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Nielsen, Janni Grouleff; Lueg, Rainer; van Liempd, Dennis

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Challenges and boundaries in implementing social return on investment: An inquiry into its situational appropriateness

Janni Grouleff Nielsen[1] | **Rainer Lueg**[2] | **Dennis Van Liempd**[1]

[1]University of Southern Denmark, Department of Business and Economics, Kolding, Denmark

[2]Leuphana University, Department of Accounting, Lüneburg, Germany

Correspondence
Rainer Lueg, Leuphana University, Department of Accounting, Universitätsallee 1, 21335 Lüneburg, Germany.
Email: lueg@leuphana.de

Abstract

Nonprofit organizations (NPOs) and social enterprises are increasingly under pressure to justify their use of resources and report their impact on society. Frameworks that monetize social value such as social return on investment (SROI) have emerged as a response. The existing literature highlights many benefits and technical challenges of SROI, but largely ignores strategic and organizational learning aspects. This paper explores the use of SROI in an NPO conducting cultural heritage preservation. By analyzing the challenges managers face in agreeing on a reliable ("correct") computation of SROI and in assessing the validity and relevance ("appropriateness") of SROI, we seek to understand the challenges and boundaries of SROI. Challenges with a reliable computation of SROI are identifying stakeholders, the choice of proxies, the time horizons, and deadweight factors. Challenges with an appropriate SROI calculation are comparability, subjectivity, legitimacy, and resource utility. We argue that SROI calculations might not be reliable or appropriate in organizations with fuzzy purposes, broad value creation goals, broad target groups, very individual or subjective proxies, strongly lagged outcomes, complex or unobservable causality, and with lack of legitimacy among stakeholders. Organizations should not trustingly adopt SROI without being aware of these limitations.

KEYWORDS

accounting, management, nonprofit, qualitative, research, sector

1 | INTRODUCTION

Nonprofit organizations (NPOs) and social enterprises are increasingly becoming aware of the need to measure and report their impact on society (Nicholls, Lawlor, Neitzert, & Goodspeed, 2012; Nielsen, Lueg, & van Liempd, 2019). These organizations face external pressures for transparency and accountability toward stakeholders (Kroeger & Weber, 2014; Lueg, Lueg, Andersen, & Dancianu, 2016; Luke, Barraket, & Eversole, 2013; Polonsky & Grau, 2011) and an internal need for data and performance measurement for resource allocation (Arvidson, Lyon, Mckay, & Moro, 2010; Emerson & Cabaj, 2000; Lueg & Radlach, 2016). However, measuring the performance of NPOs and social enterprises is a difficult task. Traditional financial measures ignore the social value these organizations create (Bagnoli & Megali, 2011; Richmond, Mook, & Quarter, 2003). Consequently, numerous frameworks have been proposed (Maier, Schober, Simsa, & Millner, 2015), of which social return on investment (SROI) is one of the more prominent frameworks (Luke et al., 2013; Millar & Hall, 2013).

SROI measures the efficiency of an organization in achieving its social objectives by dividing monetized social value (output) by the investments made (input). The existing literature illustrates its computations in numerous (empirical) case studies (see for instance Maier et al., 2015; Mook, Chan, & Kershaw, 2015; Owen et al., 2015; Richmond et al., 2003; Ryan & Lyne, 2008; Millar & Hall, 2013; Vieta, Schatz, & Kasparian, 2015). Previous studies list several benefits of SROI. SROI can be used as a strategic tool to ensure the effective and efficient use of organizational resources (Maier et al., 2015; Millar & Hall, 2013), to measure social value (Olsen & Lingane, 2003), to foster organizational learning (Lingane & Olsen, 2004; Manetti, 2014), and to create legitimacy toward stakeholders (Cooney, 2017; Luke et al., 2013; Manetti, 2014).

Barriers to using SROI constitute a lack of data (Olsen & Lingane, 2003), a time and resource consuming process of calculating SROI (Luke et al., 2013; Yates & Marra, 2017), difficulties in capturing social value in a single number (Millar & Hall, 2013), challenges of choosing proxies (Arvidson et al., 2010), a limited time horizon for including future value generation (McLoughlin et al., 2009), difficulties of identifying the chain of causation (McLoughlin et al., 2009), an extensive uncertainty of the accuracy of the final ratio (Gibbon & Dey, 2011), and challenges of calculating deadweight (Flockhart, 2005)—deadweight is any changes or results that would have occurred anyhow, regardless of the organization's efforts and activities. Cooney (2017) even argues that SROI might only offer the illusion of precision.

Existing literature focuses on the technical issues related to calculating SROI. This paper extends the technical discussion toward strategic and organizational learning challenges. It highlights the crosscurrents between technicalities and legitimacy, in which SROI navigates:

there is the well-described push toward measurable outcomes (see above), and the so far less-told story of signaling good management, covering social aspects via financial language, and changing investment strategies through the introduction of SROI. Specifically, we want to shed light on the challenges and boundaries to the latter part of this story: SROI is not a one-size-fits-all. There are boundaries to its reliability and appropriateness. We report on a critical case, studying an organization that strives to preserve cultural heritage in the built-up environment. The case organization attempted to measure the value of their social activities through SROI. First and foremost, they aimed at creating legitimacy through SROI, trying to obtain acceptance from different stakeholder groups by communicating their social value in a monetized way. However, measures were also important for the organization's internal decision-making and for learning purposes. This organization had trouble finding proxies, in that there for example are no commercially similar transactions, it has undefined stakeholders, an uncertainty of causalities and deadweight factors, and value impacts that last more than 50 years. Our overarching question with respect to the boundaries of SROI is, *to what extent can this type of organization reap the benefits of SROI, and which challenges follow from such an endeavor?*

We contribute to the literature by offering a critical view on SROI based on empirical data. First, we illustrate a case in which the managers of a social enterprise were under external pressure to measure and report on social value. The managers considered SROI because of the possibilities for monetizing social value. However, after several years of mindful consideration, they opted against using SROI because of the low reliability, validity, and practical relevance of this framework. Management worried this could lead to a misrepresentation of their non-commercial activities and would be of no help in organizational learning.

Second, we contribute a list of influential, but not necessarily comprehensive, indicators that approximate the challenges related to a correct computation of SROI and the appropriateness of SROI, thus indicating SROI's boundaries. Our research suggests that even though there is a growing pressure toward monetizing social value, this is not always the best way to evaluate social performance. In certain cases, SROI is appropriate, in others it is not. We argue that SROI might not work in organizations with fuzzy purposes, broad value creation goals, broad target groups, very individual or subjective proxies, strongly lagged outcomes, complex or unobservable causality, and with lack of legitimacy among stakeholders.

The remainder of this paper is structured as follows. In Section 2, we provide a short review of the literature and in Section 3, we describe the research method and the case organization. We present the analysis of the case material and discuss the findings in Section 4. Finally, we draw conclusions in Section 5.

2 | A BRIEF REVIEW OF SROI

Richmond et al. (2003, p. 309) define social accounting as "a systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement." Thus, social accounting attempts to measure the social value created by the organization. A part of the social accounting literature is specifically interested in measuring social value via key performance indicators, which have resulted in a comprehensive number of practical tools and models for measuring and comparing social value. Some examples are the *expanded value-added statement* (Richmond et al., 2003), SROI (Nicholls et al., 2012; Olsen & Lingane, 2003), the *Balanced Scorecard* (Lueg & Carvalho e Silva, 2013), the *blended value approach* (Emerson, 2003), *life satisfaction* *indexes* (Kroeger & Weber, 2014), and the *social impact for local economies* (SIMPLE) model (McLoughlin et al., 2009). However, in general, scholars have not attempted to define a broad typology to relate and connect the different approaches (Polonsky & Grau, 2011).

One of the prominent performance measurement frameworks for monetizing social value is the SROI framework. Millar and Hall (2013, p. 923) describe SROI as "the value of social benefits created by an organization in relation to the relative cost of achieving those benefits, the result [being a] monetized social value". SROI originates from the traditional financial measure return on investment (ROI), which measures efficiency by comparing an organization's monetary input with the output (Cordes, 2017; Millar & Hall, 2013). SROI relies on cost–benefit analysis and shows how efficiently the organization uses its resources to create social value (Cordes, 2017).

Previous literature elaborates on the advantages of the SROI-framework, which are among others ensuring the effective and efficient allocation of resources by providing concrete data and information, enhancing rationality in decision-making processes (Maier et al., 2015; Millar & Hall, 2013). Also, SROI converts social impact into a concrete measurement, which makes it possible to identify opportunities to create social and increased financial value (Olsen & Lingane, 2003). Finally, SROI is a communication tool that can create organizational legitimacy, in that the SROI measurement reduces complexity to one quantitative figure, enabling the shaping of stakeholders' opinions and thus their acceptance (Luke et al., 2013; Maier et al., 2015).

2.1 | Different approaches to calculating SROI

SROI converts social value into a monetized value by using market value proxies. Although SROI emerged as a standardized ratio, researchers and consultants have developed alternative ways of measuring and transforming social value (Gibbon & Dey, 2011; Moody, Littlepage, & Paydar, 2015; Nicholls, 2017; see Table 1 for examples of valuation principles). First, organizations can use *comparison cost*, which is the market value of a similar activity as a proxy, or how much money it would cost to create the same benefit. For instance, the value of an NPO offering unemployed workers a job-training course should be similar to the price that workers must pay for participating in a similar course as a proxy for social value (Scholten, Nicholls, Olsen, & Galimidi, 2016). The cost of paying for professional counseling could serve as a proxy for heightened emotional well-being (Owen et al., 2015).

If organizations cannot find a market value, they can choose among different *valuation principles*. One technique looks as states preferences, such as *willingness to pay* (Cordes, 2017; Lingane & Olsen, 2004). This is to ask relevant respondents directly how much they would pay for the social benefit in question, for example, how much tax people would pay to reduce pollution. Similar to this method is *required compensation* (Nicholls et al., 2012), for example how much compensation would one require to accept higher crime in their area. Another method is to look at revealed preferences, which infers monetized valuations from people's actual spending preferences. This can, for example, be through *average household spending*. Statistical data reveal how much people spend on "leisure" or "health," which can be used as prices for an NPO's contribution to increases in leisure or health. Related to this, is *hedonic pricing*, where one calculates any price premiums produced by social activities. For example, if an organization initiates activities to reduce negative circumstances in a given area, such as crime or pollution,

TABLE 1 Examples of valuation

Method	Example
Market value/comparison cost/cost saving is the market value of a comparable activity as a proxy, or how much money it would cost to create the same benefit or how much cost it saves.	An organization provides free counseling. *Proxy: The cost of paid counseling.* An organization provides free lifestyle advice to people, which reduces health problems. *Proxy: The cost saving of not attending a doctor.*
Willingness-to-pay/required compensation is to ask relevant respondents directly how much they would pay for the social benefit in question, or how much they would require in compensation to accept the negative counterpart.	An organization provides free housing to the homeless. *Proxy: Price people are willing to pay to have homeless people in their areas given housing, or price people would require in compensation to accept homeless people in their neighborhood.*
Average household spending is inferring monetized valuations from people's actual spending preferences and patterns.	An organization provides free holiday camps for children. *Proxy: The average household spending for vacations/vacation activities.*
Hedonic pricing is the price premium produced by social activities.	An organization initiates activities to reduce negative circumstances in a given area, such as crime, affecting real estate prices. *Proxy: The difference between house prices in the area with low crime and similar houses in an area with high(er) crime.*
Cost-of-use estimates is the monetary value of distance traveled or time used to access a certain service or product.	A museum or theater provides admission free of charge. *Proxy: Money value of giving up some time or travel a distance to use the museum or theater.*
Opportunity cost is the value not received (or resources not saved) as a result of not selecting the nest best use, that is the loss of potential gain from other alternatives when one alternative is chosen.	An organization uses volunteers to provide free computer skills training to the unemployed. *Proxy: the cost of the next best use of volunteer hours, for example salary in the normal IT-wage market.*

one can measure the price premium for houses in this area compared to similar houses in areas with higher crime or pollution.

Another method is *cost-of-use estimates*, such as a *time value* method, which focuses on the value of time spent (or time saved) by certain activities, measured at a price, such as minimum wage. For example, how many hours are people willing to travel to or spend in a museum multiplied by minimum wage per hour, to measure the value of free museum admission. A last method is *opportunity costs*, which values resources used (or resources saved) by looking at the benefit or cost of their next best use. For example, Walk, Greenspan, Crossley, and Handy (2015) investigate a training skills center, while Richmond et al. (2003) examine a computer training center, which provides employment-related training to disadvantaged individuals and student housing in dormitories and apartments. Both studies use the opportunity cost of volunteer hours to calculate social value, that is how much would these volunteers get paid for an hour in the workforce.

While some authors use only one or a few proxies, others use a list of proxies to calculate the final SROI. For instance, Classens (2015) uses the average opportunity costs of having to attend other job training courses as a proxy for social value, and additionally uses half of the average annual spending on recreation for a given individual as a proxy for feeling more connected to the community. Richmond et al. (2003) apply opportunity costs for volunteer hours and replacement costs (the assessment of what the task was worth to the organization). Vieta et al. (2015) use a proxy of costs of a skills training course for people with disabilities to measure the development of employable skills, and a proxy for the yearly average spending on leisure per household to measure the value of increased social inclusion and sense of community.

2.2 | Uncertainties regarding SROI

Besides its benefits, researchers also point to the challenges of using SROI. Some activities are more straightforward to monetize based on techniques, such as market values, cost savings, or increased income (Gibbon & Dey, 2011). Other techniques are more challenging to apply since individual utility functions can only be compared in an ordinal manner, such as methods using stated preferences, revealed preferences, and cost-of-use estimates (Gibbon & Dey, 2011; Nicholls, Lawlor, Neitzert, & Goodspeed, 2009). However, some of the most critical challenges are difficulties in finding proxies for monetizing social value that cannot be directly measured. When proxies hold a substantial degree of uncertainty, it throws the whole method into question (Yates & Marra, 2017).

Several researchers have observed that some types of social value are cumbersome to measure on a monetized scale such as a general increase in the quality of life, or lives saved (Lingane & Olsen, 2004; McLoughlin et al., 2009; Nicholls, 2009). There is no generally accepted list or criteria for the validity of the selection of proxies that organizations can use, unlike for example financial accounting, where international reporting principles and standards have existed and been generally-accepted for decades. As a result, organizations have to develop contextualized proxies based on their own biases, perceptions, and judgments (Maier et al., 2015). This lack of standards makes it difficult to validate and rely on the SROI ratio as a representation of the achieved social outcome. Furthermore, using different proxies (Richmond et al., 200) or small changes in assumptions behind proxies (Mook et al., 2015) can make a substantial difference in the calculated return. Cooney and Lynch-Cerullo (2014) find for example that small changes in the underlying assumptions create a variance in the return on every dollar invested ranging from \$1.16 to \$6.07.

Research has mostly identified proxies for organizations whose products and services resemble commercial activities. However, many organizations such as churches, disaster relief organizations, and cultural heritage preservation organizations, operate in fields where no commercial market exists (Nicholls, 2009). It is thus not always possible to find a strong correlation between a commercial activity that can be used as a proxy for monetizing a social activity. The valuation of social goods often "fails to support the generation of effective performance data where there are no comparable or proxy goods or services available to the market" (Nicholls, 2009, p. 759).

There are also difficulties of establishing a clear causal link between activities and outcomes: social value can only be measured if it is possible to see a clear causal link between an activity and any positive changes affecting people or society. Unfortunately, causal chains and mechanisms are often unclear, especially since statistical data often are not available (Jardine & Whyte, 2013). In addition, the so-called deadweight factor needs to be deducted. This is not always easy to calculate. An effect or outcome might instead be random, because of larger societal developments, because of the client's own agency or actions by other NPOs or government institutions (Jardine & Whyte, 2013).

Furthermore, it is necessary to understand the time span between activities and impact. If impacts occur more than 5 years after the activity, it can be challenging to include it in the calculation, both because of larger uncertainty and because of the time value of investments. Just as investors prefer money today over money in 1 year, one could argue social value 10 years from now has to be discounted to a present value. Finally, Pathak and Dattani (2014) describe the challenge of allocating overhead costs, while Maier et al. (2015) point to the considerable use of resources needed for computing the SROI.

It is therefore difficult to compare SROIs between organizations, especially in different industries, unless the calculation method is similar and consistent. In a guideline to SROI, Lingane and Olsen (2004, p. 128) state that "differences in outcomes measured, measurement methods, and data sets used can significantly affect the SROI calculation and, if not standardized, could result in comparisons that are of little value". In the same vein, Maier et al. (2015, p. 1816) conclude that it is difficult to monetize and compare outcomes that are seen as priceless and unique and that doing so "is never a neutral approach but inherently political". Finally, researchers have different approaches to which kind of social value can be monetized at all. Some researchers argue that social value, such as "lives saved" or "increases in the quality of life" cannot be included in SROI, because these cannot be meaningfully and objectively reduced to a mere monetized value (Arvidson et al., 2010; Luke et al., 2013; Olsen & Lingane, 2003). SROI is a utilitarian concept, in contrast to Kantian ethics, which intrinsically values a life and not because of a monetized value that can be maximized (Maier et al., 2015).

3 | METHODOLOGY

We selected a social enterprise that preserves cultural heritage. Such organizations tend to have substantial, objectively measurable assets-under-management, but produce social value that is hard to assess. This imbalance creates a high demand for transparency and accountability. A social enterprise is "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners" (DTI, 2002, p. 13). Social enterprises sell goods and services to obtain a financially sustainable business model that generates income for social objectives (Dart, 2004).

We carried out an in-depth, qualitative field study that included data collection methods comprising documentary analysis, field notes, observations, and interviews. We conducted observations within the organization for one and a half years from the fall of 2015 to the spring of 2017. The observations included different settings, such as daily work tasks, meetings, and conversations, which enabled us to observe and engage with employees informally. We conducted semi-structured interviews with key players in the organization, such as managers, financial controllers, project leaders, architects, and construction engineers. We conducted 19 formalized interviews. We recorded, selectively transcribed, and coded interviews using *Atlas.it*. We developed a framework to categorize and code all data. Codes representing different aspects of social value were then arranged in themes (Miles, Huberman, & Saldana, 2014; Saldana, 2016). Another coding process focused on challenges that emerge during the process of developing SROI. We coded the challenges that the organization faced, and arranged them in themes according to the literature on SROI. We asked employees and managers what they understood by social value, which aspects of the output of the activities they considered most valuable, and how they thought such value could be measured. Some questions were generic for all respondents, while other questions were specific for the position the respondent held in the organization. From the interviews, we collected detailed information about reflections on what social value meant for the organizational members and the difficulties and importance of measuring the value produced.

Additionally, we carried out 15 interviews with external stakeholders. These interviews lasted no longer than 10 min and included questions about social value and the impact that stakeholders believed that the organization produced. Furthermore, we collected secondary data in the form of internal documents and external publications produced by the organization itself.

3.1 | Overview of the case: Cultural heritage preservation

The mission of the case organization is to restore and renovate historical buildings located throughout a Northern-European country. Typically, the case organization buys and restores historical buildings and then subsequently renting them out to tenants. One example of a restoration project is the purchase of an old town hall that has significant historical value for the local area, and the country in general. In addition to these types of projects, the organization constructs new buildings with the purpose of developing new solutions, materials, and so forth. The case organization has invested more than €420 million in tangible assets in historical buildings.

The organization was under increasing pressure from stakeholders to measure its efficiency and social impact. Due to the sheer scope and size of the organization, management wanted to report the organization's social value in an understandable way. The managers realized that they needed a measurement system that could ensure the legitimacy of their activities by measuring the value of their social activities. The organization looked at SROI, as the chief financial officer (CFO) emphasized the importance of monetizing social value: "It is easier to get one's message across about something, if it has a monetary value, because people can relate to numbers". This statement is supported by Flockhart (2005, p. 39), who notes that the financial credibility gap might be closed when social enterprises are able to speak a language that financial institutions and stakeholders can relate to (for similar mechanisms, cf. Goncharenko, 2020).

Furthermore, the managers wanted a measure of internal performance. That is, they were interested in how well the organization was able to generate social value across the spectrum of their different restoration projects as a means to allocate resources to projects that would produce the highest value for society. As the CEO stated, "we need a framework that can tell us how much social value we create when we invest a certain amount of money." In a similar vein, another manager explained, "We have a feeling that we do good things, but it would be nice to have a tool for collecting information in a structured way". These statements abounded among the organization interviewees. The need for a measurement system was even more pressing because the organization had to resort to descriptive text and narratives, when it tried to depict the social value produced. As the CFO said, "Instead of having some vague lines in the project proposal, is it possible to somehow have...if not a formal...then at least to make it crystal clear what we want, so that we can measure later, whether we achieved it?" In effect, management decided to explore the opportunities for measuring the social value of their projects to fulfill stakeholders' expectations and improve internal learning and decision-making. The organization already used ROI, but struggled to find a way of capturing the value of social activities that resulted in their ROI being below a market return. The idea of using SROI was to show stakeholders that the social enterprise had a ROI of 2% but also a SROI of, say, 4%, which would justify the ROI below the market return.

3.2 | The case organization's social value

The organization categorized the social value of its activities into three broad types (see Figure 1). The first type of value was *local value*. When the organization decided to buy a historical building in a geographic location, the project created jobs for the local community, as the projects included renovation, repairs, and maintenance of the buildings. Additionally, management listed several projects in which the renovation of these buildings had inspired other owners to restore their houses, which increased the value of properties located near the restored buildings and created jobs in the form of spillover effects. However, these outcomes had never been supported by quantitative data, but emanated from stories that circulated within the

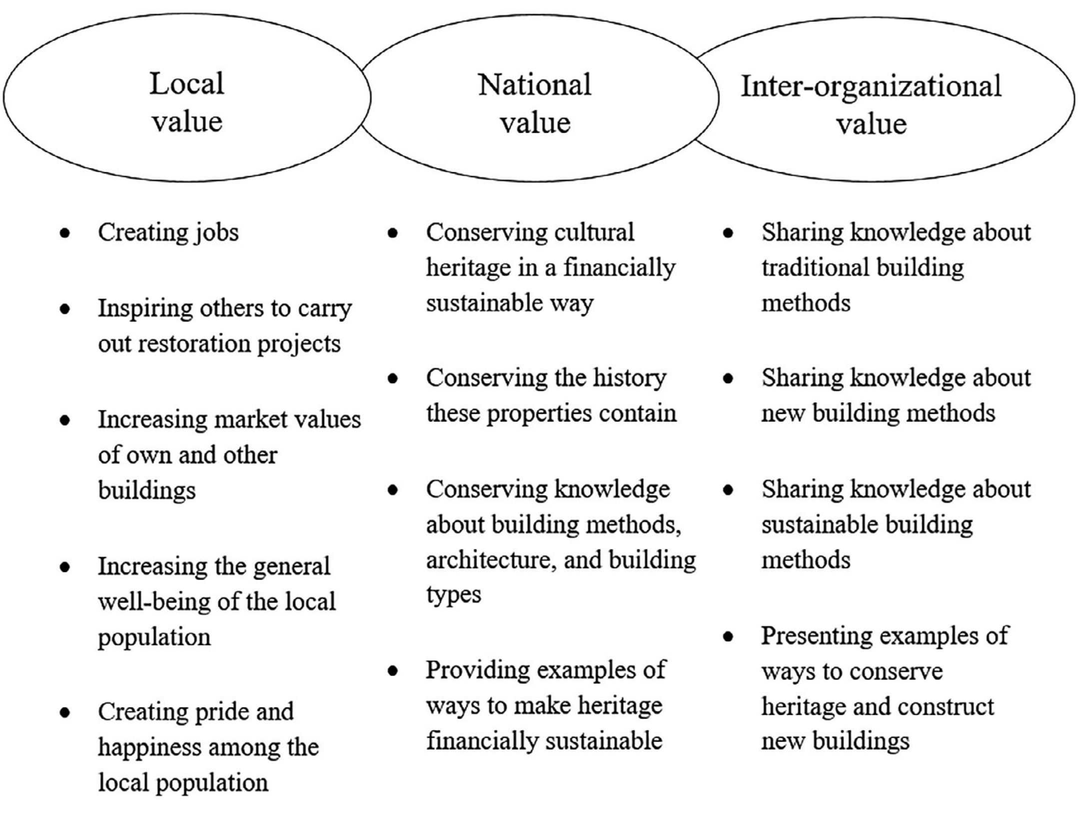

FIGURE 1 Overview of social value created in the case organization

organization. Anecdotal data pointed to another local impact: the increase in the overall well-being of the population living near the restored buildings due to the properties' improved aesthetics and the conservation of the buildings created pride and happiness.

The second type of value was the *national value* of cultural heritage conservation. The organization's projects created value by preserving history and knowledge about the architecture, culture, and history of the buildings. In this way, the case organization's investments preserved the social value of its nation's history, something which otherwise would have been lost. Employees in the organization all agreed that this was the main value and the reason for building a portfolio of properties. The hope was that these buildings would be conserved forever as a result of the business model of renting the properties out at market prices. The idea was to make the buildings financially sustainable in the long run.

Thirdly, the organization created value at an *inter-organizational* level, as the organization shared knowledge about the restoration process with professional architects, engineers, construction companies, and museums. Through this process, the organization hoped to be an example for others to follow in terms of renovating and maintaining cultural heritage sites. The organization produced and disseminated knowledge about history, culture, and architecture, but also knowledge about new construction methods, such as using building materials in an innovative way. In general, the organization had no specific target group. Some projects were predominantly targeted toward interest groups, but in general, the organization appealed to a broad group in society. Figure 1 summarizes the social value of the case organization's projects, as perceived by members of the social enterprise.

3.3 | Case organization's concerns about the calculation of SROI

After deciding to measure the organization's social value, management discussed which indicators could depict the value created by the organization. For several years, the managers had tried to find other organizations for benchmarking. The challenge was always that these were mostly commercial real estate organizations with higher returns and lower costs, which did not provide a fair benchmark due to the social mission of the case organization. Management was especially interested in measures that had a financial value, such as jobs created, economic growth, market values of properties, increasing house prices, and the possibilities of seeing the effects in official statistics, such as economic growth and employment rates. When they realized that this was more difficult than they had thought, they discussed the possibilities of using SROI. However, they found it challenging to calculate SROI mainly due to four issues: the choice of proxies, identifying which stakeholders, the length of time horizons, and the size of deadweight factors.

3.3.1 | Choice of proxies

Although proxies should be easy to establish, once they have been discussed properly, managers and employees usually experience problems with making them usable. First, they struggle to identify proxies that could cover all-important aspects of social value and the diversity in projects. Management believed that all aspects of their value creation were equally important to include in the calculation, which meant that they would need a long list of proxies. They also found it difficult to find proxies that could capture the value across unique projects, without the need of developing new proxies for each project.

Second, the nature of their social value is unique in that no readily comparable market equivalent is available for measuring the value of conserving heritage. They could therefore not find any product or service on the commercial market that corresponded to this social value. It may be possible to calculate the economic value, such as revenue from tourism or the higher market values of properties located near sites with a large number of historical buildings, like in important old towns across Europe (Bruges, Prague, Edinburgh). But what about a single house located in the countryside or a house located in an area with traditional “standard” houses? A single house may not have these effects at all.

Third, managers were interested in proxies that could represent the value of the specific project, so they were not interested in methods using stated preferences or revealed preferences. They believed that such methods were too subjective and that they did not provide information about how the specific project benefited society.

Fourth, the organization struggled to find a proxy for knowledge development and knowledge sharing. Managers pondered how many people use this knowledge and for what purposes, and whether the application of such knowledge actually influences the quality of life. They were unsure at which level they should measure the value. There was a discussion when value creation should be recognized: as soon as knowledge has been created on paper, or as soon as knowledge has been applied by professionals in the field. As an example, they struggled to find a proxy for the value of developing a method that made it possible to reduce carbon dioxide in new constructions. Eventually, they decided that value should first be recognized as soon as the method was actually applied in the field.

Finally, even though management wanted to measure the effects of creating jobs, they were aware that a large part of their projects did not have this effect. As one manager explained, “I call them dead houses, in the sense that they are conserved, they are restored – fantastically conserved for the future – and they are communicated, but they do not contribute more or less to their surroundings than they did before.” There was thus disagreement in the organization to what extent proxies such as increasing house prices and the value of jobs created were suitable because they represented, if at all, a small part of the overall social value and only in some projects.

3.3.2 | Identifying stakeholders

Another challenge of calculating SROI was to define those stakeholders that benefited from the social activities. Organizations can monetize their social value by multiplying the number of activities or the range of stakeholders that have benefited from an activity by an available market rate. For instance, the number of animals, trees, or counseling hours can be counted and then multiplied by a monetized unit price, such as course admission fees or average costs for attending general practitioner sessions. All things being equal, the higher the number of activities and the rate used, the more social value the organization has created. However, the case organization's mission statement aimed at being a good example for other people, and at disseminating knowledge on their projects. It had never been the goal to conserve as many houses as possible, but instead to set an example for others to follow. Furthermore, the organization's target group was society in general. Thus, the organization was not attempting to generate an impact for a specific group, but for society at large, as the organization's overall mission was to improve the quality of life of the general population by keeping the cultural heritage alive. This is in contrast to other cases in the literature on SROI, where there were specific target groups in the overall population. The well-being and pride in the local area where houses are located was seen as the most difficult value to monetize, because managers were uncertain about the scope and scale of the projects. They were sure that people appreciated the projects, because of the significant amount of positive feedback from visitors, but they were unsure to what extent the projects have a positive effect on people's quality of life.

3.3.3 | Time horizon

The long time horizon of the organization's projects complicated calculating SROI. The organization buys and restores heritage buildings with the purpose of conserving them for the future and through that generate value for a very long period of time and for future generations. Nicholls, Mackenzie, and Somers (2007) use a five-year time frame in their calculation of SROI, because forecasting accuracy decreases beyond 5 years. This estimation is supported by Flockhart (2005) and by Lingane and Olsen (2004, p. 128), who note: “When the impacts of a business lead far into the future, there is often uncertainty whether long-term benefits will actually be realized and, if so, whether they are the result of earlier activities”. The social value of projects in the case organization was highly uncertain, because the payback period can be longer than 50 years. Even if management established adequate proxies, the organization could not calculate meaningful net present values, a computation often described in the literature as being crucial for obtaining valid and accurate ratios of SROI (Nicholls et al., 2012).

3.3.4 | The deadweight factor

Finally, justifying the causality between activities and outcomes, and calculating the deadweight factor was another big challenge for the case organization. The organization found it difficult to isolate the effects of restoring one house in a city from other trends regarding house prices, economic growth, or people's positive attitude toward the local area, or especially people's general well-being. As an example, the CEO stated:

> Is it because of a new hospital or the new train station? It is difficult. In project X it is the same problem. If we were to do anything, we should measure it based on how things were before we started the project and how it looks in 20 years, but it is far into the future. We can measure it, but anything might have happened. Maybe it has become the new trendy place, or criminals can have moved in next door.

Among other things, the undefined stakeholders and the long time span also created problems regarding causalities and the deadweight factor. The deadweight factor is a percentage of the outcome of a social activity that is estimated to would have happened anyway, regardless of the organization. It could, for example, be an increase in house prices that happens because of other factors and not because the organization has restored and conserved a house in the area. Furthermore, the case organization could not isolate the effects of their knowledge development in one project from those of other projects, so they struggled to understand how their projects had contributed to moving the field forward. As an example, the focus on sustainability in constructions had been central to the organization for a long time. Today, it is something that the whole industry focuses on, but it was impossible to say how much of this development the case organization could take credit for and include in a SROI calculation.

3.4 | Concerns about the appropriateness of SROI

The organization did not only struggle with the calculation, but also questioned the appropriateness of the SROI. Their main concerns were, first, that the elements in the calculation relied on subjective estimates by organizational members. This was seen as reducing the usefulness for decision making and learning purposes. Second, managers questioned the acceptance of SROI across stakeholders (legitimacy), as the concept of SROI was not common knowledge, or at least not part of public discourse. A third disadvantage was the lack of comparability with other organizations. For years, it had been a goal for managers to find a benchmark. It had not been possible for the case organization to find a social enterprise or NPO to benchmark against, which resulted in them looking at commercial real estate businesses. However, these had higher ROIs. They had therefore hoped that it was possible to aggregate SROI and ROI, thereby having a return at the same level as the return of commercial real estate businesses. Finally, they were concerned about the amount of resources needed to calculate SROI. As one manager stated during the process: "What is the purpose of spending resources on evaluating *previous* performance?"

4 | DISCUSSION

Based on the empirical data presented, we now discuss the general implications of our study with respect to the correctness and appropriateness of SROI. The purpose of this study was to understand *to what extent this type of organization can reap the benefits of SROI, and which challenges follow from such an endeavor*. We aimed at understanding the boundaries of SROI, by analyzing to which extent organizations that create social value can benefit from SROI, and what challenges arise when calculating and using SROI. We started by looking at the kind of social value the organization creates. We found that the characteristics of its social value, such as conserving heritage, increasing well-being, sharing knowledge, and so forth made it difficult to calculate SROI. The four main challenges the case organization faced related to the selection of proxies, identification of stakeholders, the long time horizon, and calculation of the deadweight factor (see Figure 2). Below, we discuss the correctness of SROI, when social value has such characteristics. Second, we discuss why the case organization eventually decided against SROI due to four concerns: comparability, subjectivity, legitimacy, and resource utility. Figure 2 illustrates that certain types of social values lead to challenges in calculating a correct SROI, which again leads to a discussion of the appropriateness of using SROI.

4.1 | The correctness of the SROI framework

Our first contribution is to give a concrete example of a type of social value that *does not fit* into the SROI framework mainly due to the four issues of choice of proxies, identifying stakeholders, time horizon, and the deadweight factor. Many pioneers had great ideas of how to monetize

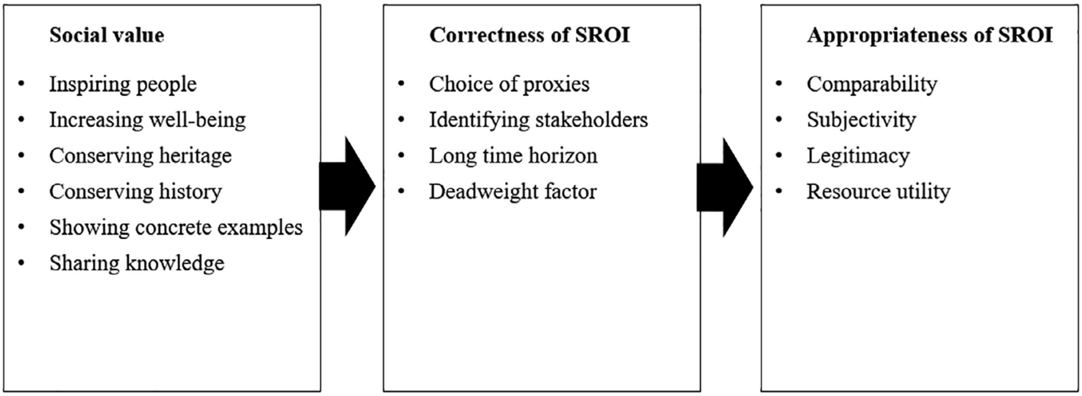

FIGURE 2 Illustration of how a certain type of social value leads to challenges of calculating SROI and a discussion of the appropriateness

everything from education to quality of life, but there are many practical problems in doing so. Maier et al. (2015) point out that it is increasingly necessary to be critical regarding the link between measurement and social value. For a social enterprise that creates value that has no commercially similar transactions, has undefined stakeholders, uncertainty of causalities and deadweights, and a long time horizon, the correctness of the SROI calculation is questionable, due to subjective estimates. Practitioners should be aware that not all kinds of social value can be meaningfully monetized.

Some social activities are relatively easy to develop proxies for, such as medical treatment or providing housing. In other cases, social value is more challenging to monetize. The case organization could not find a commercial activity that could represent social value (also cf. Nicholls, 2009), which results in proxies becoming highly subjective (Gibbon & Dey, 2011). Maier et al. (2015) find that it is problematic to monetize and compare activities that are seen as priceless and unique.

Another challenge that is not addressed in the existing literature is identifying those stakeholders for whom the organization has created value. In some situations, it is relatively easy to identify stakeholders that benefit from, for example, a course, treatment, or a meal. In other cases, it is more challenging to identify stakeholders benefiting from a social activity. The case organization defined conserving heritage as something benefiting society in general. Since it was unclear how many people benefit from such activities, it was difficult to calculate the value of social activities. Finally, they also struggled to define when value was created. Has value been created when knowledge has developed, shared, or used? This distinction affects the SROI calculation substantially.

A third challenge is the long time horizon that projects had. In many situations, there will be a short- and long-term impact of social activities. In most situations, the impact will be visible within a time frame of 5 years, as for example with providing counseling or education. The case organization believed that they also created value for future generations, which complicated the estimate of how many people benefited from the projects and made it highly uncertain what the present value of conserving heritage was. Existing literature has pointed out that the long-term impact is difficult to capture in a calculation due to the uncertainty about, whether it will be realized and the uncertainty of linking it to earlier activities (Lingane & Olsen, 2004).

A fourth challenge of using SROI became particularly apparent in this case. As the existing literature finds, it may be challenging to show causality between activity and outcomes (Jardine & Whyte, 2013; Lueg, Krastev, & Lueg, 2019; Maier et al., 2015). This is especially the case, when organizations have a broad stakeholder group that they want to improve the general well-being for, and the time horizon is very long. It is therefore difficult to see the effects on people's well-being of a relatively small project of restoring a single house in a town. In order to utilize SROI, managers had to justify the causality between the intervention and the changes that occur in society because of that intervention. If causality is not clear, the effect of the deadweight factor is unknown. For instance, a restored building may have created jobs if it was subsequently used for hotel operation or offices. However, these jobs might have been created regardless. Another example is increases in house prices in an area, but where the increasing house prices might also have been the result of other factors. Lingane and Olsen (2004) state that organizations should "include only impacts that are clearly and directly attributable to the company's activities." This means that it was challenging for the case organization to include any positive changes. For other social organizations, it is easier to see the link between activities and impact. For instance, providing housing, medical treatment, and education. However, they still have to define the deadweight, which can be challenging. If they have a clearly defined target group, it may be easier to either compare the treated group with a control group or use indexes such as life satisfaction ratings (Kroeger & Weber, 2014).

4.2 | The appropriateness of the SROI framework

Our second contribution is to discuss the appropriateness of SROI. Discussions in the case organization mainly centered on four issues: comparability, subjectivity, legitimacy, and resource utility. There is no question that the organization could have calculated a SROI, if they were willing to use the required resources and had been willing to accept the degree of subjectivity and comparability. If managers had been willing to use other methods for calculating SROI, such as willingness-to-pay, they could have calculated a number. That number may have benefited the organization in relation to gaining legitimacy, if the organization had been willing to spend resources on explaining and justifying the framework. We do not argue that these types of organizations cannot benefit from SROI. However, we emphasize that organizations need to be aware of what they can expect from SROI, Most importantly, practitioners need to accept a high degree of subjectivity in the calculation, an approximation of value that cannot necessarily be linked to the concrete projects, and very limited possibilities for using SROI for benchmarking. This reduces the measure to a matter of creating legitimacy rather than improving internal decision making and learning. Finally, organizations need to decide, whether they are willing to spend resources on SROI. We believe that this discussion about SROI's boundaries is relevant for researchers as well as practitioners, to understand better in which situations and for what purposes SROI is useful.

One of the main reasons why the case organization did not proceed with SROI was the lack of comparability. The organization was looking for a measure that could be used to benchmark activities against the work of other organizations. However, the case organization struggled to find other organizations to benchmark against and even realized the non-comparability of SROI across their very own projects. Projects have different goals, stakeholders, locations, and scales, and the organization's investments in the projects differed in terms of resources. The case organization tried to find a similar organization to benchmark with, but could not find any. Like with ROI, the advantage of SROI is supposed to be that it can be compared with different organizations and across industries. Yet, SROI only provides comparability to similar organizations using the same proxies and calculation methods. Only then does SROI have any value for organizations that have benchmarking as a top priority.

Researchers have noted that it is almost impossible to compare social value across NPOs and social enterprises, because of the great diversity in NPOs and social enterprises in terms of their missions, stakeholder groups, location, and the way they measure performance (Cooney, 2017; Dacin, Dacin, & Matear, 2010; Emerson, 2003; Mair & Martí, 2006; Nicholls, 2009; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). This idea is in line with the finding of Luke et al. (2013, p. 238), who state that "considering the diversity of social enterprise and the range of industries in which they operate, it is not surprising that a single measure, financial or otherwise, is inadequate in evaluating performance". Lingane and Olsen (2004) describe a comparison of two organizations, in which the costs can differ substantially even though they have a similar goal of helping young people to obtain jobs. One organization helps young people in high school and the other organization helps homeless teenagers. If the two organizations measure success in the same way by tracking the percentage of teenagers who find work, the organization that trains homeless teenagers will achieve a lower score, because training homeless teenagers will likely require more resources than training teenagers in high school (Lingane & Olsen, 2004).

As the existing literature argues, SROI calculation requires subjective estimates (Arvidson et al., 2010; Lingane & Olsen, 2004; Nicholls, 2009). Our empirical data indicate that including conservation of heritage in the SROI calculation is subjective. First, organizations cannot rely on an established list of proxies. Even if it is possible to find similar activities on the commercial market, the organization can select the most expensive service, or the cheapest. Second, identifying stakeholders that benefit from such types of value as conserving heritage is inaccurate. Should the organization count people who visit the house for events, or all people walking past the building, or all people reading about the building? Another problem the case organization faced was to define the period for the calculation. When they bought the building, public interest was very high, but after 1 year, the interest was limited. Finally, they struggled to define the positive changes directly associated with the activities of the organization. It was not clear how cultural heritage influenced society and people in general. There was widespread agreement that it is important to conserve heritage, but not why it is important.

The case organization was interested in understanding the intrinsic outcomes of each project, which precluded using methods such as willingness to pay, average household spending, or the time value method. It is important to note that SROI uses proxies that are not intrinsic estimates of a particular activity performed by organizations (Cooney, 2017). "SROI offers the illusion of precision, with careful calculation of valuations, counterfactual deductions and discount rates, but ultimately delivers only a metaphor of impact, not an exact measure" (Cooney, 2017, p. 113). This implies that organizations cannot use SROI to gain an understanding of whether a specific project has created any positive changes. This means that the ratio cannot help organizations in understanding the effects of projects and, therefore, cannot improve decision making on future activities.

The case organization was aware of the fact that the legitimizing effect of SROI is just as important as the technical aspects. The management questioned the framework and the methods for calculating the ratio. Traditional financial measures, such as ROI, have gained legitimacy from investors, but more qualitative methods of measuring performance are not as established in practice yet. This puts doubt on the relevance, and decision-usefulness of measures such as SROI (Gibbon & Dey, 2011; Luke et al., 2013). The question is whether social enterprises and NPOs can gain legitimacy through the use of these performance measurement systems.

TABLE 2 Questions managers should ask themselves before using SROI

Important factors	Questions for managers	SROI may work	SROI may not work
Social value	What kind of value do we create?	• Well-defined purposes of social activities. • Narrow value creation *For example, meal served, medical treatment, education, counseling, and providing shelter to specific groups in society*.	• Fuzzy purposes of social activities. • Broad value creation • Specific social value, for example of religious communities. *For example, lives saved, conserving culture heritage, increases in quality of life, climate changes, and developing and sharing knowledge in a broad field).*
Correctness of SROI			
Choice of proxies	Can we find commercial activities that are similar or are we willing to use other calculation methods?	• Commercial activities serve as proxies. • Few proxies needed to extensively represent the social value. • Appropriateness of alternative valuation approaches (metric scales).	• No similar commercial activities that resemble the intrinsic effects of projects the organization wants to measure. • The social value is difficult or individualistic to price (ordinal scales).
Identifying stakeholders	Whom will the organization create value for?	• A well-defined, narrow target group.	• A board target group such as people in general in a country. • Several generations (including future generations).
Time horizon between activity and social value achieved	When does the organization expect to see the outcome of social activities?	• Short-term impact within a time frame of 5 years.	• Long term impact, open-ended.
Deadweight factor	Is there a clear link between an activity and changes for individuals	• Control groups (natural experiments are	• Complex or unobservable causality.

(Continues)

TABLE 2 (Continued)

Important factors	Questions for managers	SROI may work	SROI may not work
	or society and can the effects of activities be isolated from other initiatives?	available or clear analytical predictions).	
		• Benchmarks exits.	• Highly uncertain estimates of opportunity cost.
		• Well-defined boundaries for social value and stakeholders (scope and scale).	• Diverse beneficiaries.
Appropriateness of SROI			
Comparability	Is it important for the organization to benchmark performance and if so, can similar organizations that use SROI be found?	• Similar organizations exist.	• Organization is unique.
		• Benchmark of commercial market value exists.	• Imperfect commercial markets for the activities.
Subjectivity	To what extent can the organization accept subjectivity in the calculation?	• Easy to find and explain proxies that represent the social value.	• Proxies that are uncertain due to a weak link to the social activity.
		• Short time horizon.	• Long time horizon that makes it uncertain what the future value is.
		• Clear who benefit from activities.	• Challenges of estimating how many people benefit from the activity.
		• The link between social value and outcome is obvious.	• Weak link between activity and outcomes.
Legitimacy	Does the SROI framework have legitimacy among internal and external stakeholders?	• Stakeholders accept the idea that social value can be monetized.	• Stakeholders refute the idea that social value can be monetized.
		• Stakeholders accept the proxies and calculation methods	• Stakeholders do not accept the proxies and calculation methods
Resource utility	Is the organization willing to spend resources on	• Proxies that are easy to adopt.	• Organizations need stakeholder

TABLE 2 (Continued)

Important factors	Questions for managers	SROI may work	SROI may not work
	calculating, explaining and justifying the framework?		involvement to determine proxies, such as willingness-to- pay etc.
		• Well-defined stakeholders.	• Different stakeholder groups assign different values to the same outcomes.
		• Easy to see the causal link between activity and outcomes.	• Several and complex proxies are needed to capture the social value.
		• A short time horizon.	• the social value differs from project to project, so it is not possible to create standard proxies.
		• Well-defined mission that is concrete (the organization know exactly what it wants to achieve).	
		• Narrow social value	

The case organization realized that it was easier to gain legitimacy by continuing to use narratives and stories about their value creation. This is in line with existing literature, which states that in some situations it is more appropriate to complement the social value produced with descriptive terms, such as narratives or stories, rather than exclusively using ratios based on assumptions, approximations, and estimates (Luke et al., 2013). This can increase the transparency and understanding of the value created (Bagnoli & Megali, 2011).

The case organization concluded that the cost of calculating SROI outweighed its benefits. It may have been possible to find proxies or calculation methods, if the organization had been willing to spend more time on the project, but they believed that these resources were better spent on other projects. Calculating SROI is resource intensive (Gair, 2009; Maier et al., 2015; Yates & Marra, 2017). It is therefore questionable, whether social organizations should spend valuable resources on evaluating previous performance, if it has little usefulness and great uncertainty about the correctness of the final ratio calculated. Table 2 summarizes the key questions that managers need to consider before adopting SROI and gives an overview of when SROI is appropriate to use.

5 | CONCLUSION

In social organizations, internal and external stakeholders pressure the organizations to be transparent and accountable for how they try to maximize social value and influence society.

This stakeholder pressure has resulted in many different approaches, methods, and tools for measuring the impact that organizations create in society. Traditional financial measures have failed to measure the impact and, as a result, SROI has been developed as one of many alternative methods for measuring social value. The SROI framework has its merits, as it compares output with input, so NPOs and social enterprises can measure their efficiency by analyzing not only the input, but also the social value of their projects.

Our study contributes to the existing literature by studying an organization that creates social value, which is different from existing cases in the SROI literature. We illustrate the organization's challenges in calculating SROI for these types of value creation, because of difficulties in choosing appropriate proxies, identifying the main stakeholders, determining the time horizon included, and the role of deadweight factors. Through this insight, we discuss the appropriateness of SROI, that is, its comparability, subjectivity, legitimacy, and resource utility. We emphasize the importance of remaining critical toward concepts as SROI and being aware of its boundaries. SROI has its benefits, but also its limitations. Its usefulness depends on how organizations want to use it, and on the characteristics of the social value created.

There are various limitations to the methodology used in this study. First, the analysis relies a single case, which makes it possible to understand the case in-depth. Future research could look at similar cases to deepen our understanding of the possibilities for measuring different kinds of social value. Our discussion of the appropriateness of SROI is based on our empirical data and, by that, the managers' and employees' approach to SROI. However, we see the gained insight into how practitioners actually work with and understand SROI as an important contribution to the literature. Future research could use our discussion to develop the framework further by taking the practical challenges and concerns into consideration.

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CONFLICT OF INTEREST

Janni Grouleff Nielsen declares that she has no conflict of interest. Her PhD is half founded by a social enterprise in Denmark and half founded by Innovation Fund Denmark. Rainer Lueg declares that he has no conflict of interest. Dennis Van Liempd declares that he has no conflict of interest.

ORCID

Rainer Lueg https://orcid.org/0000-0002-6172-944X

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AUTHOR BIOGRAPHIES

Janni Nielsen is a researcher at the Department of Business and Economics at University of Southern Denmark, affiliated with the accounting research group. She also obtained her Ph.D. from there, and conducts research on performance measurement systems with a special interest in organizations, such as social enterprises.

Rainer Lueg is a professor of managerial accounting at the Institute of Management, Accounting & Finance at Leuphana University, and at the Department of Business and Economics, University of Southern Denmark, Kolding. He received his Ph.D. from WHU Otto Beisheim School in 2008. Previously, he worked as a consultant for McKinsey & Co. His research interests are in the fields of strategic performance management with a specific focus on value-orientation and sustainability.

Dennis van Liempd is an associate professor in accounting and auditing at the Department of Business and Economics, University of Southern Denmark, Kolding. He received his Ph. D. from SDU in 2009. His research interests are in the fields of non-financial reporting, integrated reporting, conceptual framework and auditing from an institutional logics perspective.

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