

den sociale  
kapitalfond

# Social Return on Investment

A review of methods to measure social impact

Methodology working paper

*“Beta” version for the purpose of deliberation*

August 2012

# Content

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- |           |   |
|-----------|---|
| <b>I.</b> | <b>Summary</b>  |
| II.       | Objectives: SROI and Den Sociale Kapitalfond          |
| III.      | Opportunities: Social Return on Investment models     |
| IV.       | Selected model: The OTS SROI model                    |
| V.        | Alternatives: Other social impact measurement models  |
| VI.       | Best practice: What other social venture funds do     |
| VII.      | Test case: OTS SROI on Specialisterne                 |
| VIII.     | Comments  |
| IX.       | Conclusions: SROI Methods for Den Sociale Kapitalfond |
| X.        | References  |
| XI.       | Den Sociale Kapitalfond                               |

# Summary

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**What is the “social return of investment” of an activity? What social change does a social enterprise create? And what is the actual social impact of an investment in an enterprise?** Is investment X good? Has investment Y performed well? Key to social impact investments is to be able to measure social impact. Accordingly, social impact measurement is a recurring discussion point in the field. Many funds struggle to find the right model and numerous consultants, research projects etc. seek or claim to have the solution.

The number of social impact measurement models and methods seem vast and growing with much development going on in the field and no universally fixed or consistently used standards.

That is the background of this working paper:

During the establishment phase of Den Sociale Kapitalfond (SKF) in 2011, the fund’s management team analysed various opportunities for social impact measurement for the fund, and tested one of the most widely used models on Danish cases, seeking to find the best available option. This working paper summarizes the findings.

It is a “beta” version or draft paper based on our internal “work in progress” as we are in an on-going development processes looking for new input and knowledge to optimize our methods. However, for exactly this reason, we have chosen to share our findings so far in this working paper: To disseminate our work to other interested partners to facilitate

knowledge sharing, deliberation and the exchange of ideas which are needed to further develop our approaches and methods.

Accordingly, the working paper is technical rather than literary in its style and format and far from a fully fledged, glossy report. Instead, it is an adapted version of an internal working paper. However, we hope it can provide the basis for some inspiration for others in the field – and for constructive feedback and further development for the impact measurement work of Den Sociale Kapitalfond.

In the following, our key findings are summarized.

The findings are based on extensive literature reviews (references available on request) and interviews with other fund practitioners plus international experts such as Jed Emerson (Impact Assets/University of Heidelberg), Sara Olsen (SVT Group), Jenni Inglis (SROI Network), and Pamela Hartigan (The Skoll Centre at the University of Oxford).

We would also very much like to make a **special note of thank you** to the management team of Specialisterne for their great effort in helping us gather data and knowledge for the test calculations and to our competence partners from KPMG for much constructive sparring and research recommendations. All content and all results are, however, solely the responsibility of Den Sociale Kapitalfond Management.

# Summary

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## The challenge and approach:

- Den Sociale Kapitalfond (SKF) is a newly established social venture fund. Ideally, we need a social impact measurement tool that:
  - Measures social change and impact before and after a potential investment as part of the investment process
  - But transcends mere public savings or individual monetary gains
  - Are manageable regarding time and effort from management and investments
  - Establishes relevant indicators to forecast and monitor social impact
  - Is an integrated part of social due diligence
- Hopefully, the tool also enables comparison of investments, relates social impact created vis-a-vis invested resources, and summarizes portfolio performance.
- **No universal standards:** The challenge is that no models so far are universally adopted and most existing ones have theoretical or practical flaws, including excessive costs (workload) or lack of e.g. opportunities for comparison. The field is rapidly developing but one might compare the current state to “the invention of the double entry bookkeeping system minus 20 years...”
- **SROI test:** Accordingly, the report in particular examines the most dominant model of evaluating social impact, Social Return on

Investment (SROI), selects the most suitable version of the model, and compares it to the dominant alternatives IRIS and SEEKAM. A best practice overview of what other social venture funds do is also included. After selecting SROI as the best available option among different models including monetization-methods, the main variants of the model are compared and the best is selected. As part of the analysis, an evaluative SROI is then calculated on Specialisterne, SKF’s first investment, to get a better understanding of the model. Finally, conclusions and proposals to provide a basis for further work and development are presented.

# Summary

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## The test model

- **Focus:** Many social venture funds and venture philanthropic funds use various forms of (more or less individually designed) indicator systems to capture social impact on investments. Among the more extensive models, the dominant one used is the SROI model. The SROI framework aims to help organisations understand and quantify the social value they are creating. It is a measurement approach developed from traditional cost-benefit analyses that captures the economic value of social benefits by translating social objectives into financial measures.
- **Variants:** The existing SROI models differ in approaches and areas of emphasize. Some focus more on quantitative data, while others have a greater emphasize on qualitative data, such as stakeholders.
- **OTS-model:** Based on the requirements of Den Sociale Kapitalfond, we selected the model developed by the former Office of the Third Sector (OTS), the Cabinet Office of the previous UK government – in the following referred to as “The OTS model”. The model seems to be among the most widespread approaches to SROI measurement in Europe.
- **Theory of Change:** The model is based on the Theory of Change principle and seeks to measure the social impact generated by stakeholders based on the activity of the target organisation. It builds on 6 principal steps:
  1. Establish scope and identify stakeholders
  2. Map outcomes
  3. Evidence outcomes and giving them a value
  4. Establish impact
  5. Calculate SROI
  6. Report, use and embed

# Summary

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## The Test Case results – Specialisterne ApS

- The SROI analysis of Specialisterne, conducted by the management team, focuses on the incremental social value created by the company by employing people with Autism Spectrum Disorder (ASD).
- **An important disclaimer** : Please note that while Specialisterne has kindly contributed to the case with their knowledge and data, the case is included as a test case only, and all use of the model, data and calculations, carried out from May to November 2011, are solely the responsibility of Den Sociale Kapitalfond Management.
- **SROI light**: Initially, we tried out an adapted “light” and reduced version of the SROI calculation on Specialisterne and another anonymous testcase. However, the reduced version with fewer stakeholders and change aspects involved, quickly provides an impact perspective that is too limited to make real sense.
- **Evaluative SROI**: We then conducted a full evaluative SROI on Specialisterne. The aggregate social value created by Specialisterne over a five year timeframe is 15.4 mil. DKK Specialisterne’s SROI ratio of 1:2.2 implies that, for every 1 DKK invested by its stakeholders in their contributions to the business of the company , 2.2 DKK of social value is created in form of increased local purchasing, reduced healthcare costs etc. In our calculation we have chosen a more narrow or conservative approach to measure SROI. We only include the social change for each stakeholder. This approach differ from other SROI analyses conducted, e.g. in the UK. Furthermore, there are a number

of other benefits, such as increased self-confidence, happiness and a higher quality of life for the employees with ASD, suggesting that the social return calculations likely underestimate the true social value created by Specialisterne. Even so, views to other industry-related SROI calculations indicate that Specialisterne creates a relatively high social impact through their innovative business model.

- **Forecasted SROI**: In comparison, for internal purposes we also conducted an SROI with a “stylised” version of the investment agreement with Den Sociale Kapitalfond, resulting in an SROI of 1:2.9. . The data and calculations are not part of this presentation, as the terms of the investment by nature are confidential. However, it illustrates that forecasted growth and increasing profitability can also be “captured” by the model. Though as mentioned above, the social return calculations are likely to underestimate the true social value created.

# Summary

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## Conclusions:

- **Pros:** This test of the OTS SROI model demonstrates that it is a useful tool for engaging in focused dialogue with key stakeholders, identifying a theory of change, and analysing key indicators as well as quantifying social impact. In other words making social impact tangible and approachable.
  - **Cons:** On the other hand, the model has a range of methodological problems, and a sufficiently thorough SROI analysis is very resource demanding to the extent where using the model thoroughly could risk take valuable resources away from actually making successful investment. Some, more experienced social investment funds, including Impetus Trust (UK), have apparently come to the same conclusion after testing SROI on their portfolio. Others seem to have been able to allocate the necessary resources, incl. Shaerpa (NE).
- Specifically, a clear and independently verified/supported theory of change on which basis we can establish an impact map, should be identified for all potential investments.
  - Our impact maps should be inspired by the OTS SROI model, but adapted to SKF as a basis for assessing and communicating research findings from social due diligence.
  - We should aim to select 1-3 KPI's that are top priorities or "light posts" for the venture and its social change and project these into the future as part of the investment plan.
  - We should consider, monitor and reflect upon the unexpected and unintended consequences and changes resulting of the venture's work/investment, annually, to inspire development and learning.
  - We should share our knowledge and engage in deliberations to develop our approaches – and ideally find one or more "boddies" in the field to co-create with.

## Next steps for SKF:

- SKF should continue to follow the debate and developments in the field to explore options and new methods in the field – and to SKF should use the SROI model and experiences from using it to inspire our "social due diligence" of potential investments.
- However, social due diligence should be stakeholder-based (incl. e.g. users and also always independent experts) and build on establishing a theory of change, drawing an impact map, selecting 1-3 KPI's, and focus on these:

# Summary

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## Challenges:

- **Monetization:** The planned approach will not include monetization as “standard”- but provide the basis that can be used for genuine SROI monetizations (optional). Monetization is good for communication purposes and as basis for reflecting upon methodologies and applications of them. However, it also emphasizes the problems of comparison, bias towards government expenditure savings and highly time-consuming data requirements of the model.
- **Assessment basis:** Without monetization, how can we tell if the investment is worthwhile? By building on a clear mission and vision for the fund and its investments and by conducting sound due diligence – plus over time establish a record as basis for comparison.

## Perspectives:

- **Nobody’s perfect:** As this summary indicates and the working paper will make clear, no model – including the OTS SROI model – seem perfect and all have challenges and caveats build into them. Accordingly, all interested stakeholders in the field should continue to share knowledge, learn from each other and develop and test new models and variants.
- **More on Specialisterne forthcoming:** Especially using the same cases in several different models will in that respect be useful. Accordingly, Specialist People Foundation, the foundation owning Specialisterne in Denmark, later this year expect to publish its own new SROI model,

naturally also using Specialisterne as a key case – and further contribute to the development of the field of SROI methods.

- It is also in that light, this working paper should be conceived: To contribute to the sharing of experiences and knowledge in an emerging field with still some way to go.
- **Patience required:** To illustrate, we will round up this introduction with a thought provoking quote from one of the key international experts and advisors in social impact measurement, commenting on our road still ahead:

*“It is very early in the life of Den Sociale Kapitalfond – probably too early to really tell what method you should use. You need a track record and at least 5 years of experience to truly know. But your work so far has been impressive and forms a good basis for reflections over the coming years...”*



# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond**
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond

# Objectives

## - SROI and Den Sociale Kapitalfond

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### Investment strategy for Den Sociale Kapitalfond:

- **Opportunities for all:** To strengthen opportunities for all people in Denmark, regardless of their age, sex, ethnic origin, physical or mental conditions, to participate in society.
- **Social exclusion:** Specifically focusing on preventing or counteracting social exclusion, for people in socially vulnerable groups or situations.
- **Social entrepreneurs:** By investing in social entrepreneurs who include them or mobilise resources to them on a market-driven basis, thereby reducing barriers and strengthening drivers for socially vulnerable people to utilise their potential in society
- **“Social first”**, i.e. prioritising social concerns over financial. Both when it comes to deciding investments, as well as following up and measuring outputs. SKF is not about saving public expenditure as a goal in itself, but about a wider range of value creation with the marginalised people in the very centre.
- **Create positive, long term social impact** – social return on investment (SROI) – for the target group and stakeholders
- The created social impact should altogether be more valuable than the financial resources invested in the course of the investment

### Objectives for social impact measurement:

- **Need:**
  - Measure social change and impact before and after a potential investment as part of the investment process
  - Establish relevant indicators to monitor social impact
  - Be an integrated part of social due diligence
  - Be manageable regarding time and effort from the management team and the potential investments
- **Nice (need):**
  - Be transparent about public savings or individual monetary or financial gains
  - Forecast investment impact
  - Monitor and ideally compare investments and summarize portfolio performance
  - Ideally relate social impact generated to invested resources

# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models**
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond

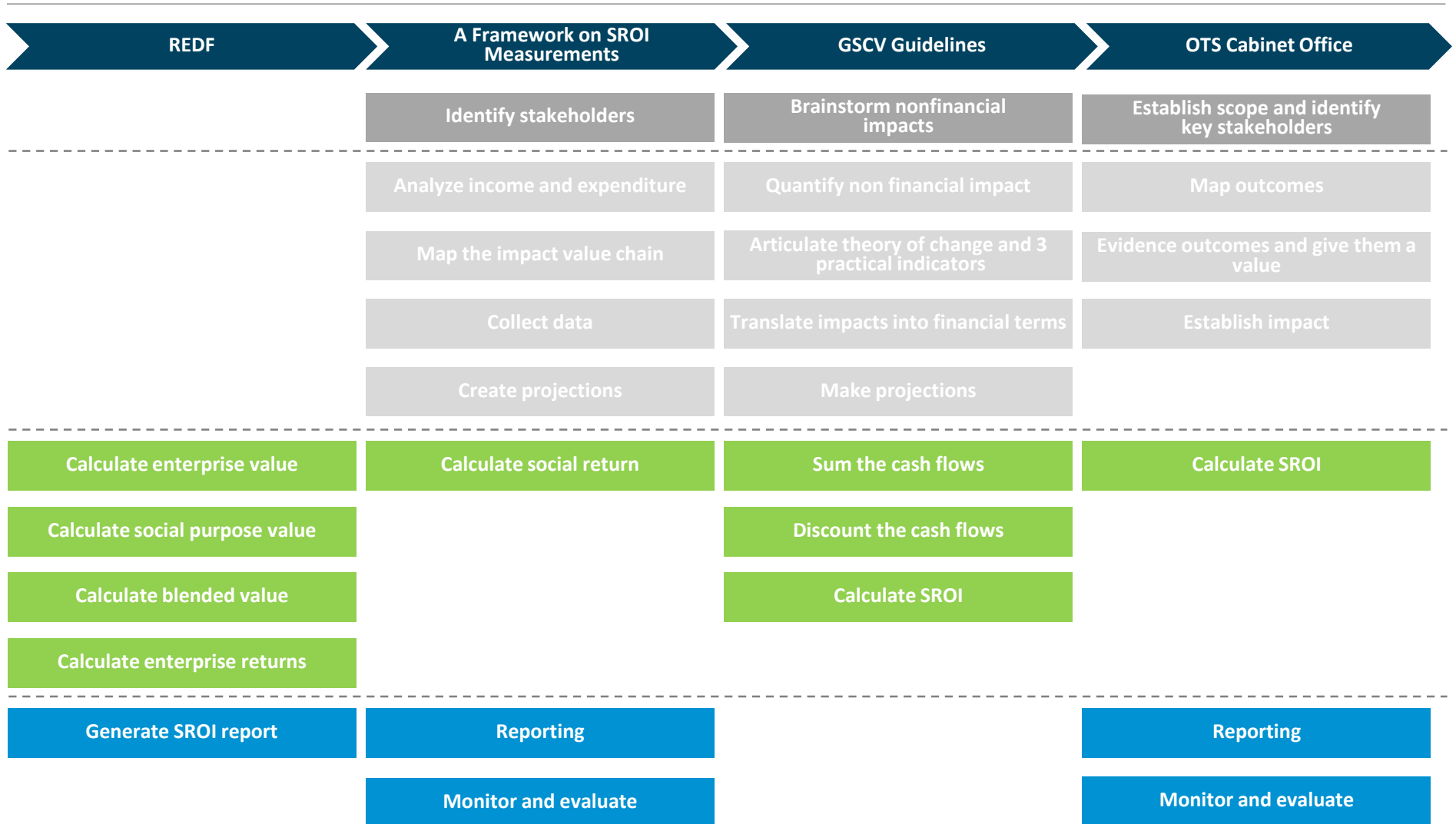
# Social Return on Investment

## - Dominant model among social venture funds: SROI

- **History:** The first specific model aimed at measuring social return on investment (SROI) was pioneered by REDF (a San Francisco based venture philanthropic fund) who had a model developed in the 1990's in collaboration with e.g. Harvard Business School to provide a method by which they could assess their grant-making activities and determine which activities could deliver the greatest all-round value. In the 2000's the SROI model made its way into Europe where a European networking organisation (ESROIN) was formed and particularly UK organisations and government were active in further developing and spreading the model. Various variants and models now exist.
- **Principle:** The SROI framework aims to help organisations understand and quantify the social value they are generating. It is a measurement approach developed from traditional cost-benefit analyses that captures the economic value of social benefits by translating social objectives into financial measures (New Economic Foundation, 2008). Furthermore, the SROI framework measures change in ways that are relevant to the people or organisation that experience or contribute to it. This enables a ratio of benefits to cost to be calculated. For example a ratio of 3:1 indicates that an investment of 1 DKK delivers a 3 DKK of social value.
- **Social Impact:** SROI includes not only actual financial benefits, but also valuations and monetised experiences: a value expressed depends on how much stakeholders value the service or social change created. It does not represent actual financial return but can be the emotional or social well-being for individuals, cost savings for the government or higher incomes for individuals – not all of which represent real cash savings.
- **Key drivers:** Despite variations due to structural differences regarding the organisations implementing SROI, varying investment approaches, and objectives, some common key drivers can be identified across most SROI models and applications in practice. It appears to be consistent to measure monetized SROI. The basic approach is to identify sources of value, find indicators of this value, monetize these indicators, show the future projections of benefits and costs (including the relevant elements of financial reports), and discount these flows to present value.
- **Challenge:** The challenge with SROI is to set up indicators that gives a holistic measure of the outcomes. Additionally, the SROI seeks to monetize these indicators, but this step might turn out to be challenging since not all outcomes can be easily valued.
- **Limitations:** The indicators set up to measure social impact are entity specific, which makes it difficult to compare different investments, unless the social business models, stakeholder are identical, and financial proxies are the same.

# Social Return on Investment

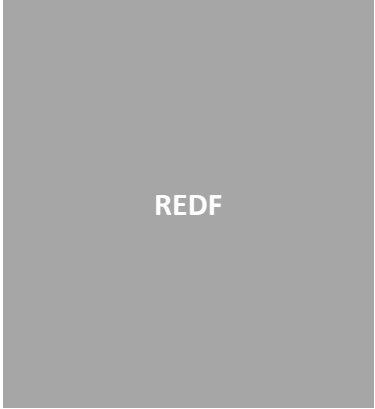

- Dominant SROI-models



Source: SROI Framework, 2005

# Social Return on Investment

## - Dominant SROI-models

	Strengths	Weaknesses
	<ul style="list-style-type: none"><li>• The use of index numbers and the quantitative approach makes it easy to compare investments</li><li>• Seeks to capture both a social and financial return</li></ul>	<ul style="list-style-type: none"><li>• Based on output data instead of impact data</li><li>• Time consuming to conduct</li><li>• Quantitative approach</li><li>• Not applicable on all types of companies</li><li>• Mainly used for evaluating on-going business's</li><li>• No clarification of the weighting between social and financial return</li></ul>
	<ul style="list-style-type: none"><li>• Focus on stakeholders and the outcomes and impacts they generate</li><li>• A qualitative approach captures a broader social value</li><li>• Entity specific, easy to apply across sectors and thereby on the future portfolio</li><li>• Includes a reporting system to be checked by a third party</li><li>• Includes monitoring of the on-going social impact – management tool</li><li>• Both forecasting and evaluative</li></ul>	<ul style="list-style-type: none"><li>• Time consuming to conduct due to an extensive data collection</li><li>• Shortage of data</li><li>• Different indicators make comparisons difficult</li><li>• Indicators need to be holistic in order to capture the broad social impact</li><li>• Some outcomes might be difficult to monetize</li><li>• Does not include consideration of risk factors when projecting values into the future</li><li>• Difficult to determine an appropriate discount rate</li></ul>

*Strengths and weaknesses for each model vis-a.-vis Den Sociale Kapitalfond*

# Social Return on Investment

## - Dominant SROI-models

	Strengths	Weaknesses
GSCV Guidelines	<ul style="list-style-type: none"><li>• Focus on stakeholders and the outcomes and impacts they generate</li><li>• Qualitative approach captures a broader social value</li><li>• Entity specific, easy to apply across sectors and thereby on the future portfolio</li><li>• Includes consideration of risk factors when projecting values into the future</li><li>• Sensitivity analysis</li><li>• Includes on-going tracking of social impact</li><li>• Both forecasting and evaluative</li></ul>	<ul style="list-style-type: none"><li>• Time consuming to conduct due to an extensive data collection</li><li>• Shortage of data</li><li>• Different indicators make comparisons difficult</li><li>• Separation of financial and social value might not be possible</li><li>• Indicators need to be holistic in order to capture the broad social impact</li><li>• Difficult to determine an appropriate discount rate</li><li>• Some outcomes might be difficult to monetize</li></ul>
Cabinet Office	<ul style="list-style-type: none"><li>• Focus on stakeholders and the outcomes and impacts they generate</li><li>• Qualitative approach captures a broader social value</li><li>• Entity specific, easy to apply across sectors and thereby on the future portfolio</li><li>• Includes consideration of risk factors when projecting values into the future</li><li>• Sensitivity analysis</li><li>• Includes on-going tracking of social impact</li><li>• Both forecasting and evaluative</li></ul>	<ul style="list-style-type: none"><li>• Time consuming to conduct due to an extensive data collection</li><li>• Shortage of data</li><li>• Different indicators make comparisons difficult</li><li>• Indicators need to be holistic in order to capture the broad social impact</li><li>• Some outcomes might be difficult to monetize</li><li>• Difficult to determine an appropriate discount rate</li></ul>

*Strengths and weaknesses for each model vis-a.-vis Den Sociale Kapitalfond*

# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model**
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond



# Selected Model

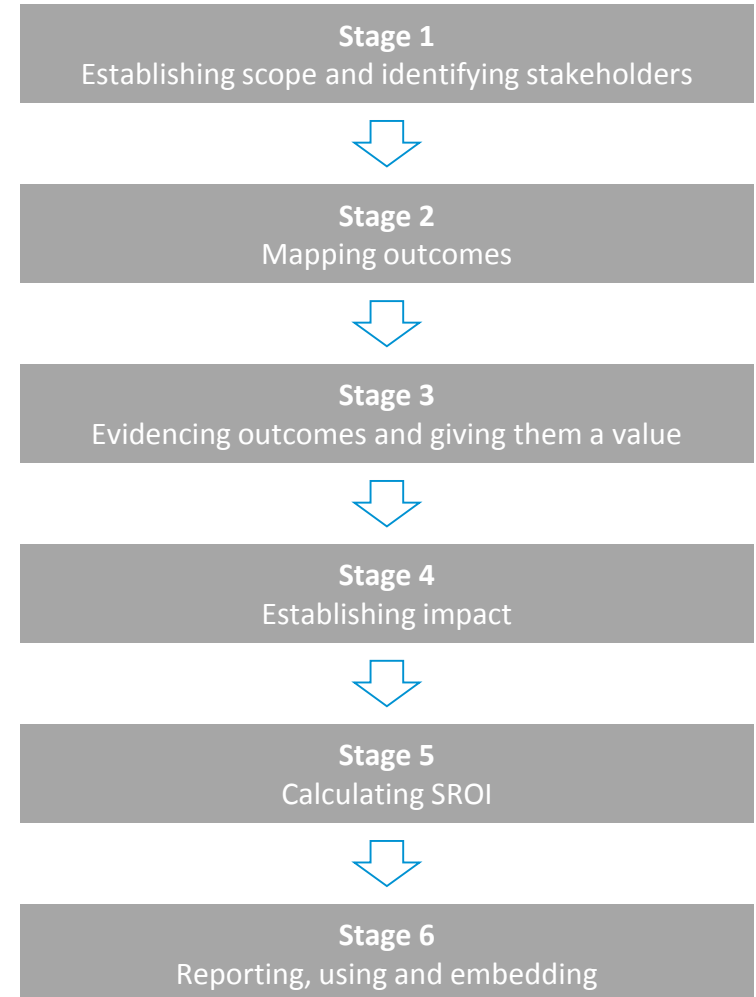
- The model of the Cabinet Office, Office of the Third Sector (OTS)

**Choice of model:** The model of the Cabinet Office, Office Third Sector

- The model focuses on the value created for a variety of stakeholders and hereby captures a broader social value – which is in line with the objectives of Den Sociale Kapitalfond and its investor TrygFonden.
- The model can be used for both a forecasting and evaluating SROI. Furthermore, due to the on-going tracking of social impact the model can also be used to monitor investments (or as a management tool).
- In addition, the model is entity specific and can be used on a variety of different organisations cross industries (although not for comparison, cf above).
- Furthermore, the OTS SROI seems to be the most widespread approach to SROI measurement in Europe with much on-going research, refinement and development for which the Fund potentially can benefit from.

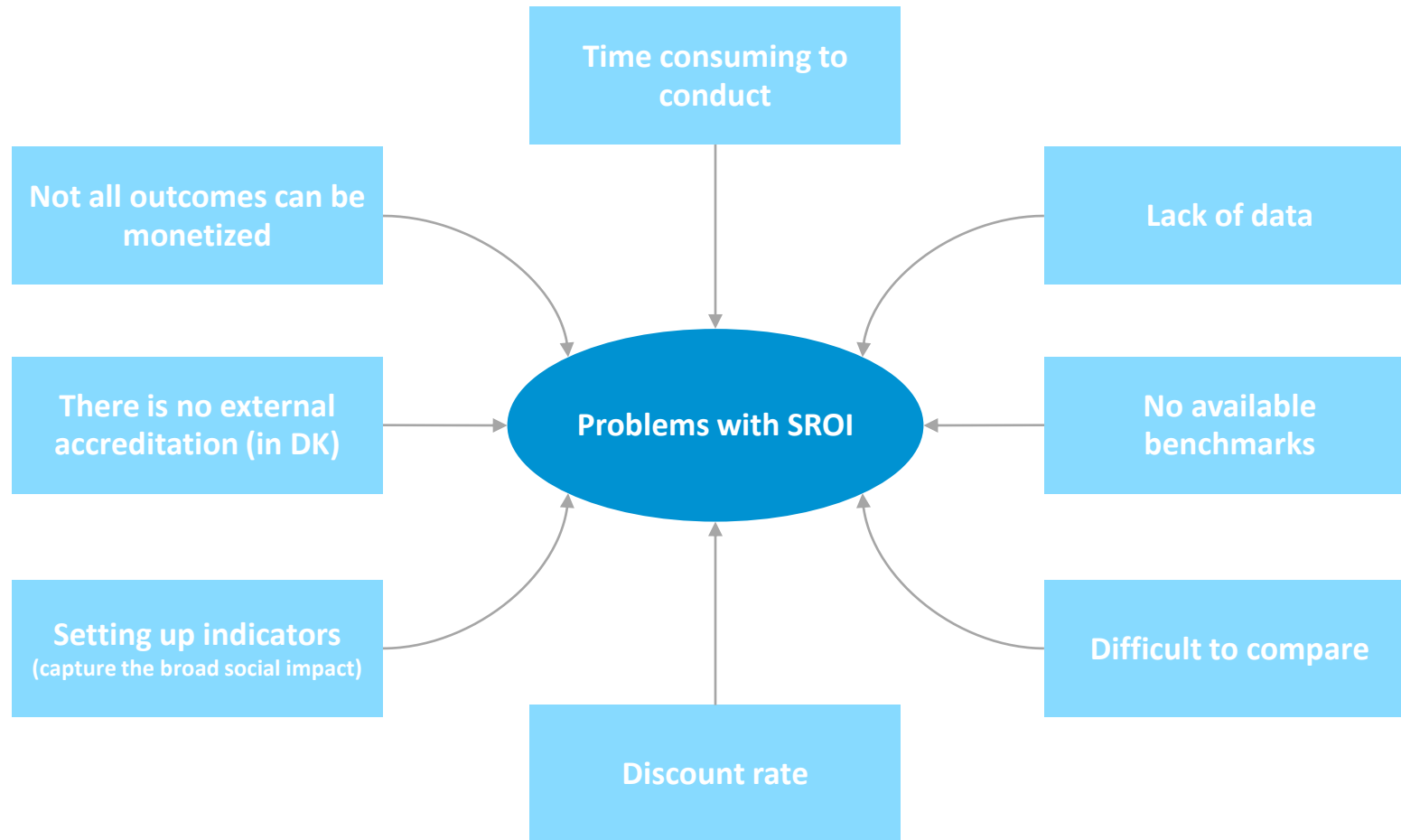
**What does the model of OTS measure?**

- The model is based on the Theory of Change principle and seeks to measure the social impact generated by stakeholders based on the activity of the target organisation



# Selected Model

- Limitations of the OTS SROI model



# Selected Model

## - Challenges of applying the OTS SROI model

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**Time consuming to conduct** The SROI analysis requires a vast amount of data and is therefore time consuming to conduct. Unfortunately, there is no short cut to avoid this aspect of the model. By including less data (thereby stakeholders) you are cutting away sources of impact, which will result in a lower SROI value.

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**Quantifying social value** The indicators relevant to the stakeholders need to be measurable within the scope and resources set for the analysis. If the indicators fails to quantify social value adequately, the total SROI value will be negative affected. Thereby SROI will result in a lower value which may not be a true reflections of the social value generated by the organisation at hand.

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**Holistic measurements** To achieve a holistic view of the company or organisation in an investment decision, the SROI analysis should always be conducted with a supplement of qualitative and quantitative measurements as well as an expert review done by a third party.

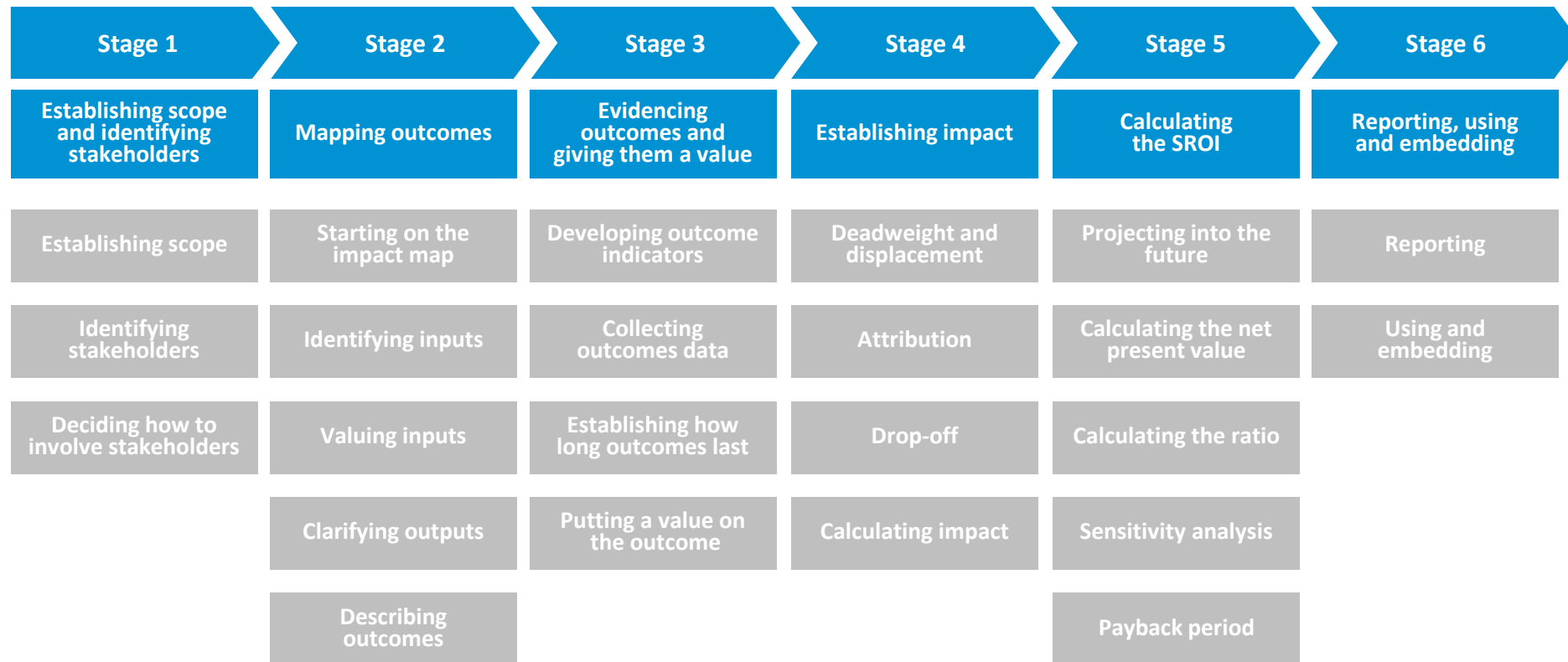
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**Use common indicators to increase comparability** The OTS SROI framework will never be completely comparable due to the emphasis on stakeholders. However, including some standardized indicators in the SROI analysis will increase the comparability among different investments. Standardized indicators on the other hand, cannot stand alone because then the SROI would fail to be entity specific and thereby capture at broader SROI value.

*For comments about finding the appropriate discount rate see slide 36 "Comments – the calculation"*

# Selected Model

- The model of the Cabinet Office, Office of the Third Sector



Source: A guide to Social Return on Investment, 2009

# Selected Model

- The model of the Cabinet Office, Office of the Third Sector

## Stage 1

- Set up scope of the analysis:
  - What is the purpose of the SROI analysis?
  - For whom is the analysis conducted?
  - What are the objectives of the organisation, or the specific activity for which the analysis is to be conducted?
  - What are the available resources, for example staff, time, or money?
  - Who would conduct the analysis?
  - Is the SROI analysis a forecast or evaluation?
- Identify stakeholders
- Deciding how to involve stakeholders

## Stage 2

- Based on the Theory of Change an Impact Map is constructed which is considered to be central to any SROI analysis.
- Theory of Change is defined as all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a change framework, which is a graphic representation of the change process.
- An Impact Map is defined as a map that “details how the activities you are analysing use certain resources (inputs) to deliver activities (measured as outputs) which result in outcomes for stakeholders. These outcomes are then measured as impact.”
- It gives a clear overview of inputs, outputs, and outcomes generated by the stakeholder’s.
- These outcomes are then clearly described.

## Stage 3

- Outcome indicators are developed at this stage.
- Indicators show how long the outcome last
- A value is assigned to the outcome.
- These indicators are used to collect data or evidence on occurring outcomes.
- A caution to be kept in mind is that the indicators must be measurable, for example, number of people who got a full time job, or increase in income.

# Selected Model

- The model of the Cabinet Office, Office of the Third Sector

## Stage 4

- Assessment is conducted to find out the 'true impact'.
- One considers if the outcomes are a result of the organisation's planned activities or a result of other factors.
- Impact is calculated in terms of percentages, hence the percentage of impact that is as result of the organisation's planned activity.
- In case there are outcomes, which are not a result of the inputs 'deadweight' has occurred and is measured in terms of percentage, which is further deducted from total percentage of outcomes.
- 'Displacement' occurs when there is no impact or the outcome observed was a result of some other factor and not a result of the organisation's planned activity.

## Stage 5

- All financial information gathered in previous stages is summarized at this stage.
- Financial value of investments and financial value of social costs and benefits is calculated here.
- The stage involves projecting values of all outcomes and then discounting the impact back to present value. The discount rate depends on the sector and industry in question.
- SROI is calculated by dividing the discounted value of benefits by the total investment (inputs). Hereby you will get a ratio of invested units per social units is.
- Furthermore, this stage includes a sensitivity analysis and a calculation of the payback period.

## Stage 6

- After completing the SROI analysis, the results must be communicated and reported to the stakeholders.
- Results are used for future planning.
- The SROI process must be implemented or embedded in the organisation for future analysis.

# Selected Model

## - The seven principles of SROI

1	<b>Involve stakeholders:</b> Inform what gets measured and how this is measured and valued by involving stakeholders.
2	<b>Understand what changes:</b> Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
3	<b>Value the things that matters:</b> Use financial proxies so the value of the outcomes can be recognised. Many outcomes are not traded in markets, and as a result their value is not recognised.
4	<b>Only include what is material:</b> Determine what information and evidence must be included in the accounts to give a true and fair picture, so the stakeholders can draw reasonable conclusions about impact.
5	<b>Do not over-claim:</b> Only claim the value that organisations are responsible for creating.
6	<b>Be transparent:</b> Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.
7	<b>Verify the result:</b> Ensure appropriate independent assurance.

# Content

---

- I. Summary
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- X. References
- XI. Den Sociale Kapitalfond



# Alternatives

- Other models: IRIS, SEEKAM & Impact Scorecards

Often used alternatives to SROI

## SEEKAM

- Social Ekonomisk Ekologisk Kalkyl Model (SEEKAM)
- Framework for cost-benefit analysis with focus on the value created/saved for the public sector.
- Developed by Nilsson & Wadeskog.
- Applicable on social enterprises as well (cf "From the Public Perspective"). Used mainly in Sweden.

## IRIS

- Impact Reporting and Investment Standards (IRIS)
- Standard performance indicators for a long range of input, activities and outputs plus some outcomes regarding social change
- Enables comparison between projects.
- IRIS is a "open source" library available to all. It can be used alone as indicators or as indicators for the SROI framework.

## Impact Scorecard

- A indicator systems of individual outcome or impact indicators
- Inspired by IRIS
- Among others it is implemented by Bridges Venture (UK)

# Alternatives

- SEEKAM

## SEEKAM

- A social-economic model calculating the cost of a given target group for the society.
- Developed by Ingvar Nilsson
- The model consists of the following 7 steps:
  1. Establish the scope of the analysis; the economic aspects of the model and size of target group/ number of people in the target group.
  2. Based on previous studies, establish the cost for the society for the given target group.
  3. Make assumptions about the theory of change and how many people in the target group actually benefit from the activity of the company.
  4. Calculate how much of the social-economic cost that are actually saved.
  5. The last component of the calculation is the value of the target group when entering the labour market.
  6. Projecting the saved social-economic costs for the society into the future.
  7. The last step is calculating the final result based on the previous calculations.

1

The project's cost and financing

2

The cost of the target group without interfering

3

Assumptions about the change of the target group

4

The cost of the target group with interfering

5

The value of the target group on the labour market

6

Assumptions about cost distribution over time



7

**Result**

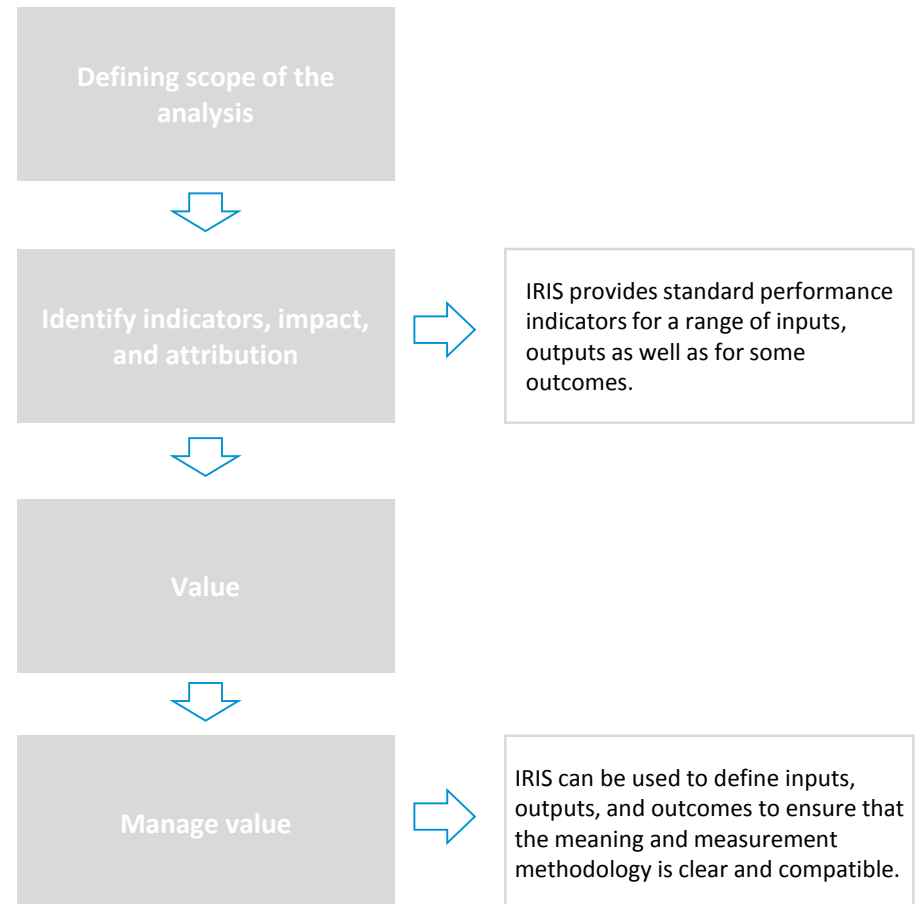
# Alternatives

## - Impact Reporting Investment Standards (IRIS)

### IRIS

- IRIS is a set of standardized indicators for organisations to use when reporting their social and environmental performance.
- IRIS enables increased comparability and consistency in the reporting and analysis of impact performance data.
- IRIS provides a library of commonly reported impact terms. The framework can be applied across sectors and geographies and has been organized into six main areas:
  - **Organisation description:** including information about the mission, operational model, and location of an investee.
  - **Product Description:** including descriptions of products, services, and target client base.
  - **Financial Performance:** including financial performance metrics which are consistent with both the Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS).
  - **Operational Impact:** including description of portfolio companies' policies, employees, and environmental performance.
  - **Product Impact:** including descriptions and measures of the benefits of an organisations' products and services.
  - **Glossary** of definitions for common terms that are referenced in IRIS.

### How can IRIS be used?



# Content

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- I. Summary
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- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do**
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond

# Best Practice

## - What others do - overview

- As part of the work on developing an appropriate social impact measurement system for SKF, we have been reviewing and are currently summarising impact measurement practices from other social venture funds.
- In general, social investor approaches to measurement is characterised by (EQUAL Social Economy Scotland Development Partnership):
  - **No consistent approach:** Varying considerably from investor to investor
  - **Not a universal feature of the investment process:** Some do not appear to do it
  - **Individual investments – not portfolios:** Is what investors appear to concentrate on when measuring impact. Perhaps because this is what SROI can and cannot do
  - **No comparisons:** Investors do not generally appear to compare actual or potential impacts of individual investments
- However, among the general models in use, the SROI model (and apparently often the OTS version) seems to be most widespread among the funds we look to for inspiration and sparring.



Fund	Type of fund	Investment focus	Measurements
 Ferd	Venture Philanthropy (VP)	Young and education	<ul style="list-style-type: none"> <li>• Financial: Standard</li> <li>• Social: Selected indicators</li> </ul>
 Impetus	Venture Philanthropy	Poverty	<ul style="list-style-type: none"> <li>• Financial: Non</li> <li>• Social: SROI</li> </ul>
 Bridges Ventures	Social Venture Fund (SVF)		<ul style="list-style-type: none"> <li>• Financial: ROI</li> <li>• Social: Impact Scorecard (selected indicators)</li> </ul>
 Voxtra	VP & SVF	Empowering disadvantaged people to lift themselves out of poverty	<ul style="list-style-type: none"> <li>• Financial: n/a</li> <li>• Social: SROI variant</li> </ul>
 Shaerpa	Social Fund Management Company		<ul style="list-style-type: none"> <li>• Financial: n/a</li> <li>• Social: SROI</li> </ul>
 BonVenture	VP & SVP	Social, societal and ecological problems	<ul style="list-style-type: none"> <li>• Financial: n/a</li> <li>• Social: n/a</li> </ul>

# Content

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- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
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- XI. Den Sociale Kapitalfond

# Specialisterne

## - Introduction

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### **Specialisterne as test case 1:**

In order to test SROI as a tool, the management team has so far tested it on two cases: Specialisterne and – as initial controlling test – another Danish social enterprise (anonymous).

Focus has been on getting to know the model, including time consumption, resource and data requirements, flexibility, etc.

Three things in particular have been tested:

- Narrowing the SROI to include only a few selected key stakeholders and impacts – to test the use of a “light” version of the model. The “light” versions are not presented here due to the shortcomings of this approach, including a (too) low SROI .
- Using the model as an evaluative tool – rather than as the forecasting tool, SKF predominantly could use it for. However, this has been done with consideration of data and the fact that the investment hypothesis had not yet been formulated when the testing began. The evaluation period has been very short – 5 months (Jan-May 2011).
- Using the model as a forecasting tool, which could be of much use to SKF, based on the evaluation and the investment proposal.

The following presentation includes the evaluative version and follows the standard OTS steps.

# Specialisterne

## - Introduction

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### **Considerations:**

This case study is not an analysis of the operations of Specialisterne or an assessment of Specialisterne's business model. This report does not focus on the sustainability of the operations of Specialisterne, but rather focuses on understanding the impact Specialisterne will have on stakeholders. Furthermore, as a test case it is no "definite" account of the SROI of the operations of Specialisterne, but merely an illustrative example of how to use the SROI OTS model.

The SROI calculation focuses on the on-going business of the company, where "investment" should be understood as the various stakeholders' efforts and inputs to contribute to the going operations of Specialisterne.

Specifically, it provides insight into the type of data that should be captured in order to communicate the social impact and value creation to all stakeholders.

It should be stressed that the case study is the sole responsibility of Den Sociale Kapitalfond Management and that Specialisterne have kindly made a great contribution with their knowledge and data, but are in no way responsible for the analysis.

The analysis was undertaken approx. May to November 2011 and was based on extensive stakeholder interviews, generous provisions of data from 2011 (where available) and 2010 from Specialisterne.



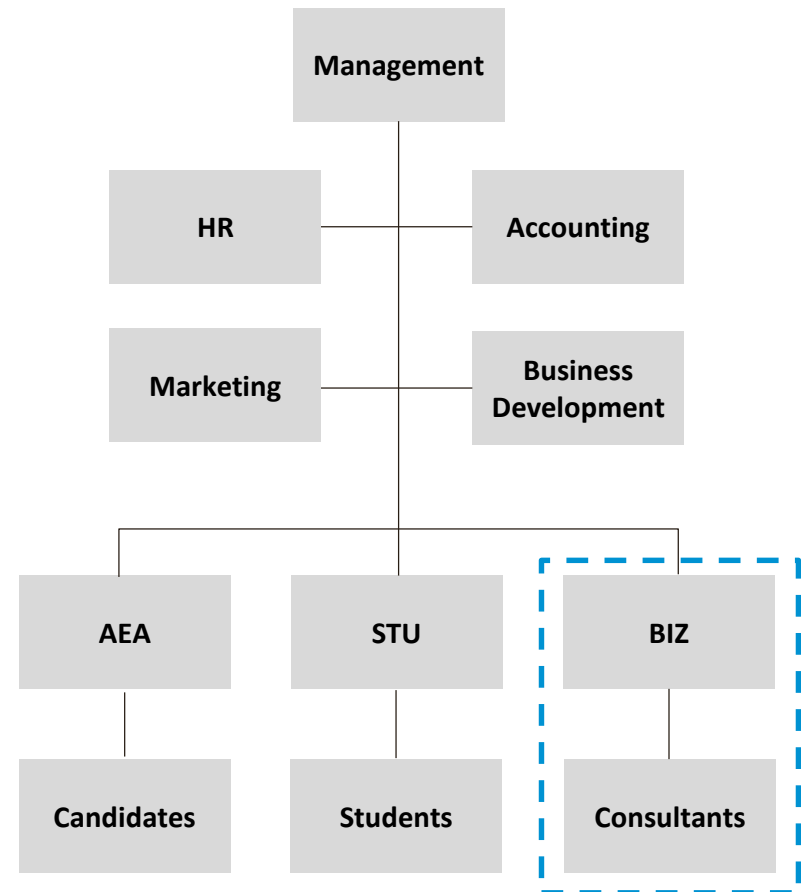
# Specialisterne

## - Profile

### The Company

- Owned by the Specialist People Foundation (SPF), a non-profit foundation.
- Established in 2004 by Thorkil Sonne due to lack of opportunities for his son, who at the age of 3 was diagnosed with infantile autism.
- A social economic company operating on market terms that seeks to employ people with Autism Spectrum Disorder (ASD)
- The first company in the world that has seen the resources of people with ASD and has adapted itself to take advantage of these resources.
- This could be work that requires a high degree of detail, strong logical and analytical thinking, meticulous, and zero error tolerance.
- The company is divided into three areas of business: specially arranged secondary education (STU), working clarification (AEA) and business consulting within IT services (BIZ), where BIZ is their core business.
- Provides consulting services to businesses within areas such as testing of business critical IT systems, software programming, data conversion, filing systems and metadata management, data logistics, and data recording.
- SPF seeks to spread the business model of Specialisterne as a franchise concept.
- Located in Ballerup and employs approx. 52 at the time of the case study, where 75 % are diagnosed with ASD.

### Organisation structure



# Social Return on Investment

## - Stage 1: Scope

### Scope of the analysis

Organisation	Specialisterne ApS
Objective	To test the OTS SROI model. As part of the social due diligence provide basis for a potential investment, the analysis furthermore aims to clarify how much social value the organisation generates
Theory of Change	Employing people with ASD in relevant jobs to integrate them into the mainstream labour market
Background of the analysis	Potential investment
Focus	The focus is on BIZ, which is the core business of Specialisterne.
Timeframe	2010
Type	Evaluative SROI

### Assumptions:

The analysis is conducted on the basis of selected stakeholders, for whom we assess to generate the largest/broadest amount of social impact.

Excluding stakeholders from the analysis might have a negative effect on SROI, but since we expect the largest SROI for the people with ASD we estimate this loss to be limited.

To capture a large amount of the social value generated, and make the measurement as holistic as possible, we have chosen to project the social impact over 5 years. Increasing the timeframe could also have a positive effect on SROI, however, it would also increase uncertainty.

The scope of the analysis is chosen on the basis of the resources (data and time) available.

# Social Return on Investment

## - Stage 1: Stakeholder Engagement

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As the time available to conduct the SROI analysis was limited, effort was paid to ensure adequate engagement with major stakeholders. Engagement with the different divisions at Specialisterne, such as STU, AEA, BIZ, and the management was prioritised, since they are the groups going through the process of change and personally benefiting from the activities of Specialisterne.

Stakeholders were engaged throughout the development of the SROI analysis. All included stakeholders were engaged to define outcomes, indicators and financial proxies. Furthermore, a mixture of phone and on-site interviews plus desk research were used to gather input for the SROI analysis.

# Social Return on Investment

## - Stage 1: Stakeholder Engagement

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Stakeholder group	Size of group	Number consulted	Type of engagement
Consultants with ASD	30	6	Personal and telephone interviews (desk research of case-studies)
Other staff and management, incl. AEA & STU	c. 20	10	Personal and telephone interviews
ASD experts (independent)	n/a	4	Telephone interviews
Public sector representatives	n/a	4	Personal and telephone interviews
Public and private sector clients	c. 15	4	Personal and telephone interviews
Business partners & "ambassadors"	c. 15	5	Personal interviews

# Social Return on Investment

## - Stage 1: Stakeholder Overview

<b>The consultants with ASD</b>	In 2010, 30 consultants were employed in BIZ, 3 in "løntilskud" and 27 in "fleksjob". The consultants are the main stakeholders in BIZ, as they are the underlying basis of the entire business concept. They contribute with their work, and their special skills.
<b>Staff/other employees at Specialisterne</b>	By employing a staff to run Specialisterne, Specialisterne themselves invests in running a business where they have the opportunity to hire people with ASD.
<b>AEA</b>	Contributes to the recruitment of consultants. All consultants has been through AEA before starting in BIZ. Furthermore, BIZ creates internships/training opportunities for people in AEA.
<b>STU</b>	In the long run STU will contribute to the recruitment of consultants. Furthermore, BIZ creates internships/training opportunities for the students in STU.
<b>The Public Sector</b>	The government provides public wage subsidies for employees with ASD at Specialisterne for having people with ASD employed. Furthermore, a new reform of "fleksjobs" and the early retirement pension may affect the consultants from 2013. Specialisterne must pay attention to this going forward.

# Social Return on Investment

## - Stage 1: Stakeholder Overview

<b>Public Clients</b>	Specialisterne undertake various assignments for public sector clients, including e.g. Region Hovedstaden and Gladsaxe Municipality. A win-win situation and a good source of potential customers.
<b>Private Clients</b>	Private sector clients such as TDC are the main customer segment for BIZ. Happy customers bring in more work, which means higher revenue and more employees.
<b>Specialist People Foundation</b>	SPF has great influence on the direction of Specialisterne, especially in the globalization of Specialisterne. They contribute with knowledge sharing, international recognition / branding and documenting Specialisterne's 'working methods, which strengthens the foundation of a good external communications.
<b>The medias</b>	Have not had much impact over the analysed five month period.
<b>Specialisterne Glasgow</b>	They had a clear expectation that they would be able to recruit 12 consultants in high complex tasks such as software testing. In addition, they expected that the clarification (AEA) would take a maximum of 10 weeks, but they found out that it is not so simple and it takes time to get people with ASD to settle in. This has proven that the practices of BIZ-DK are good enough.

# Social Return on Investment

## - Stage 1: Stakeholder Overview

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### Cooperative partners

Pretty Good Testing / PGT, is an example of an interesting partner, as it has proven that cooperation with an external test manager who is professionally competent also lifts the individual's professionalism, desire to perform the task and also creates a relaxed atmosphere around the project.

### The Ambassador Corps

Specialisterne has a unique ambassador corps whose purpose is to create interest and awareness of Specialisterne in the community, by supporting the vision and mission of Specialisterne, connect to networks, customers, and other stakeholders . Furthermore, they provide inputs, share knowledge, and experiences in order to support the work of Specialisterne

*Due to the scope of the analysis and the data available, the stakeholders marked with grey are not included in the analysis.*

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# Social Return on Investment

## - Stage 2 & 3: Impact Map

Stage 1 →		Stage 2 →			
Stakeholders	Change	Inputs		Outputs	Outcomes
<i>Who do the company effect? Who effects the company?</i>	<i>What change will be expected?</i>	<i>What do they invest?</i>	<i>Value in kroners</i>	<i>Summary of activity (quantified)</i>	<i>How would you describe the change?</i>
<b>BIZ</b>					
Consultants with ASD	New employment opportunity in software testing etc.	Time/skills	kr 0	30 employees with ASD (27 employees in "fleksjob" and 3 employees in "løntilskud")	Increased income Improved health Increased personal independence / self-reliability Enhanced quality of life and social integration Increased self-esteem due to meaningful work
Other employees/staff at Specialisterne	Create sustainable new business providing employment opportunities for people with ASD.	Gross wage expenditure non-ASD employees BIZ and Administration	kr 2.833.338	9 employees (6 employees in the administration and 3 employees in BIZ)	Revenue generation for Specialisterne through sales Improved competencies / skills <-> "Danderloin management"
Private Clients	Raised CSR/social profile - internally and externally	(Potentially extra time for preparing assignments)	n/a	Number of press mentionings	Increased CSR profil publically Increased tolerance and openness among employees
Public Client (Gladsaxe Municipality)	Reduced costs & increased training opportunities for unemployed people with ASD	Task price	n/a	Volume of tasks solved	Cost (for task) reduction Training opportunities
AEA	Increased attractiveness for people with ASD and public sector financiers of Specialisterne's AEA	Extra coordination time for staff between AEA & BIZ	kr 0	46 clients in AEA	New training opportunities for people from AEA New employment opportunities for people from AEA
STU	Increased attractiveness for people with ASD and public sector financiers of Specialisterne's STU	Extra coordination time for staff between STU & BIZ	kr 0	28 students at STU	Increased attractiveness and higher price for students at Specialisterne STU compared to market
The Public Sector	Reduced welfare benefit costs & increased tax revenues	Wage subsidy (fleksjob & løntilskud)	kr 4.335.888	30 people with ASD employed	Increased tax contribution Reduced welfare benefit costs people in flexjob
<b>Total</b>			<b>kr 7.169.226</b>		



# Social Return on Investment

## - Stage 2 & 3: Impact Map

Stage 3 →

Outcomes						
Indicator	Source	Quantity	Duration	Financial proxy	Value in kroners	Source
<i>How would you measure it?</i>	<i>Where did you get the information?</i>	<i>How much change was there?</i>	<i>How long does it last? (in years)</i>	<i>What proxy would you use to value the change?</i>	<i>What is the value of the change?</i>	<i>Where did you get the information?</i>
Net increased income	Specialisterne	30	1	Weighted average gross income (for the 30 employees with ASD)	kr 2.480.639	Specialisterne
Reduction in health costs	statistikbanken.dk	30	5	Average reduction in medical consultations	kr 6.812	"Faktaark vedr. almen praksis" (regioner.dk) and statistikbanken.dk
Cost of supporting people with ASD	Specialisterne	30	5	Cost of supporting a person with ASD	kr 6.000	National Autisme Plan
Increased leisure spending (cinemas)	statistikbanken.dk	30	5	Average spending on cinemas once a month	kr 1.800	kino.dk
Increased participation in sport and social activities	Specialisterne	30	5	Typical sports association membership fee (fitness)	kr 2.748	fitnessworld.dk
n/a						
BIZ revenue	Specialisterne	1	1	BIZ revenue	kr 5.141.883	Specialisterne
n/a						
n/a						
n/a						
Reduced cost	n/a					
n/a						
Number of people from AEA in training	Specialisterne	4	1	Estimated cost of providing internal training opportunity	kr 150.000	Specialisterne
Number of people from AEA afterwards employed	Specialisterne	3	1	Estimated cost of recruiting (incl testing) without AEA	kr 45.652	Specialisterne
Price difference from Specialisterne STU to surveyed market norm 2011	Specialisterne	28	1	Total estimated price difference	kr 204.000	Specialisterne
Increased income tax	Specialisterne	30	1	Increased tax payments	kr 793.805	tax.dk
Reduced welfare benefit	Specialisterne	27	1	Welfare benefits	kr 77.664	borger.dk

# Social Return on Investment

## - Stage 2 & 3: Impact Map

Stage 4 →					Stage 5 →				
Deadweight	Displacement	Attribution	Drop Off	Impact	Calculating Social Return				
%	%	%	%		Dicount rate (%): 2,1%				
<i>What would have happened without the activity?</i>	<i>Has the activity resulted in other outcomes?</i>	<i>Who else contributed to the change?</i>	<i>Does the outcome drop off in furture years?</i>	<i>Quantity times financial proxy, less deadweight, dicplacement and attribution</i>	Year 1	Year 2	Year 3	Year 4	Year 5
5,0%	5,0%	0,0%	0,0%	kr 2.238.777	kr 2.238.776,9	kr 0,0	kr 0,0	kr 0,0	kr 0,0
0,0%	30,0%	0,0%	20,0%	kr 114.447	kr 114.447,3	kr 91.557,8	kr 73.246,3	kr 58.597,0	kr 46.877,6
10,0%	0,0%	0,0%	30,0%	kr 113.400	kr 113.400,0	kr 79.380,0	kr 55.566,0	kr 38.896,2	kr 27.227,3
10,0%	10,0%	0,0%	10,0%	kr 39.366	kr 39.366,0	kr 35.429,4	kr 31.886,5	kr 28.697,8	kr 25.828,0
0,0%	10,0%	0,0%	10,0%	kr 66.776	kr 66.776,4	kr 60.098,8	kr 54.088,9	kr 48.680,0	kr 43.812,0
0,0%	0,0%	0,0%	0,0%	kr 5.141.883	kr 5.141.883,0	kr 0,0	kr 0,0	kr 0,0	kr 0,0
10,0%	10,0%	0,0%	0,0%	kr 486.000	kr 486.000,0	kr 0,0	kr 0,0	kr 0,0	kr 0,0
5,0%	10,0%	0,0%	0,0%	kr 117.098	kr 117.097,8	kr 0,0	kr 0,0	kr 0,0	kr 0,0
25,0%	7,0%	0,0%	0,0%	kr 3.984.120	kr 3.984.120,0	kr 0,0	kr 0,0	kr 0,0	kr 0,0
0,0%	0,0%	0,0%	0,0%	kr 793.805	kr 793.804,6	kr 0,0	kr 0,0	kr 0,0	kr 0,0
5,0%	5,0%	0,0%	0,0%	kr 1.892.478	kr 1.892.477,5	kr 0,0	kr 0,0	kr 0,0	kr 0,0
					kr 14.988.149,5	kr 266.466,0	kr 214.787,6	kr 174.871,0	kr 143.745,0
				<b>Present Value</b>	kr 14.679.872,2	kr 255.617,3	kr 201.805,0	kr 160.921,8	kr 129.557,9
				<b>Total Present Value</b>					kr 15.427.774,3
				<b>Net Present Value</b>					kr 8.258.548,3
				<b>SROI</b>					kr 2,2

# Social Return on Investment

## - Stage 4: Establishing Impact

### Deadweight

- Deadweight considers the amount of activity which might have happened anyway without this intervention.
- Due to the nature of this project and its ground breaking work in creating employment opportunities for people with ASD, a group traditionally difficult to integrate in the labour market, very little deadweight has been allowed as it is very unlikely that the benefits proposed would have happened without this project.

### Displacement

- Displacement is considered the extent to which Specialisterne might have impacted other outcomes.
- The consultants in “løntilskuds-” and “fleksjob” are estimated to have a low displacement due to the fact that it is possible for the consultants to find another job within the software testing industry, but only one out of 30 consultants did so in the reviewed period.

### Attribution

- Attribution considers how much the outcomes might have been achieved as a result of other factors.
- Due to the challenges in finding appropriate working environment and the necessary support, many of the people with ASD find it very difficult to sustain work in most mainstream workplaces.
- As a result little of the benefit generated by Specialisterne has been attributed due to other factors.

### Drop off

- Drop off considers the length of time the benefits last.
- Impacts on the people with ASD are estimated to slowly decrease if they after the initial year no longer were employed at Specialisterne. This is based on the fact that their employments at Specialisterne help them improve the quality of their lives. Without their job they would slowly fall back towards their starting point.
- For the outcomes with a duration of one year, the drop off is estimated to be zero.

# Conclusion

- Stage 5: Calculating SROI

## Present Value

PV = 15.427.774 DKK

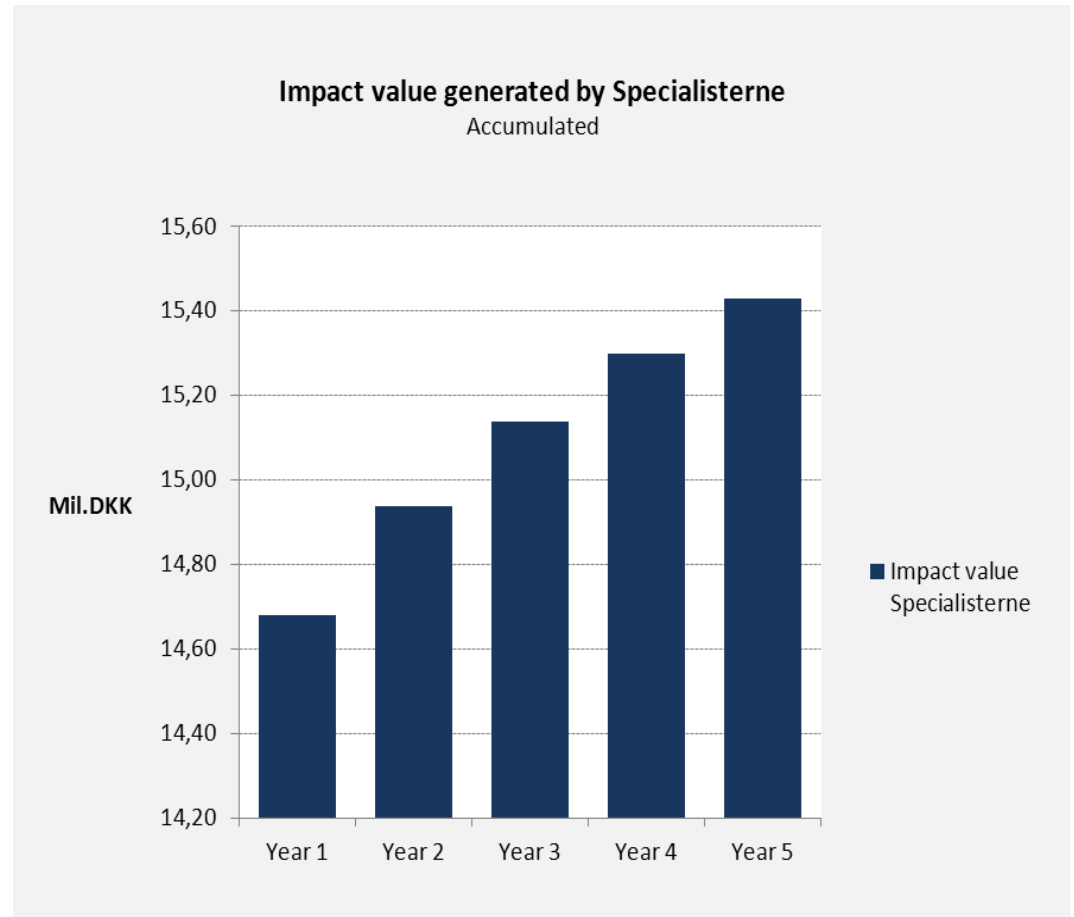
## Net Present Value

NPV = Total Present Value – Total Inputs

15.427.774 DKK – 7.169.226 DKK = 8.258.548 DKK

## Social Return on Investment ratio

$$\text{SROI Ratio} = \frac{\text{Total Present Value}}{\text{Total Inputs}}$$
$$\frac{15.427.774 \text{ DKK}}{7.169.226 \text{ DKK}} = 2,2 \text{ DKK}$$



*The graph is based on the accumulated present value of the impact generated by Specialisterne.*

# Conclusion

## - Stage 5: Calculating SROI

For an investment (total value of inputs from all stakeholders) of 7.2 mil DKK in 2010, Specialisterne generates social value of 15.4 mil DKK over a timeframe of 5 years. This return is equal to a SROI ratio of 1;2.2 DKK, meaning that for every DKK invested in Specialisterne by its stakeholders, they generate social value of 2.2 DKK.

In other words: Specialisterne, thanks to the effectiveness of their “social business model” (the so called Dandeloin model) more than double the social value for their stakeholders, of the latter's on-going involvement and efforts for the company's daily business.

Furthermore, SROI is much more than just a dollar value. For Specialisterne this means that their activity generate several outcomes that are difficult to value. The purpose with a SROI analysis is to try and value these outcomes, but as mentioned, it can be difficult to monetize them in a way that reflects the true value for the people experiencing it. For example, the people with ASD employed at Specialisterne experience increased happiness and a higher quality of life. These are outcomes that are truly difficult to monetize. Partly because both outcomes can differ from person to person, but also because both outcomes are based on different factors which are subjective to the individual.

Another aspect which affects the calculation of SROI is that SKF only includes the change for the individual, e.g. the net increase in salary. This fact differ from other SROI analyses and it has a negative effect on the SROI value. This definition can be viewed as a conservative or more narrow approach to measuring SROI, however if the full salary was included, then the SROI value would be misleading, because the consultants with ASD had an income (“kontanthjælp”) before they started working at Specialisterne.

Therefore, the true SROI of Specialisterne includes much more than just a value in DKK, suggesting that the social return calculation is likely to underestimate the true social value created by Specialisterne.

Still, even though the measured ratio might be considered underestimated, they nevertheless manage to double the total investment in impact value, which definitely is sign of their positive value creation.

Furthermore, if you look among their peers, such as Pack IT, another IT company employing disadvantage people, they have a respectively low SROI as well. A one year investment in Pack IT has a SROI of 1.9. Of course you can't use them as a direct comparison, but since they, to some extent, are based on the same indicators, it can be used to give an indication of how Specialisterne is placed among their peers. Furthermore, it can also help confirm that the terms of the IT industry results in a general lower SROI value.

Finally, in comparison, for internal purposes we also conducted an SROI with a “stylised” version of the investment agreement with Den Sociale Kapitalfond. We used the same model and approach, but instead of evaluating “backwards”, we forecasted anticipated developments over a five-year-period and included these in the calculations. The result was an increased and strong SROI of 1:2.9 - tough as mentioned above, the social return calculations are likely to underestimate the true social value created.

The data and calculations are not part of this presentation, as the terms of the investment by nature are confidential. However, it illustrates that forecasted growth and increasing profitability can also be “captured” by the model – and that positive growth and expansion of Specialisterne (naturally) yield a stronger return.

# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
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- VIII. Comments**
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond

# Comments

## - Considerations

### The scope of the analysis

#### Left outs

As stated above, not all stakeholders were included in the analysis.

To limit the scope of the analysis we have chosen to omit a number of inputs, outputs and outcome as seen on the next slides. The omission of these have resulted in a narrow focus, which has prevented the measurement of the broad social value that Specialisterne generate. This means that including these outcomes could have had a positive effect on SROI as it will increase the overall impact.

However, based on the social value of the excluded stakeholders, we estimate this loss to be low.

Some inputs, outputs, and outcomes were omitted due to lack of data.

As a more general note, one could also say that the inclusion of more inputs could also have a negative effect on SROI, since more inputs means a higher total investment, which could result in a lower SROI ratio.

### The scope of the analysis

#### Time frame

Besides the omissions impact on SROI value, the time frame also had an impact. Social value is ideally created over a long-term period. Therefore, it is important not to narrow the timeframe. Depending on the indicators chosen, a broad social impact is usually measured over a timeframe of 5-10 years. However, when the timeframe increases so does the uncertainty of the outcomes. Therefore, we have chosen to look at social impact generated over 5 years.

# Comments

- Left out inputs, outputs and outcomes

Stakeholders	Inputs	Outputs	Outcomes
Public clients	Solving demand/labour	Number of assignments completed	<p>Increased supply of quality testing services</p> <p>CSR</p>
Private sector clients	Solving demand/labour	Number of assignments completed	<p>Increased supply of quality testing services</p> <p>CSR</p>
Partners	Time/skills	Enhances skills of consultants	<p>Better health, nutrition, joy of life</p> <p>CSR</p>



# Comments

## - The calculation

### Valuation

#### Inputs and outcomes

On the input side the investments are valued from an weighted average of government reimbursements for the of 30 employees with ASD who were employed in BIZ in during the year 2010. Additionally, the value of Specialisterne's own investment, the staff, was taken from their annual report 2010. Both valuations were received by Specialisterne and is therefore valid.

The outcomes have been valued based on internal information from Specialisterne and Dansk Statistik. Further sources to our valuation can be found in the impact map. All valuations are based on reliable sources and are therefore valid.

Furthermore, as a more general note to the valuation, not all social value can be directly monetized. Examples hereof could be self-esteem and happiness. Both are extremely important outcomes for the employees with ASD, however it is fairly difficult to monetize.

#### DCF calculation

The calculation used for calculating the SROI is a standard DCF (Discounted Cash Flows). DCF is simply the present value (PV) of future cash flows, taking inflation and returns into account. Hence, a DCF calculation is an indicator of how much value an investment or project generates to the organisation at hand.

The rate used to discount future cash flows to the present value is a key factor of this process.

### The discount rate

A DKK received in the future is not the same as a DKK received today, since today's DKK could be invested at a certain interest rate, since inflation will diminish the value of a DKK over time. To calculate the present value of a future DKK, it must therefore be discounted by a relevant discount rate. The same principle applies to future social impact.

But what is the right discount rate for financial capital invested in projects? In principle it is the same as the rate of return for an alternative capital investment, or the "cost of capital." This is determined by the capital markets, and based on variables such as the probability that the investment will not succeed.

Conventionally, financial investments in government projects, for example, are discounted at the risk free rate.

With "social" returns, there are a number of additional issues to consider in theory. These include how certain it is that social impacts occur when the organisation achieves its financial performance targets, how directly the expected social impacts are linked to the organisation's activities (like sales), and the cost of the capital that would otherwise be used to create the social benefits the organisation is creating.

While there is no standard convention yet in most parts of the world where SROI analysis is used, a practice that seems to be emerging in Europe is to use the risk free rate to discount social returns. In the US this would be the US Treasury note (T-note) or bond (T- bond).

With these remarks in mind, we chose to discount the social return for the forecast at the risk free rate, or more precisely at 2,1 % which equals the rate of a Treasury bond with 5 years to maturity.

# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond**
- X. References
- XI. Den Sociale Kapitalfond

# Conclusion

## - SROI Methods for Den Sociale Kapitalfond

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### Key points from the general review include:

- SROI OTS seems to be "best available" of existing models focusing on quantification and monetization of social returns. However, the model is not yet perfect.
- SROI fulfils the criteria of broad (stakeholder based) social value measurement, index to investments, forecast, and monitoring.
- But SROI cannot rightfully compare across investments.
- Can SROI summarise portfolio performance? At the best only with an extensive workload.
- SROI is very demanding – and versions with a narrow stakeholder focus "misses the point" (and decreases SROI)
- Are there alternative "light" SROI versions with similar positive characteristics regarding result measurements? None are available so far.
- SEEKAM is narrower and only focuses on public expenditure (not the main objective of SKF).
- IRIS can be used if time consumption becomes too high or as qualitative basis for SROI.
- The social due diligence should be stakeholder-based (incl. e.g. users and also always independent experts) and build on establishing a theory of change, drawing an impact map, selecting 1-3 KPI's, and focus on these:
  - Specifically, a clear and independently verified/supported theory of change on which basis we can establish an impact map, should be identified for all potential investments.
  - Our impact maps should be inspired by the OTS SROI model but adapted to SKF as a basis for assessing and communicating research findings from social due diligence.
  - We should aim to select 1-3 KPI's that are top priorities or "light posts" for the venture and its social change and project these into the future as part of the investment plan.
  - We should consider, monitor and reflect upon the unexpected and unintended consequences and changes resulting of the venture's work/investment, annually, to inspire development and learning.
  - We should share our knowledge and engage in deliberations to develop our approaches (as this working paper is an attempt to) – and ideally find one or more "buddies" in the field to co-create with.

### Key points for Den Sociale Kapitalfond:

- SKF should continue to follow the debate and developments in the field to explore options and new methods.
- SKF should use the SROI model and experiences from using it to inspire our "social due diligence" of potential investments.
- All rather much in line with what a range of other social venture funds seem to have concluded so far.

# Conclusion

## - SROI Methods for Den Sociale Kapitalfond

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### Key steps for Den Sociale Kapitalfond:

- This approach enables us to split our social impact assessment throughout the deal flow up into the following phases:
  - Initial analysis: Establish "theory of change" and overall impact map through stakeholder involvement as part of the social due diligence.
  - Due diligence phase: Identify indicators, establish investment targets.
  - General consideration: SROI is not necessarily calculated on all due to excessive time consumption.
  - Follow-up phases: Monitor and evaluate on KPI's(annually).

### Implications for social impact measurements in Denmark:

- Is SROI the optimal model to measure social impact in Denmark? The Danish public sector invests a lot of money in reimbursement to companies employing people in marginalized groups. From a SROI point of view, or from a mathematic point of view, the public funding pulls the SROI ratio down – the more people employed, the more reimbursement the public sector has to pay, hence the larger the total value of inputs.
- As such, in a welfare state such as the Danish, the regulation of subsidies etc. greatly influence the SROI results, due to the importance of the government as stakeholder. For example, the forthcoming fleksjob reform would entail new values and data for future employees at Specialisterne, etc.

- Furthermore, this also reflects two of the inbuilt weaknesses of the SROI model, namely that they are very dependent on what a society or government chooses to "put monetary value on" and subsidise – and that it does not easily include all key factors to personal well being and happiness.
- Finally, as mentioned in the conclusion of the SROI analysis, the way one chooses to value indicators has a clear effect on SROI. For example, if Den Sociale Kapitalfond only includes the change for the individual, e.g. the net increase in salary, it will result in a lower SROI. However, employment is widely and rightfully considered a positive social change in most cases. The problem here is that there are no standardized indicators in this area (yet). So the proxy for a new person in employment might vary for each SROI analysis. Also keep in mind that the net increase in salary might differ from country to country, etc.
- Altogether, the reflections on using the SROI model in the Danish welfare state context stress that:
  - The models require careful consideration and much work to apply
  - Using them provides a lot of insights, reflections and learning's on the cases in question
  - Testing also highlights the pro's and con's of the models and stresses the needs for further development
  - It is therefore highly recommendable that many stakeholders in the field test and develop different (variants of) models for social impact measurement and in the process are willing to share lessons learned.

# Content

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- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References**
- XI. Den Sociale Kapitalfond

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- IRIS: <http://iris.thegiin.org/>
- New Economics Foundation: <http://www.neweconomics.org/>
- SEEKAM: <http://www.ideerforlivet.se/>
- SVT Group: <http://svtgroup.net/>
- The SROI Network: <http://iris.thegiin.org/>
- Theory of Change Community: <http://www.theoryofchange.org/about/what-is-theory-of-change/>

## Selected publications:

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- Effekt af pårørendeinddragelse i behandling af mennesker med psykisk sygdom, CBS, 2011
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- Tuan, M. T. (2008), Bill & Melinda Gates Foundation, Impact Planning and Improvement Division

## Examples of Interviews conducted:

- Jed Emerson, ImpactAssets and former founding Director of REDF
- Sara Olsen, SVT Group
- Jenni Inglis, The SROI Network
- Pamelar Hartigan, The Skoll Centre at Said Business School at the Oxford University
- Dawn Baggaley, KPMG

# Content

---

- I. Summary
- II. Objectives: SROI and Den Sociale Kapitalfond
- III. Opportunities: Social Return on Investment models
- IV. Selected model: The OTS SROI model
- V. Alternatives: Other social impact measurement models
- VI. Best practice: What other social venture funds do
- VII. Test case: OTS SROI on Specialisterne
- VIII. Comments
- IX. Conclusions: SROI Methods for Den Sociale Kapitalfond
- X. References
- XI. Den Sociale Kapitalfond**

# Den Sociale Kapitalfond

## - Profile & contact

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### General

- Established in 2011 by TrygFonden and Lars Jannick Johansen with professional support of Accura and KPMG.
- TrygFonden has donated the 25 mil. DKK to the fund.
- Denmark's first social venture fund, investing capital and competencies in promising social entrepreneurs to scale their social impact and economic performance.
- In 2012-13, the fund will make 5-6 investments of approx. 2-4 mil. DKK in social entrepreneurs working with or for marginalised groups in society.
- The financial investments will be accompanied by “intellectual capital” investments from a pro bono network of leading business service companies – competence partners – to build capacity among the social entrepreneurs.
- KPMG Denmark, the professional service company, and Accura, the law firm, are the first competence partners, providing highly valuable professional support to the fund and its portfolio.
- Office in Copenhagen
- Management team of 4 employees



# Den Sociale Kapitalfond

- Contact

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