Social Return on Investment (SROI) – Measuring Method for the Representation of Social Returns on Public Investments

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The Project Context

An essential part of municipal investment is spent on so-called "soft fields", i.e. such areas where there are no exact figures at the end of the financial years that would reflect the results of the work done. Such fields of work can particularly be found in social areas but also in education, health, qualification for the labour market, culture and similar areas. Due to the increasing need for precision and ultimately also to the quite young municipal finance management, the curiosity to evaluate more results more precisely even in soft fields is rising steadily. In Germany, this is reflected in particular by the increasing quantity of effect-oriented contracts between local communities and third parties, mostly social or cultural providers. In the following, we wish to outline the key assumptions, the bi-national work links, the scientific support and ultimately the rough calculation of the results of the first application of the SROI approach in the Federal Republic of Germany in a soft area in the form of an abstract. A comprehensive report covering the total area for the first time and looking at it from the viewpoint of various professions at Münster University of Applied Sciences as well as the institute of practical development and evaluation at Münster University of Applied Sciences under the guidance of the university professors Jarre, Bonato and Ostermann, will be available in early autumn. The results presented today, still offer suggestions and information about whether and to what degree of quality the approach can be applied already now.

The SROI measuring method project was supported by EUREGIO, the federal states of North Rhine-Westphalia, and Lower Saxony, the Overijssel province, the municipalities of Belm, Almelo and Münster, the educational institute ROC van Twente (The Netherlands) both financially and content-related. The project management and overall control rested on Jochen Köhnke, department head in the City of Münster, the binational management lay in the hands of Stephan Nover.

In the case of three educational projects, i.e. the Belmer Integrationswerkstatt in Belm, the "PAVEM-Projekt" in Almelo and the educational project of the Chamber of Trade in Münster, the SROI method was used by way of example for the first time. Thus, a bigger city, a small town and a small rural community as well as three public and one private provider were confronted with the same evaluation method.

The study was based on the following assumptions:

The results of social integration work is measurable.

The SROI method is suitable for application in such fields.

To cut a long story short: the SROI approach does work! But before one can use it, it is necessary to familiarise oneself with it, to prepare its use thoroughly and to get the appropriate support.

The project was proficiently supported by CMO Groningen and the accompanying scientists of Münster University of Applied Sciences, i.e. Professor Bonato, Professor Hansbauer, Professor Jarre and Professor Ostermann who deserve to be mentioned particularly, because it would not have been possible to achieve the objective at such a high level of quality, if it had not been for their specialist, critical and creative backing.

The control of the project was ensured by a management team which involved apart from the city of Münster, the cities of Almelo and Belm, the ROC, the EUREGIO agency, the Federal States of Lower Saxony and North Rhine-Westphalia, the Overijssel province, the chairman of the advisory committee for foreigners of the city of Münster as well as migrant representatives of the other two cities involved. The management team was accompanied by Mr Scholten from the counselling company Scholten & Franssen, Amsterdam and by several other scientists. Mr Scholten was also responsible for the method coaching in the framework of the overall project.

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1. Why SROI in connection with integration?

The execution of immigration was and still is one of the biggest challenges for current policies and practices in Germany. To the extent a sufficient, equal sharing in all sectors of the public and private life cannot be ensured, Germany will soon face a situation where the social peace will be impaired significantly, especially in view of a presumably greater number of persons having a migratory background living in Germany in 2040. Despite demographic, sociological, political and other findings, an implemented, equal participation can currently not be constituted extensively using evaluation methods. Similar to classical social fields - like for example the youth and social sector - there is practically no reliable control method. Thus, the so-called "soft fields“ covering also the migration field require another method than the traditional one for a sustainable controlling and a sustainable and replicable control. For the first time, in the framework of the described project, three investments in the field of integration were examined with respect to their results, using the SROI method.

It can clearly be observed that this method is suitable for analysing the monetary values of a work while it does not focus on the value of the human being as such. This frequently heard point of criticism is all the more comprehensible because the proximity to the Euro capital invested and the transparency obtained, will influence decisions for the future use of capital. However, the decision about whether for instance a certain work method in the work with the elderly, certain decisions in the nursing care field or in youth welfare services are taken does definitely not reside with such a method but with the decision making levels, which are usually also responsible for financial decisions and for the control in such fields. One can rather assume that it will be possible to have a control that is more effective, leading to positive results with an increase focus on the people, thanks to the prospective clear insight with respect to the social and economical yield.

As in the case of all evaluation methods, it has to be stated though, that the method as such does not represent the control, but that it offers the basic monitor for control. As representatives of the soft fields integration, culture and starting an employment relationship are suitable fields that can allow for clues to further possible fields.

2. The approach

2.1 Introduction

In the framework of the European project, the EUREGIO agency proposed Mr Peter Scholten from the counselling company Scholten & Franssen in Amsterdam as a counsellor and tutor who would be able to impart the subject of SROI in the project. On the basis of a concrete contract, the method which consists of eight steps project-wise was introduced. The following eight methodical steps form the basis of a successful result in this method:

- Delimitation
- Preparation of the stakeholder analysis
- Preparation of the impact map
- Definition of the indicators
- Data collection for the filing of expected indicators
- Verification
- Monetarisation
- Reporting, preparation of charts (identification of an SROI coefficient)

2.1.1 Delimitation

First of all we must determine the period of time during which the method should be used. This is not limited to a period of time in terms of months or years, but it also includes the question whether it is all about a prognosis concerning future work or an evaluation of work already performed. Ultimately, the method is applicable both to a preview and to a retrospection. Furthermore, it is necessary to clearly identify the specific objective, i.e. to determine what the actual object of study consists in and who ordered the preparation of the assessment. This is not limited to the question of how the opinion is financed but it also includes the issue of general placement of orders and of order expectation.

During this phase, the theory of changing as an investigative principle requires an ongoing process of discussion, which will determine the future success or failure in a decisive manner. It is only if there is consensus about the basic assumptions, that a process of change in its future course can be identified and described as to its contents, quantity and monetary aspects.

Of course, the fundamental assumptions alone will not be sufficient to draft a theory of change. During this phase of the project it will be necessary to clarify, which concrete results should have arisen following the measures to be examined and whether there is a concrete additional value and if so, what it consists in.

The issues of demand, urgency and need must be discussed in order to formulate clearly against this background, where precisely changes can be expected and in what quality.

The "Dead Weight" which has to be taken into consideration especially in the case of later measurements, already flows in during this process. Dead Weight describes the quantity of changes that would have arisen anyway, i.e. even without such a project. Ultimately, such results cannot be assigned to the contemplated projects and measures, neither with regard to the contents nor under monetary aspects.

2.1.2 Stakeholder analysis

The starting point of the study is the analysis of the stakeholders. This means the identification of all those, who are affected or concerned by the measure to be examined or who expect something of such measure.

For the main part, these are:

– the backers (e.g. ARGE, municipalities);

- the target group (in Münster for instance 21 migrants in their job qualification);
- those involved in operative activities (e.g. educational providers);
- others (such as city communities, social security benefits offices, children of migrants getting further training, future employers).

In this context it is important not to lose sight of those, who are not involved in the financing and execution of the project, but who are otherwise concerned and feel measure-related effects such as future employers.

2.1.3 Preparation of the impact overview

It is here, where the first project monitoring will take place. Various categories referring to the stakeholders defined, will be shown in order to describe the project.

- First of all, stakeholders will be listed (see 2.1.2).
- All financial means invested in Euro but also the time invested by stakeholders will be input. Where required, the time factor can be converted into a Euro value to be added to the Euro inputs.
- The activities show the contents and the course of the measure taken. The financiers' activity is payment. The activity of those involved in operative activities and of the target group consists in the project events, such as carrying out a measure containing various contents, structures and procedures or cooperating and learning.
- The output consists of the results counted or expected according to the project such as the number of certificates at the conclusion of a measure.
- The differentiating and developing aspects consist of the collection of the impacts, that have arisen including the mentioned outputs. Among others, there will be a representation of the involved parties' gainful employment over an extended period of time. Thus, for example, it was found that in the framework of an educational measure which was not intended to be a language course, the knowledge of the German language of 15 participants had improved substantially, or that a substantial debt relief had been obtained thanks to the activities of social education workers.
- Indicators as definers of impacts are shown below (see 2.1.4).

Stakeholder	Input	Activity	Output	Final result and impact	Indicators
1					
2					
3					
4					

Chart 1: Impact overview

2.1.4 Definition of indicators

Impacts are defined hypothetically at the beginning of the study and filed together with indicators. Only those indicators commonly recognised, are admissible. Furthermore, they must be determinable measurably, specifically, realistically and with respect to time. Thus, indicators must be couched in Smart terms.

The indicator defines the impact. Example: The future employer saves money since he incurs no costs with regard to customer acquisition for the new employee whom he did not have to qualify.

There can be no impact without Smart indicator.

2.1.5 Data collection for the filing of expected indicators

Expected impacts and indicators must be collected and examined using standardised methods of collection. This can be done for example with the help of guideline-supported interview or questionnaire surveys.

The various stakeholders will be addressed specifically using different methods and questioning techniques.

The questionings all refer to impacts to be expected and they examine the associated indicators.

2.1.6 Verification

In the framework of the evaluation of the study, Smart criteria will be applied. It comes as a surprise, that normally at least one half of the expected impacts do not fulfil the Smart criteria so that they will no longer be taken into consideration for the remaining part of the study.

2.1.7 Monetarisation

The reduced impact overview will be further processed using standardised monetarisation methods. The minimum value which has to be calculated for this purpose, is assigned to each indicator. Please note: It is all about the "value" and not the "costs“ defining the making of a product, nor is it about the "price“ to be found on a supplier's offer list.

The value is defined as the market value at which the changes found (the impacts found) are paid or traded in society.

The value found per indicator is then multiplied by the frequency determined in the framework of the survey (see 2.1.5).

If the assignment cannot be allocated assuredly only to the work carried out, one will have to continue calculation using a reduced factor. If for example the assignment amounted to 80%, because the Dead Weights were assumed in the order of 20%, the monetarised effect found would be multiplied consecutively by the factor 0.8.

SROI observes the development of the effects over a defined period of time, which normally is at least three years but can also well be five years. In this context one will have to find out, whether the effects achieved and found are unique or whether they possibly recur: If - following the qualification measure - a course participant is employed for three years, the gain from the viewpoint of Arge is counted three times, one time for each year. Also in this area, one has to assume on principle a Dead Weight factor of approximately 30% reducing the proven impact annually.

2.1.8 Reporting, preparation of charts

At the end of the study an impact map will be available, representing stakeholders, input, activities, output and impacts which were verified and quantified using indicators. The impacts are represented in a monetarised form including factors referring to their quantity, the project assignment and their recurrence with regard to periods of time of 1, 2, 3 or N years following the end of the project.

At practically any defined point of time, a correlation can be established between the initially summarised Euro inputs and the monetarised impacts found at the defined point of time. The quotient is the SROI coefficient. If the coefficient amounts to 1, the measure was realised in a cost-neutral way when seen from the society's point of view. If the coefficient is lower, the society will incur the corresponding prorata amount for this measure. If it is higher, society will make a profit.

The SROI coefficient always depends on the point of time following the end of the project. In view of the development of costs analogous to a hockey stick a point of time for observation is realistic after 2 years at the earliest, but preferably after 3 years.

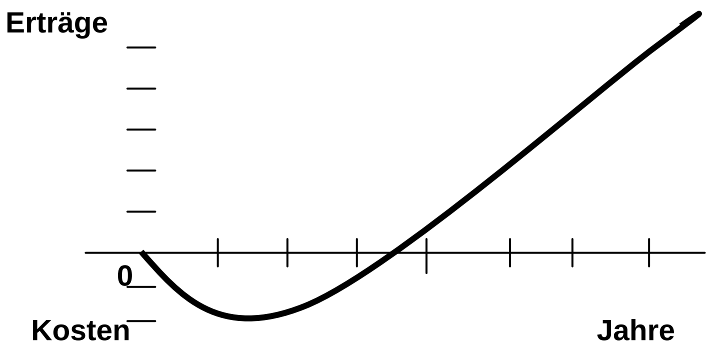

Fig. 1:Development of Costs following the end of the project: hockey stick

It is possible to carry out a sensibility analysis on the basis of the SROI calculation. In this manner, it can easily be calculated how analogous project activities can be realised economically by - for example - increasing or reducing the time factor or the number of participants. This is a very important element for the further planning.

The above description is based on Peter Scholten's introduction (for further literature, please see: B. Franssen/P. Scholten, Handbuch Soziales Unternehmen in Deutschland, Von-Gorkum, Assen, September 2008).

3. Practical experience using the example of an employment-creation measure

On the basis of the stakeholders' analysis, of the insight, the delimitation and the theory of change, the following concrete developments would have to be listed in a simplified impact map for a job-creating measure:

– Stakeholder analysis
– Input: time of unemployed participants and the other stakeholders' organisation and money
– Activity: Qualification
– Output: number of placed clients
– Outcome: number of clients, placed in a permanent employment relationship
– Impact: number of clients who found a permanent job, only due to the measure carried out (This could for example look like this: 30 – 10 = 20).
– Indicators defining the impact.

Costs incurred by the society would be compared with profits made by it (examples for societal costs: admission to a hospital, costs for reintegration, utilisation of social services, environmental damages, crime, cancelled school lessons).

Various methods must be applied here simultaneously and in particular questionnaires, interviews, inspection of files and technical literature and the absorption of further verified findings.

Examples of profits made by the society include: additional fiscal revenue, saving insurance premiums, saving costs with regard to the environment and cleaning, saving expenses for social benefits and trainings, shorter retention times in clinics, savings in favour of future employers.

Evaluation: It must be found out whether the expected impacts have actually occurred. The question whether the stakeholders' expectations correspond to actual results is just as important. The method to be used is the differentiated and specific questioning of participants of the organisations, of sponsors etc.

4. Project Experience in Münster

Impact maps for their respective projects were established by the cooperating stakeholders at the three sites. For this purpose, internal sources of information were used. The list of stakeholders drawn up on the basis of the following classifications:

- Participants in the measure
- Sponsors
- Organisation responsible for the execution
- Cooperation partners and other stakeholders

Such stakeholders' input was represented in terms of money, time, personnel costs, material costs and infrastructure, based on the information available. The determination of activities performed by the organisations responsible for the execution and their cooperation partners as well as the output in the form of available measuring figures is relatively simple. By looking at impacts on society from a broader point of view, one will also identify stakeholders who do not contribute any input but who are influenced by and profit from the work performed.

The identification and calculation of that latter group of stakeholders represent an initial experience regarding the expansion of the field of vision beyond the direct project environment and conception helping people to broadening their thinking towards revenues in favour of the society.

From theory to the concrete project in Münster:

- The project: "Precisely fitting, realistic, modelarised qualification of migrants at the age of 25 and older, having a commercial/technical background“
- Provider: Chamber of Trade, Training Centre Münster and companies offering internships
- Method: Coursework and workshop training
- Objective and target group: The objective is the placement of migrants having professional background knowledge through qualification. The target group consists of 22 male and female migrants who are at least 25 years old and who have professional pre-qualifications acquired in their countries of origin.
- The stakeholders: Hypothetically it was assumed that the following stakeholders are directly involved (concerned):
    - Migrants
    - Project team Münster
    - Federal Employment Agency
    - City of Münster, social services department

- o Chamber of Trade
- o Companies offering internships
- o Employers
- o Further entities in federal states, cities or the federal government
- o Social insurance
- o Justice
- o Child and youth services
- o Involved migrants' children
- o European social funds

Expected impacts with respect to migrants:

- – Follow-up employment
- – Securing of livelihood
- – Improved financial conditions
- – Orientation
- – Improved health conditions
- – Better language skills
- – Improved participation
- – Assuming an independent existence and social recognition

Expected impacts with respect to the project team:

- – Reduction of administrative and counselling costs
- – Omission of basic backup costs thanks to a gainful employment

Expected impacts with respect to the Chamber of Trade Training Centre

- – Improved reputation
- – Recognition, resulting in an increased market share
- – Follow-up contracts

Expected impacts with respect to companies offering internships:

- – Avoidance of loss of sales
- – Economic recruitment of skilled employees
- – Reduction of plant costs
- – Omission of costs for qualification measures

Expected impacts with respect to future employers:

– Recruitment of skilled employees in a tight employment market
– Omission of costs for qualification measures
– Reduction of loss of sales
– Omission of costs of customer acquisition

Expected impacts with respect to other stakeholders:

– Financial gains thanks to increased fiscal revenues
– Contribution to social security benefits offices
– Improved health conditions
– Increase of purchasing power
– Reduction of social conspicuousness

Expected impacts with respect to the involved migrants' children:

– Gains thanks to qualification through training, conduct of life, culture, improved housing and living situation

Expected impacts with respect to the European social fund:

– Improved reputation

On the basis of the hypothetical initial analysis one can say, that the expected impacts or effects were especially highly and widespread. This applies to the areas of all stakeholders. In the framework of the study, a relativisation or reduction became necessary precisely at this point of time, since only those impacts that can be measured Smart are admissible. This does not mean that such aforementioned impacts will not occur, but they cannot be grasped concretely enough to have them flown into the monetary calculation. But theoretically and for the purpose of future argumentation one can ascertain on that basis that the SROI coefficient calculated at a later point of time will certainly be higher than the actually calculated value since the impacts now omitted for the practical calculation definitely existed and exist on the basis of logical, technically founded assumptions.

Since measurements among Smart critics could not be taken, the following impacts, among others, were admitted for the purposes of practical measurement:

– Development of the situation of migrants' children
– Improved reputation of institutions involved

– Improvement of the migrants' health situation
– Reduction of social conspicuousness
– Increased purchasing power

Up to this point, the SROI survey was of hypothetic nature or based on the project concept. Now, it was all about the examination and verification or falsification of the expected effects. All measurable Smart indicators were sifted out. Questionnaires were drawn up on the basis of such indicators which were then processed together with the respective stakeholders.

Questionnaires for the individual stakeholders were indeed disparate. The discussion with the Arge representative focused on the material and personal input for the measure realised. A differentiated questionnaire for the project participants was drawn up and used which covered the approximately 15 most important indicators of change.

The results were entered and visualised in MS-Excel. This would also be possible in SPSS in the case of a larger group.

The applicable indicators were quantified considering the number of participants and the Dead Weight and they were numbered using a factor of below 1 (e.g. 0.9, 0.8, 0.5). The change indicated in each case was assigned to a Euro value using different calculation methods. It was defined whether the societal profit obtained was unique or whether it recurred during subsequent years and - if so - which was the factor of assignment. In the framework of the questionnaire survey, the situation of the various indicators was examined at three points of time, i.e.

– at the beginning of the training measure,
– at the end of the trainings measure
– one year after the end of the trainings measure.

On the whole it was therefore possible to outline how the course of the normally surveyed indicators developed in the course of time, for example how many course participants still had a job after one year and how much they earned etc.

In the framework of the study further effects were also verified which would not have been perceived otherwise, including:

– Improvement of German language skills
– Successful debt relief in the case of 2 participants in the order of more than 25,000 €
– Omission of costs of customer acquisition for future employers
– Omission of qualification costs for future employers

Using the example of Münster the total investment was calculated to amount to approximately 245,000 €. The calculation was made with the aid of a comprehensive impact map that may seem quite complicated at a first glance. The return of the acknowledged impacts after 2 years amounted to some 340,000 €. Thus, the SROI coefficient came to 1.3 after 2 years. The cost coverage point is reached after approximately 1 year and 8 months.

This result proves that - under roughly the same conditions - the special measure within the field of integration is still classified as being successful both economically and with regard to its contents. It can be stated that the quite complex fundamental work, once it was established, can be applied in the future to comparable measures and projects, immediately after being reviewed and updated.

It can also be stated, that such a method which is new for us, cannot be applied to the ongoing business without fundamental findings with respect to evaluation, questioning, statistics and monetarisation. This is the reason why the project management decided to establish an SROI method training at Münster University of Applied Sciences. Now, for the first time ever, colleagues from various organisation have received their certificates in the framework of this method training.

A comprehensive publication, dealing with the SROI method as a whole and under different perspectives is about to appear soon under the aegis of the IPE at Münster University of Applied Sciences.

In this context, we would like to expressly thank the federal states of North Rhine-Westphalia and Lower Saxony, the Overijssel province, EUREGIO, the project partners in Almelo and Belm, the accompanying scientists of Münster University of Applied Sciences, Professor Bonato, Professor Hansbauer, Professor Jarre and Professor Ostermann, the chairman of the advisory committee for foreigners of the city of Münster, Mr Spyros Marinos and Mr Peter Scholten, who accompanied the project.

For further information on the project, please refer to the homepage of the City of Münster: http://www.muenster.de/stadt/zuwanderung/interreg_sroi.html

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