduled for Fall 2009) will not link directly to nonprofits' financial accounting systems, "Indeed, linking into accounting systems is a great long-term vision. Part of our decision to build Pulse as a Salesforce app is the potential to link into other systems, whether through their API [Application Programming Interface software] or directly into other Salesforce apps, particularly the CRM [customer relationship management programs] functionality."²²

21 Social E-valuator Tool <<http://www.socialevaluator.eu>>; SVT's SROI Calculator <<http://sroi.net/pdfs/SROIcalcOverview.pdf>>.

22 From August 2009 correspondence between Brad Presner and Cynthia Gair.

Next Generation SROI Must-Have #2

- Capture and analyze “return” in both non-monetary and monetary units of value

SROI analysis is commonly understood to be a comparison of monetized values: ten dollars of investment “buys” eleven dollars of social value. REDF and others, such as Social Ventures Technology

Group, have pointed out the relevance of non-monetary value to a full view of social value creation. However, comparisons of like measures of value, particularly dollars compared to dollars, are easier to understand and can be more consistently interpreted than comparisons of unlike measures of value, such as “dollars spent compared to lives saved.” Because of the challenge of making such comparisons,²⁵ the SROI discussion has been dominated by a drive to monetize social sector results. We believe it is time to significantly broaden that view—to fully incorporate both non-monetary and monetary views of value into SROI analyses.²⁶

Comparing like measures of value

In some cases, it is possible to find a common measure of value that answers particular questions. Michael Weinstein describes Robin Hood Foundation’s comparison of different initiatives across a wide variety of program areas:

“[This] methodology compares the poverty-fighting value of any two grants, no matter how different in purpose. In effect, we estimate cost-benefit ratios to compare the value of apples (graduating 50 more students from high school) with the value of oranges (training an extra 75 home health aides). These cost-benefit ratios capture Robin Hood’s best estimate of the aggregate benefit to poor people (measured in part by the projected boost in future earnings) that each grant creates per dollar cost to Robin Hood. Such ratios guide our investment decisions as financial rates of return guide investors’ decisions.”²⁷

Robin Hood uses one standard for assessing each of its grants: What impact has it had on New York City poverty? Thus, as Michael Weinstein points out, a grantee could run a wonderful after-school program, but if the program has little impact on poverty in New York City according to Robin Hood’s criteria, it will likely not continue to receive grants from the foundation.

Comparing unlike measures of value

In many cases, it will not be possible or practical to identify one measure of value that is equally relevant for different initiatives or from very different stakeholders’ points of view. For the after-school program mentioned above, stakeholders with a focus on inner-city education may be most interested in the after-school program’s impact on teacher motivation and retention. Other stakeholders may be more interested in the after-school program’s impact on reducing the crime rates in a particular neighborhood. While cost information for the after-school program may be the same, data about its impact on teacher motivation and its impact on crime are unlikely to be consolidated into a single measure of value.²⁸

Though the answers that come from comparing dissimilar information may be more complex to interpret than comparisons expressed in the same units of measure, the nuanced decision-making that comes with differing measures of value is an inherent part of social mission work, which needs to be accepted and embraced via systems designed to include it. For although non-monetary results can be translated

²⁵ In addition, the desire to bring rigor to social sector decisions has contributed to this focus on monetary translations of social value.

²⁶ For a thought-provoking discussion of monetization, see Peter Scholten, Jeremy Nicholls, Sara Olsen, and Brett Galimidi, *Social Return on Investment* (Amsterdam: Lenthe, 2006) 10–17.

²⁷ Weinstein 5.

²⁸ See Tuan 6 for an interesting discussion of shadow pricing.

into dollar equivalents,²⁹ much can be lost in the translation. In many social change arenas, the dollar equivalent is just one aspect of the impact and cannot be legitimately highlighted as the impact.³⁰ We must set aside the fantasy of finding a common unit of measure for assessing and comparing impact.

We are all familiar with comparisons of unlike measures of value: health compared to income levels of U.S. citizens, high school graduation rates compared to city population, or the cost of a clothes dryer compared to how many years it is expected to function.

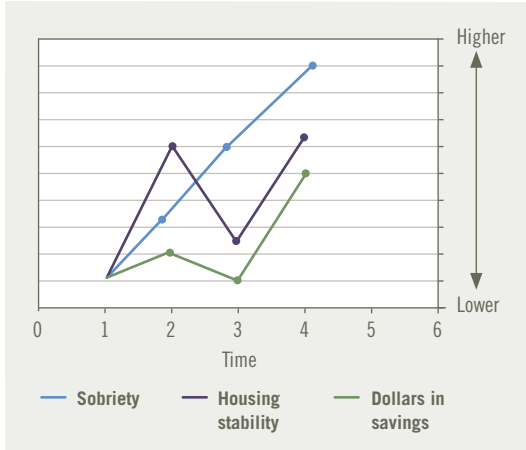
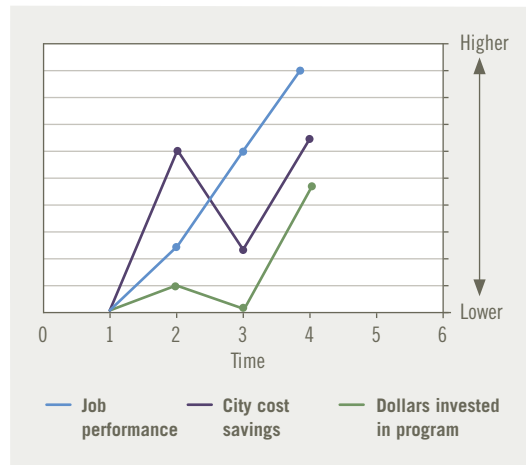
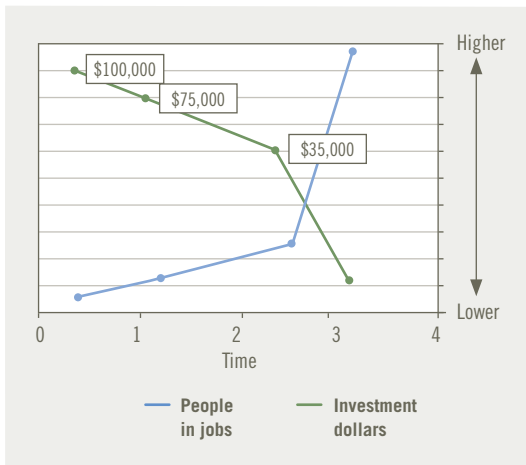


Figure 6
Example Comparison of Three Different Measures of Value

We compare different units of measure when we cannot adequately convert these units to a common measure. Figure 6 shows three different hypothetical measures of a program’s success: sobriety levels, housing stability, and dollars in savings. Although we can come up with some dollars-saved equivalents for sobriety and for housing stability, “dollars saved” would not fully describe the value of housing stability or sobriety outcomes; for some stakeholders, the dollar value of housing stability or sobriety will not be the main point, and yet those stakeholders may need to analyze program results.

Financial comparisons may not be central to an analysis. For example, if one goal of our program is to increase trainees’ on-time arrival at work, and we think that additional counseling sessions will make a difference, we will want to answer the question “Does on-time arrival increase with more counseling sessions?” While the cost of increased counseling can also be calculated, cost information answers a different question than the one asked. Whether financial considerations are being assessed or not, the best way to compare different units of measure can be to do exactly that, even when the result is not an “apples to apples” comparison (Figures 7, 8).

Financial comparisons may not be central to an analysis. For example, if one goal of our program is



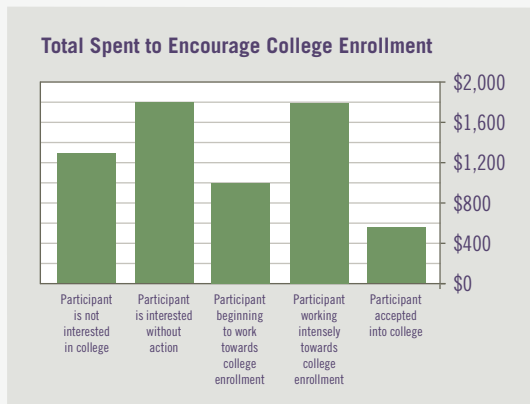
Figures 7, 8
Example Comparisons of Social Outcome & Investment

29 See Tuan 16–17 for good discussion of “shadow pricing” and the technical challenges in comparing value measurements.

30 In social science parlance, this comparison of non-financial and financial costs and outcomes/outputs is called a cost-effectiveness analysis (CEA), while an analysis that monetizes costs and benefits in order to compare dollars to dollars is a cost-benefit analysis (CBA).

A preview of Social Solutions ETO Software's cost/serve or cost/outcome comparison is shown in an example graph below. Using Microsoft Office suite and "Live Office," organizations can begin to build in their own rudimentary (shown here) or sophisticated cost templates.³¹

Encourage College Enrollment



Promote College Retention

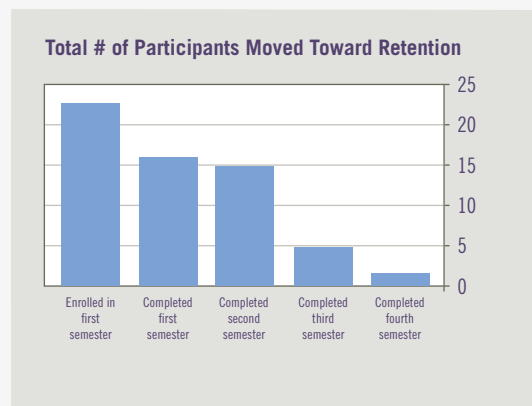
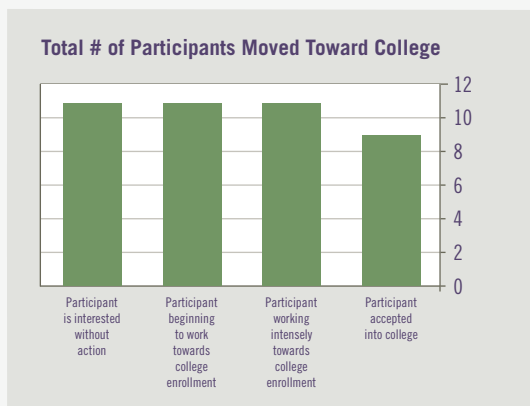
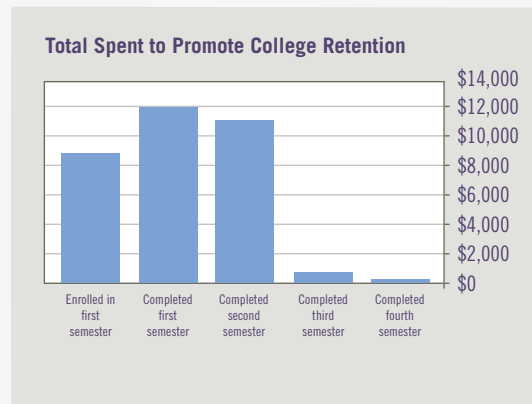


Figure 9
Preview of Social Solutions ETO Software Cost/Serve and Cost/Outcome Report

In its initial SROI work, REDF noted the existence of different value definitions with a description of returns that could not be monetized, and with insights about value that could best be captured in narrative accounts rather than in quantified reports:

“We at REDF believe SROI can be calculated in a set of metrics that quantify and monetize the economic and socio-economic value of social purpose enterprises, but that it should also be viewed in a broader context. Returns realized on a social investment will always include social impacts that are impossible to monetize, or difficult to even quantify. The reports include the SROI analysis results as well as narrative descriptions of the business, highlights of an enterprise employee, and a summary of the impact of the social purpose enterprise on individual social outcomes.”³²

Others have also pointed out the importance of non-monetized results. However, emphasis on the monetized portion of SROI reporting has persisted. In our new view of SROI, we push the pairing of monetized and non-monetized information one step further by proposing that SROI methodology include formalized ways to show and compare non-monetized results, with the goal of answering value questions most appropriately and rigorously, whether the answer is monetized or non-monetized.

³¹ From September 2009 correspondence between Steve Butz and Cynthia Gair, "Adding cost tracking to ETO Software®."

³² REDF, "Chapter 1: Investment Philanthropy, Concepts of Value, and Defining SROI," *Social Return on Investment (SROI) Collection* (San Francisco: The Roberts Foundation, 2000) 12–13.

How will this perspective affect REDF's approach to SROI analyses? In our new SROI work, we will accept that some investments can be assessed on one measure of value, such as "community savings," while others must be assessed on a different measure of value, such as "success on the job," and that analyses of most investments will need to include more than one type of return. We will adapt our SROI reporting to show and compare dissimilar measures of value.

An analysis of two hypothetical questions about Community Vocational Enterprise (CVE)'s social enterprise impact illustrates the ways in which a non-monetized SROI analysis might differ from a monetized analysis (NOTE THAT ALL METRICS HAVE BEEN CREATED FOR THESE EXAMPLES).

EXAMPLE A:

Answering a Financial Return Question with a Next Generation SROI Approach

Question: What is the cost of employing/training barriered people in CVE's janitorial social enterprise, IME, compared to the community savings generated?

Who: Stakeholders who might ask this question include city, county, and state government, as well as foundation funders.

Analysis components	Data	Source of component data
Community dollars paid in to IME (via grants or contracts) in 2010 ¹	\$350,000	CVE Accounting system
Number of barriered employees ² (employees in 2010 receiving on-the job training and support)	35 employees	CVE HR & CVE Performance Management systems
Community cost savings, based on amount of decrease in target employee's use of community services; ³ the average annual savings per target employee		Performance Management system, together with updated comparison information stored/updated in SROI platform
Average community cost savings per IME employee in 2010	\$15,000	

Next Generation SROI Reporting Samples

Reporting on above data could take a variety of forms. Next Generation SROI platform's template calculations and reporting format can accommodate a wide range of analysis needs, for example:

Total IME community cost savings = \$525,000.

2010 Community savings above program cost⁴ = \$175,000 (or "for every dollar paid into IME, \$1.50 in community cost savings is generated").

One donor's view of cost savings generated by his/her donation (e.g., a \$50,000 donation to CVE for IME):
 "Our \$50,000 donated to IME in 2010 generated \$75,000 in community cost savings."

Estimated investment/return for funding that builds a program* (e.g. \$100,000 capital investment toward expansion of IME).

* ROI-type calcs, per original SROI model or simplified formula.

- 1 If we were answering questions about the return on total investment, we would include the amount of start-up and ongoing investment capital.
- 2 For the sake of clarity, details that would be included in an actual analysis, including whether employees are full time or part time, are not included in this example.
- 3 This might include decreased use of community funded services such as emergency room visits, jail/prison re-entry (i.e. recidivism), or emergency housing. This approach applies REDF's original SROI methodology.
- 4 Template analyses stored in the SROI platform can also be set up to hold and apply measures for making projections of future value, such as discounted cash flow and estimated risk measures.

(Continued)

EXAMPLE B:

Answering a Non-financial Return Question and a Part-financial Question

Questions: (1) How long does it take for an IME employee to overcome 2 employment barriers?⁵
 (2) How much does it cost to help an IME employee reach 75% work ready status by overcoming at least 2 work readiness barriers?

Who: Stakeholders who might ask this question include government contract/compliance officials who have paid for or contributed to IME’s Work Readiness support program, e.g. Department of Rehabilitation.

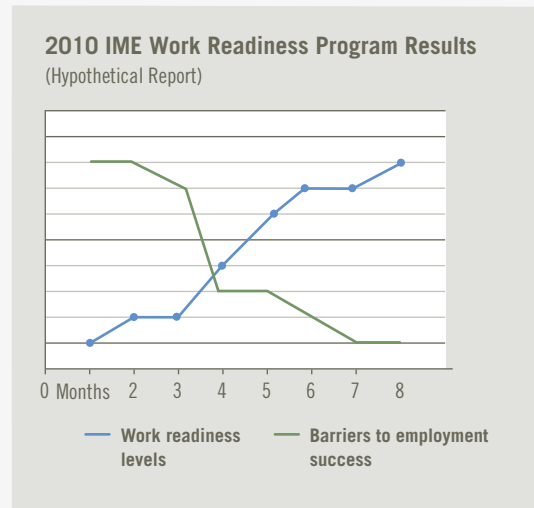
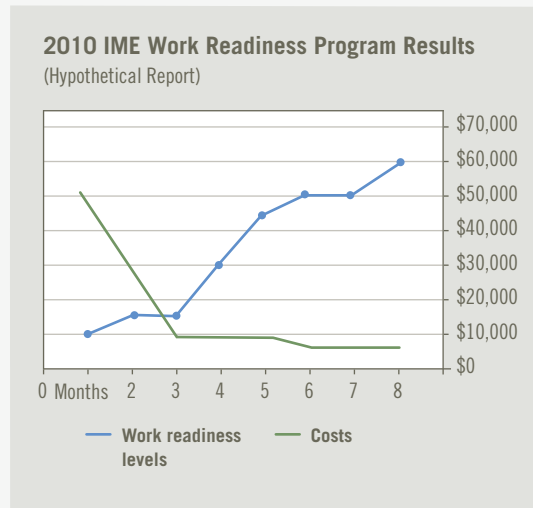
Analysis components	Data	Source of component data
Dollars used for IME’s Work Readiness program in 2010	\$120,000	CVE Accounting system
Number of barred employees receiving IME Work Readiness support in 2010	35 employees	CVE HR & Performance Management systems
IME employees’ 2010 average length of time to reach “work ready” status on 2 barrier situations	8 months	CVE Performance Management systems

Next Generation SROI Reporting Samples

Answers to the two questions could be provided in a variety of formats, including these 2 example reports:

Over an 8-month period, employees in the program show dramatic increases in their work readiness, while the monthly costs of the program decrease.

Over an 8-month period, employees in the program show dramatic decreases in job performance barriers and simultaneously increase their levels of work readiness.



⁵ Employment barrier circumstances might include substance abuse issues, incarceration history, homelessness. Overcoming such barrier situations may require increased individual income, increased interaction or coping skills, or acquisition of work skills.

Figures 10, 11
 Hypothetical Monetized and Non-monetized SROI Analyses

Next Generation SROI Must-Have #3

- Design analysis to answer the questions that are being asked

“The organization needs to be clear about why it is conducting the SROI, what resources are available, and broadly what its priorities are for measurement... Who is this analysis for?”³³

Incorporate and identify multiple stakeholder perspectives.³⁴

A nonprofit that aims to reduce poverty might set goals for increasing community income levels, while another organization concerned with youth substance abuse might try to increase youth involvement in school and after-school programs; measures of success and the value created will be different for each of them. Value is defined by mission and interests, and a particular mission perspective will lead to particular questions and types of information that will answer those questions.

Institutions and individuals have particular perspectives that affect their definitions of value: city government might fund an anti-poverty program and consider reduced neighborhood crime the measure of its success, while board members may consider increases in income levels a primary goal. These different perspectives lead to different questions, analyses, and information requirements. While the urge to aggregate and summarize is understandable, in this case, to have one measure of the anti-poverty program's value (consolidating differing viewpoints to derive one mega analysis) can obfuscate rather than clarify the conclusions.

While REDF's original SROI and many subsequent approaches have attempted to measure the overall value of an activity, they inevitably end up showing value creation from particular points of view. For example, REDF attempted to report on the “community benefits” resulting from disadvantaged people moving into the workforce. We posited public sector savings as a proxy for community benefit, stating, “A nonprofit organization or program creates socio-economic value by making use of resources, inputs, or processes; by increasing the value of these inputs; and then by generating cost savings and/or revenues for the public sector—its community.”³⁵ REDF's SROI measured positive change with an accounting of public sector savings that came from reduced use of publicly funded programs, such as food banks, clinics, or prisons.

We faced the challenge of differing measures of value head-on with a grantee organization whose mission was to help homeless youth get off the streets. In many organizations, a client's *decreased* usage of public benefits (e.g., food stamps) is considered a positive indication of self-sufficiency and therefore a positive outcome. This was not the case with this homeless youth-serving organization. For them, having homeless youth take advantage of community services such as food stamps was a *positive* rather than negative outcome and an indication of self-sufficiency.

Our SROI calculation, based primarily on community savings as the measure of value, assessed the program from one point of view (held by stakeholders including state and city government agencies); it did not ask or answer some key questions that the nonprofit program's leaders were asking, such as “Is our program helping youth (re)engage with the community?” When we realized that we had unintentionally focused on one rather limited perspective, we addressed the lack by supplementing our numeric SROI analysis with information from the staff and youth. Though this additional information helped balance the cost-savings emphasis, we found that readers still tended to focus on the “hard numbers” SROI calculation, and thus on cost savings as the measure of the program's value. We subsequently pointed out:

³³ NEF, *Measuring Value: A Guide to Social Return on Investment (SROI)*, 2nd ed. (London: New Economics Foundation, 2008) 10–11.

³⁴ Sara Olsen and Jeremy Nicholls' *A Framework for Approaches to SROI Analysis* pulled together the thinking of key thought leaders on the topic of stakeholder involvement.

³⁵ Cynthia Gair, *A Report from the Good Ship SROI* (San Francisco: The Roberts Foundation, 2002) 4.

“An enterprise’s Social Purpose Value is based on measures of cost savings for society, not on the benefits accrued to individuals. However, our mission and the mission of REDF Portfolio agencies focus on helping individuals improve their lives...a decrease in use of public services is not always an appropriate social goal. For populations such as homeless youth, agreeing to access public assistance may be viewed as a benefit, since it involves youth taking the initiative to access services available to them, and can be a step on the path to other life improvements... [and thus] we are probably undervaluing the social benefit of the enterprises under study.”³⁶

If we had asked ourselves “What questions are we trying to answer?” and “Who is asking these questions?” we might have addressed this particular gap sooner and more comprehensively. Next Generation SROI will need to identify each SROI question with the stakeholder perspective from which it is asked.

Satisfy existing demand

Next Generation SROI should be designed not only to address the questions that are being asked now, but to answer them more appropriately and more efficiently. In the process, we will upgrade our ability to get timely, accurate, easily updated information to key interested parties, while possibly raising the quality and thoughtfulness of future stakeholder questions.

Not all stakeholders need or want full SROI information. It is important to target our Next Generation SROI development to answer the cost-benefit questions that are already being asked, while simultaneously working with stakeholders to improve the quality of their questions. Questions such as “What has the impact of our grant been?” “What services were provided and what level of success resulted?” “Why does it cost this much?”—which are currently being answered via makeshift, unsystematic, and unverifiable measurement and reporting—could be better answered with a credible SROI system. Some stakeholders (often government agencies) require contractor or grantee reporting that could be best filled with an appropriate SROI analysis.³⁷ Much of the reporting that is currently required of nonprofits, though not framed as “SROI reporting,” could be better addressed if credible SROI systems were in place. Nonprofits put extensive resources into this current reporting, often with little benefit to the social mission activity itself. If we build better systems for answering existing questions, we will decrease time wasted on questionable reporting while increasing the social sector’s capacity to conduct more sophisticated analyses.

CVE’s information evolution provides a useful example of an organization driven to systems integration by the need for answers to particular stakeholders’ questions.

The CVE Story

Background: Community Vocational Enterprise (CVE) is a San Francisco, California nonprofit that provides employment opportunities to individuals with mental health disabilities. It runs several social enterprises, including a janitorial firm, Industrial Maintenance Engineers (IME). CVE’s IME services meet the needs of three types of customers: government agencies whose contracts fund assistance to people with disabilities; individuals with mental health disabilities who use CVE’s employment and support services; and end users of IME’s janitorial services, such as local building owners. California’s Department of Rehabilitation (DOR), one of CVE’s primary contract funders, assists Californians with disabilities obtain and retain employment and maximize their ability to live independently in their communities.¹

¹ DOR’s contracts support work with individuals of every type of disability, providing vocational rehabilitation services to eligible Californians. Its major funding source and federal oversight agency is The Rehabilitation Services Administration (RSA).

(Continued)

³⁶ Gair 12.

³⁷ Use of SROI reporting for U.K. government reporting is discussed in Jeremy Nicholls’ *Why Measuring and Communicating Social Value Can Help Social Enterprise Become More Competitive* (London: Office of the Third Sector, November 2007).

Lorna gets a call: In late 2006, Lorna Jones, CVE's new leader, was still learning her way around the tangle of local and state mental health funding and policies, but much of what she'd seen in her six months on the job was similar to the environment she'd worked in previously. The State of California and San Francisco mental health and disability "ropes" were becoming familiar territory.

So the day the call came from DOR, she felt confident. CVE had already hosted routine DOR audits several times over the years. Now the state's compliance with federal regulations was being examined, and the agency's local contracts were being reviewed.

CVE's approach to information, before the DOR review: CVE's approach to information collection and reporting reflected its organizational goals of running enterprises where people with barriers to employment could work successfully. The costs of IME's business operations and employee supports (such as extra vocational training, supervision, counseling) were identified and tracked, with the social mission "results" being a variety of positive changes in individual employees' lives (greater housing stability, longer term employment, increased confidence, increased wages, etc.).

As one of REDF's grantees during the late 1990s through 2006, CVE had received assistance to measure its enterprise employees' progress and, from 1998 to 2000, it participated in REDF SROI assessment, which analyzed the cost of starting and maintaining IME, versus the community revenue and cost savings IME employment generated. IME showed itself to have a healthy SROI, an "Index of Return" of 1.57² and one year's public savings calculated at \$23,531 per employee.

REDF had also supported CVE to build its accounting and financial reporting capacity. Systems and processes for capturing, categorizing, and reporting on IME's revenues and costs were strengthened and refined over the years. CVE's reporting satisfied REDF as well as its government contract reporting requirements.

The DOR review—reporting must change: DOR's 2006 phone call and subsequent review and meetings brought Lorna and her staff to the alarming realization that the information and reporting that had been in place needed to be revised to fully comply with DOR expectations.³ CVE needed to change its processes and systems in order to continue its contract with DOR.

CVE's perspective: From CVE's point of view, its carefully designed systems gave management the information it needed to gauge IME's success on several fronts, including the changes in its employees' lives, the efficiency of its business operations, the growth of its janitorial services customer base. The organization's wide range of business and nonprofit information needs had given Antonio Aguilera, CVE's Director of Business Enterprises, some interesting challenges, including the need to track both business operations and social program costs:

"In our janitorial operation we have a very specific need in terms of time tracking. We have janitors all over the place, we have a system that allows people to punch in their time on the phone—they go onsite, they punch in a code, and it automatically logs their time. That creates timesheets for payroll that goes into a general ledger and payroll...and eventually the costs get allocated to the program and the operation—so both business operations and social program sides are impacted."

DOR's perspective: From DOR's point of view, the information CVE provided was insufficient. While CVE could report exhaustively on its enterprise operations, its reports did not show the *link* between DOR contract dollars and particular services that led to particular results. They did not show, for example, that a DOR contract for \$50,000 had paid for particular vocational rehabilitation services to clients, and that those services led to particular employment experiences resulting in positive changes for employees. Despite years of refining its information gathering and reporting, CVE's systems could not be adapted to produce the information needed. In order to correct the situation, the DOR review team worked with CVE over the following two years, to update CVE systems to deliver the necessary information.

2 In REDF's original SROI methodology, the Index of Return (Index) is a ratio used to determine impact of an investment. It compares an investment to the value created by the investment. An Index of one means that for each dollar invested, one dollar of value has been created. A higher Index of Return implies a more efficient use of the investment. See REDF, "Chapter 3: REDF's SROI Analysis: The Process," *Social Return on Investment (SROI) Methodology Paper* (San Francisco: The Roberts Foundation, 2000) 20.

3 Specifically, OMB Audit A 133 expectations.

(Continued)

The end of the story, the beginning of a new approach: Lorna looks back on the six months after that initial DOR phone call, recalling that it was a contentious time, and one that she's glad is over:

“These are our partners, we have the same interest that they have, and I knew we had to turn this thing around. But this review kicked off a series of tremendous systemic changes for CVE—we had three major systems changes—our database management system, which is now becoming ETO⁴, our general ledger system—the entire system had to be revamped and we had to change our payroll system, update our personnel system. That’s what we’ve been doing in the last two years. In that process, I’ve been working really hard to turn the relationship around.”⁵

CVE and DOR have come through with their relationship and their contract intact. In the spring of 2009, the system and process changes were implemented; the DOR-CVE contract is once again on solid footing.

Systems changes CVE made: CVE needed a credible way of identifying particular interventions and their costs, with particular results. Cost information resided in its general ledger accounting system while intervention information and employee results resided in an outdated database. The three sets of information were not linked together. CVE replaced its outdated interventions and outcomes tracking database and processes, it replaced its accounting payroll systems with systems that offered features and flexibility it needed. Lorna and Antonio wanted the three types of information to be brought together automatically and they look forward to the day when such a platform exists. Until then, CVE is using a customized process for bringing together the three types of information so that it can compare its accounting system information (such as cost per hour of a vocational trainer’s time), its intervention information (such as hours per week that an individual receives vocational training), and its information about results (such as long term employment or increased stability).

4 ETO Software®, Social Solutions’ performance management system.

5 Antonio Aguilera and Lorna Jones, “CVE System Change,” personal interview, April 2009.

What’s the Question?

“The best way to determine what is important to include in the SROI analysis is to ask its stakeholders.”³⁸

While all stakeholders could, in theory, be interested in or benefit from knowing more, the information they need most is directly related to their roles and goals. Furthermore, the information that any stakeholder is entitled to varies with the nature of that stakeholder’s role.³⁹

The type of information gathered and analyzed is connected to who wants the information, because the “who” influences which questions an organization seeks to answer. This is true across all types of endeavors, but is most significant in social sector work, where there is no single agreed-upon measure of success; leaders must choose which information to gather and which types of analysis to perform.

Not all stakeholders who want information about an initiative or organization need an SROI or cost-benefit analysis. Given the data collection and integration complexities of analysis⁴⁰ at this point in SROI’s evolution, a rigorous comparison of results to costs should be undertaken selectively, and only when appropriately scoped questions demand its use.

38 NEF 14.

39 Clara Miller, “The Looking-Glass World of Nonprofit Money: Managing in For-Profits’ Shadow Universe,” *The Nonprofit Quarterly* 12 (2005).

40 We hope that, eventually, organizations’, stakeholders’, and systems’ sophistication will develop enough that SROI analysis can be applied without restraint. However, that is not the case now.

Many thanks to the people who contributed to this project.

Editing: Carla I. Javits, Anna Martin, Melinda T. Tuan

Citations and Proofreading: Anastasia Stathopoulos

Design: Mission Minded, www.Mission-Minded.com

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Antonio Aguilera, Stuart Davidson, Jed Emerson, Jane Fischberg, Jacob Harold, Carla I. Javits, Lorna Jones, Tim Kwok, Peter Lippman, Anna Martin, Sara Olsen, Caroline Pappajohn, Brad Presner, Tess Reynolds, Marc Spencer, Brian Trelstad, Melinda T. Tuan

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