

MAKING SENSE OF SROI?

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The Ratio

- What does a ratio of 3:1 mean?
- We need a better explanation than “*every £1 of investment creates £3 of social value*”.
- What is “social value”?!
- Economists and philosophers have debated the concept of social value for a long time...
- CBA = “*every £1 of investment allows individuals in society to satisfy more of their preferences to the value of £3*”.

To make sense of the ratio...

- SROI requires a **normatively** principled theory of social value to complement the 7 practical principles.
- Most other social impact methods are based on **welfarism** (eg, **Cost-benefit analysis**; **Cost-utility analysis**; **Cost-effectiveness analysis**)



- Although non-welfarist approaches do also exist (eg, **Capabilities approach**)

Measuring welfare

Preferences



(Preference valuation)

Subjective wellbeing



(Wellbeing valuation)

Objective lists



(Non-monetary valuation)

A bigger question: Is it even possible to calculate a ratio?

Social value requires aggregating individual impacts to get a societal level impact



- If Tom values **Intervention A** at **\$200** and John values **Intervention B** at **\$100** can we say which intervention creates most value to society?
- Not unless we make some big assumptions!
- **Interpersonal comparability** is concerned with the issue of whether \$1 to Tom has the same value as \$1 to John

Interpersonal comparisons?

- Many reasons why this may not be the case – eg, Tom is richer than John.
- CBA fell out of fashion because of this very issue: If interpersonal comparisons are impossible then social value cannot be calculated!
- Economists have come up with two solutions (**Kaldor-Hicks Compensation Test** or **Social Welfare Function approach**).
- SROI must make one of these assumptions to calculate a ratio. Which one? (they imply different methodologies)

And finally.... The ratio and the counterfactual

Getting the counterfactual right

“What would have happened anyway”

Econometrics

Statistics



Randomisation is the
'Gold standard' approach

Maryland Evidence Scale (example)



More than one counterfactual?

Impact for the treated (IT)

Counterfactual = people that **DIDN'T** participate
(*The social value that the intervention CREATED*)

Impact for the non-treated (INT)

Counterfactual = people that **DID** participate
(*The social value that the intervention WILL CREATE*)

Likely that $IT > INT$

Qualitative causal inference $\rightarrow IT$

Treatment effects

- People who have more to gain from an intervention are more likely to select in/participate.
- Example - Younger people more likely to participate in a sports-related intervention.
- An SROI based on the impact for those that participated (IT) is a poor indicator of the SROI for the average person or the SROI if the programme targeted older people (INT)

Where to for SROI?

- ‘Principle 8’: An account of social value?
- “Principle 9’: A method for aggregating value?
- ‘Principle 10’: A clear (more robust) method for counterfactuals?

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