

Social Return on Investment

Lessons learned in Australia



Prepared for
Investing in Impact Partnership

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The past decade has seen increasing interest in measuring the social impact of projects, programs, organisations, businesses, and policies, both internationally and within Australia. Social Return on Investment (SROI) has emerged as an approach to meet these demands.

Social Return on Investment

SROI is a form of stakeholder-driven evaluation blended with cost-benefit analysis tailored to social purposes. It tells the story of how change is being created and places a monetary value on that change and compares it with the costs of inputs required to achieve it.

SROI analyses are generally conducted by practitioners who have been accredited by the international SROI Network¹. Practitioners work to the seven principles² of SROI outlined in the *Guide to Social Return on Investment*³. Considerable care is taken to ensure the close engagement of all stakeholders in the conduct of an SROI analysis, and to ensure the quality and integrity of the resultant reports.

Background to this report

This report was commissioned by the Investing in Impact Partnership (hereafter referred to as 'the Partnership') to assess the current state of play of SROI in Australia today. The partners are: the Centre for Social Impact (CSI); PricewaterhouseCoopers (PwC); and Social Ventures Australia (SVA). The main objectives of the Partnership were to increase the understanding of SROI as an impact measurement approach, improve the evidence base of impact for employment creating social enterprises, and improve the transparency of non-profit organisations reporting on their impact.

Since the commencement of the Partnership in 2009, several developments have occurred: interest in understanding SROI has grown to include a database of over 800 individuals receiving the SROI newsletter; there are discussions around establishing an Australian SROI Network; one or two day training courses have been delivered to about 390 people; 49 SROI analyses have been conducted by SVA; a national conference has been held (October 2011); and, contributions to dialogue at the global level about the further refinement of SROI policy and practice have been made.

This report assesses the impact of these developments and advises on actions the Partnership can take to further the development and take-up of SROI in Australia.

This report will be of interest to people in: non-profit organisations and social enterprises; investors and philanthropic foundations; governments; corporations engaged in corporate social responsibility and social investment; members of the international SROI Network; and, academics working in this area.

For this report, relevant documentation was reviewed, nineteen interviews were conducted with key informants, and a series of case studies were developed.

1 SROI is 'open source', so can be conducted by anyone. In practice, most organisations use accredited practitioners, both to assure the quality of the analysis and enhance the credibility of the report. The network is generally referred to as the SROI Network though its full name is: SROI Network International. For further information please refer to <http://www.thesroinetwork.org/>.

2 The Guide is described in this report, and can be found at: <http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide>.

3 This Guide was published in May 2009. It drew heavily on previous iterations of approaches to SROI Analysis that had been developed in the USA, Europe and then in the UK. It is now recognised internationally as the benchmark for best practice.

Contents of the Report

In broad terms, the report addresses three questions: Is it worthwhile to continue to apply the SROI approach? If so, how could it be done better? What actions should be undertaken to further develop SROI policy and practice, and increase its take-up in Australia?

Is SROI worthwhile?

In regard to the first question, the report concludes that SROI is indispensable. It is essential that organisations seeking to create social change in Australia become more sophisticated in assessing performance against social impact. It is no longer sufficient to put accountability in terms of social impact into the “too-hard” basket. This is because SROI has emerged, internationally, as a viable approach to measuring the extent to which social impacts are being achieved.

At an organisational level, the benefits that accrue to organisations which conduct or commission an SROI analysis are considerable. Organisations are able to: evidence the social impact their activities are achieving, most for the first time; gain deeper insight into the impact they are having on all their stakeholders; learn what is and isn’t working and use this as input into strategy; are usually highly motivated by the results; strengthen their management and monitoring systems; and, provide a compelling story to investors.

Investors in non-profit organisations and social enterprises appreciate a succinct, trustworthy, sophisticated and accessible account of the social value being achieved with the funds invested. They report using SROI as a significant process for building relationships with the organisations they support and for gaining information which informs future investment decisions.

The Australian Government, and in particular Treasury, has given long-standing support to cost-benefit analyses, and the Productivity Commission, in its 2010 report on the non-profit sector, endorsed SROI as a useful approach which fits with the Performance Measurement Framework it proposed.⁴ State governments have also used cost-benefit analyses, and so have a policy basis for supporting the SROI approach.

There are recognised limitations to SROI. It is not a silver bullet. SROI is not yet a comprehensive evaluation framework. At this stage, it cannot be used to compare performance between organisations. The SROI ratio can be misused. Overall, SROI is simply new. More capacity needs to be built, more experience acquired, and further refinements to policy and practice made, to enable the SROI approach to reach full maturity.

How can SROI be improved?

There are a range of technical improvements which can be made, and these are detailed in the report. Mostly, improvement will come through ensuring that SROI analyses continue to be conducted at the highest standards by accredited practitioners with the requisite skills. The level of competencies required to deliver an SROI efficiently and effectively should not be underestimated. Maintaining high standards in SROI analyses will improve the SROI approach over time.

What should be done further to develop SROI and increase its take-up in Australia?

The report recommends that the *Guide to Social Return on Investment* be adopted as the basis for the conduct of SROI analyses in Australia. While this is current practice there is some risk that, over time, people will conduct analyses which fall short of, or even conflict, with the standards set out in the Guide.

The Partnership, which is due to end in June 2012, has been a vital forum for bringing significant stakeholders together to collaborate on social impact. It is recommended that the Partnership give consideration to establishing a new body to build on the achievements of the Partnership in relation to SROI. This new body, which is tentatively named the SROI Partnership, should specifically focus on developing SROI and support systems for it, promotes its take-up in Australia, and contribute an Australian perspective to international dialogue on SROI.

The Office for Civil Society (previously named, Office for the Third Sector), located within the Cabinet Office of the UK Government, has been instrumental in developing and promoting the take-up of SROI in that jurisdiction. While leadership in relation to SROI in Australia has been, and should continue to be, provided from outside of Government, it is clear that government support for SROI will be vital to its widespread adoption in Australia.

Accordingly, the report recommends that the proposed SROI Partnership engage with the Australian Government on the take-up and development of SROI. The SROI approach has direct utility within government. Line departments can use SROI analyses to commission, monitor and assess the social impact of programs and policies. Such analyses will inform program design and performance, and strengthen efforts to secure funding. Outside of government, the extensive uptake of SROI in Australia will depend, in part, on securing the support and active assistance of the Australian Government and, over time, state and territory governments. To these ends, consideration should be given to inviting appropriate government offices and departments to participate as members of the proposed SROI Partnership.

⁴ *Contribution of the Not-For-Profit Sector*, Productivity Commission, 2010, available at: <http://www.pc.gov.au/projects/study/not-for-profit/>; Chapter 3: A Framework for Measurement is available at: http://www.pc.gov.au/_data/assets/pdf_file/0010/94555/07-chapter3.pdf.

It is also recommended that the Australian Government give priority to taking up recommendations made by the Productivity Commission addressed to building knowledge systems in the social sector.

The SROI approach gives rise to the possibility that SROI could become an important element in agreements between investors and service providers; this approach is currently being tested using Social Impact/Benefit Bonds. Were this to happen, it would place the focus of the relationship between investors and providers on common ground, being social impact. The report recommends that the proposed SROI Partnership explore the potential role SROI could play in formal funding agreements between investors and organisations.

Twenty nine of the SROI analyses conducted by SVA were with employment based social enterprises, many based in South East Queensland and Western Sydney. These analyses entailed identifying the social and economic value they create, which was generally significantly greater than the investment,- as well as the full costs associated with supporting people with high needs in the workforce. To fully understand these costs a specific methodology was developed, called Employment Support Costs Analysis (ESCA). Since this methodology is useful both for SROI practitioners and in its own right, the report recommends that SVA prepare and publish a *Guide to Employment Support Costs Analysis* for general use by agencies addressing employment disadvantage and exclusion.

A number of recommendations address SROI training, accreditation and assurance. To strengthen training, the report recommends the development of a suite of training options targeting: a) people wishing to familiarise themselves with SROI; b) managers and other stakeholders who wish to acquire a more in-depth understanding of SROI; and c) people who seek to become accredited SROI practitioners.

Finally, it is recommended that improvements be made to the processes used to accredit SROI practitioners, to ensure the ongoing quality and integrity of SROI reports, and to maintain confidence in them.

Next Steps

The Partnership is well positioned to advance SROI through fostering the establishment of a new body specifically directed to developing SROI and associated support systems; facilitating training; supporting an Australian SROI Network; and, by advancing the recommendations made in this report. In addition, it is hoped that this report will itself provide further impetus to the SROI movement within Australia.

Through the combined efforts of all who are interested in SROI, sophistication in assessing performance against social impact will improve and thus strengthen the overall contribution made by social purpose projects, programs, organisations, businesses, and policies to the wellbeing of Australians.

SVA Consulting

SVA Consulting is the consulting division within SVA and was established in 2007 to support Australian non-profit organisations and funders to deliver real benefits to the community.

SVA Consulting charges on a cost recovery basis and is also supported by Macquarie Group Foundation.

SVA Consulting design customised, results-driven solutions including strategy development, program design and review, funding strategies, boards and governance reviews, and measurement and evaluations including SROI (Social Return on Investment). Utilising skills in analytics, diagnostics, research and facilitated group work, they provide fact based guidance to support critical decisions. For more information see www.socialventures.com.au/consulting

The past decade has seen increasing interest in measuring the social impact of projects, programs, organisations, businesses and policies. Managers want to know what results have been achieved, with a view to improving future performance. Investors want to know the social value their money is creating. Corporations are increasingly interested in social investment. Governments have a strong imperative to measure the social impact of policies, programs and funded activities.⁵

Over the last decade, Social Return on Investment (SROI) has emerged as an approach to meet these demands. SROI quantifies and monetizes social impact in a clear and consistent way, enabling stakeholders to measure the achievement of social impact against three primary performance indicators, being appropriateness, effectiveness and efficiency.

The Investing in Impact Partnership (hereafter referred to as 'the Partnership') was formed in 2009 to increase transparency and improve accountability of the social sector in Australia, with a particular emphasis on SROI. The partners are: the Centre for Social Impact (CSI); PricewaterhouseCoopers (PwC); and Social Ventures Australia (SVA). Over the last three years, the Partnership has:

- increased awareness and understanding of the SROI approach
- developed a database of over 800 people interested in SROI and facilitated the commencement of discussions around development of an Australian SROI Network, and linked local practitioners to international best practice
- provided training to managers and practitioners
- commissioned several SROI analyses itself and provided the platform for over 25 SROI analysis to be carried out on employment creation social enterprises
- supported the development of assurance practice in Australia conducted a national conference, in October 2011.

These efforts have served to place SROI on the map in Australia. This report was commissioned by the Partnership to assess the current state of play of SROI in Australia today and, in particular, to:

- assess the value of the SROI approach to social enterprises, non-profit organisations and their investors
- identify challenges faced by practitioners in applying the SROI approach
- identify opportunities to improve the practice and take-up of SROI in Australia.

This report will be of interest to:

- managers and board members of non-profit organisations and social enterprises, especially those interested in undertaking an SROI analysis
- members of the Australian and international SROI networks, particularly those interested in improving practice and take-up rates
- government officers who commission, monitor or assess programs and policies directed to achieving social impacts
- investors, and philanthropic foundations, who are interested in using SROI in making investment decisions
- people in corporations engaged in corporate social responsibility and social investment
- academics working in the area of social impact assessment.

SROI is an important and valuable approach to improving the transparency and performance of non-profit organisations and social purpose initiatives more broadly. It is hoped this report will foster improvements in the application of SROI and to extend its take-up in Australia in the years ahead.

⁵ For example, see *The Ambitions and Challenges of SROI, Working Paper 49*, Third Sector Research Centre, Dr Malin Arvidson, Professor Fergus Lyon, Professor Stephen McKay and Dr Domenico Moro, December 2010: <http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=QwHhac%2br88Y%3d&tabid=762>.

Contents of this report

The report is organised as follows:

Chapter 1: briefly describes what the SROI approach is, why it has come into existence, how it is implemented, and the support provided for it, both internationally and in Australia. It has been prepared having regard to readers who are unfamiliar with SROI or whose engagement with it has been limited.

Chapter 2: conveys observations and insights about the impact the application of the SROI approach has had on organisations, investors and the social sector over the last three years. It also makes observations about the effectiveness of the SROI approach and the mechanisms used to support its delivery in Australia.

Evidence in support of the observations and insights is drawn from the SROI analyses conducted by SVA, the SROI literature, and the six case studies prepared for this report. It is also informed by the perspectives provided by the nineteen key informants interviewed for this report.

Chapter 3: presents three conclusions and makes eleven recommendations for how the Partnership, investors, non-profit organisations and social enterprises, and governments can continue to develop SROI and extend its use in Australia.

Methodology

This study was undertaken in four phases:

Phase 1: Preparation and planning

Information was gathered to understand the project background. Stakeholders were identified and research questions were prepared for interviews.

Phase 2: Data collection

Relevant documentation was reviewed, including completed SROI reports prepared by SVA for social enterprises and non-profit organisations. Nineteen interviews were conducted with a range of key informants, including: social enterprise managers; investors; accredited SROI practitioners; and, SVA Consulting staff who had applied the SROI approach. Comments from interviewees have been included in the report on a non-identifying basis.

Phase 3: Analysis and evaluation

Findings were reviewed, lessons distilled, and conclusions drawn. Six case studies were compiled to confirm the conclusions reached.

Phase 4: Recommendations and Documentation

A series of recommendations were formed, this report was prepared, and then submitted to the Partnership for its consideration.

This chapter provides a snapshot of the current state of play in relation to SROI, both internationally and within Australia. It has been prepared having regard to readers who are unfamiliar with SROI or whose engagement with it has been limited.

1.1 What is SROI

SROI started as a specialised form of cost-benefit analysis which has grown to incorporate significant aspects of stakeholder-driven evaluation. It places a monetary value on the social impact (the benefit) of an activity and compares this with the cost incurred in creating that benefit. While this is a feature of any cost-benefit analysis, SROI is specialised in being tailored to the analysis of social purpose activities, both in terms of the considerations taken into account in articulating and measuring impact, and in the manner in which it is undertaken. SROI is also stakeholder informed, which increases the depth of analysis required, as it engages more broadly with those experiencing any change than traditional cost-benefit analysis.

As with most performance assessment and evaluation frameworks, SROI is based on program logic (or 'theory of change' or 'logic model'). Using the terms used in the Guide – which are also commonly used in most evaluation frameworks – in a program logic statement: *inputs* are applied to service *activities* to produce *outputs*, from which *outcomes* are derived, which result in *impacts*.⁶ In those terms, the purpose of SROI is to examine the relationship between *inputs* and *impact*.

To take an indicative example, the value of an employment project's impact might be assessed at \$500,000 – that figure being the annual monetized value of that project's social impact, thus forming its social value. That figure could be derived by: adding the savings in foregone social security payments; the taxation paid by participants, once employed; and a value placed on the personal benefits which the participants gain (such as confidence and self-esteem). The investment made in this hypothetical project might be valued at \$100,000 per annum, comprising a \$75,000 cash investment and a \$25,000 value imputed to the contribution made by volunteers. The SROI ratio for this project is then calculated by comparing the value created (\$500,000) to the investment required (\$100,000); this shows that for every \$1 invested, a social return of \$5 is achieved, thereby resulting in an SROI ratio of 5:1. This is the social return on investment.

6 For example, these same terms are used by the Productivity Commission in its proposed measurement framework, in chapter 3, *Contribution of the Not-for-Profit Sector*, Productivity Commission, 2010: http://www.pc.gov.au/__data/assets/pdf_file/0010/94555/07-chapter3.pdf.

An SROI report documents the approach used, the program logic inherent in the activity being assessed, the way in which data was gathered, the views of stakeholders, and the rationale for the proxy indicators used to arrive at the social return on investment.

SROI is the only evaluation approach used in the social sector that expressly relates inputs to impact. This is its unique contribution⁷. There is a plethora of evaluation approaches and many ways to examine program logic, such as the relationship between inputs and activities, or between inputs and outcomes, or activities and outcomes. By relating inputs to impact in monetary terms, SROI fills a vacuum which previously existed in social sector evaluation frameworks.

1.2 Why has SROI emerged in the last decade?

Historically, funding provided to the non-profit sector was in the form of gift or donation, with accountability limited to provision of audited financial accounts. As funding to the sector grew, governments and investors became increasingly specific about how funds were to be applied. These were generally referred to as grants, and organisations were required to account for the activities they undertook, as well as meet financial accountability requirements. In Australia, the grants model came to prominence in government practice in the 1980s.

In the 1990s, governments and investors started to specify the level of outputs organisations were to achieve with the funds provided, an approach which is described as the 'contracts model'. This model remains the dominant approach to the provision of funding the non-profit sector, especially by governments.

However, the ultimate purpose of all social investment is the achievement of social impacts. The contract model does not address impact directly, in the absence of feasible ways to measure the impact organisations achieve.

In this context, The Roberts Enterprise Development Fund (REDF) in California pioneered work on Social Return on Investment (SROI). In its report in 2000, REDF said it had undertaken work on SROI because:

"We wanted to answer a series of questions important to practitioners and philanthropists/investors, including:

- how can we measure the success of our efforts?
- how do we know whether we're accomplishing what we set out to do?

7 "There is agreement between the Social Accounting and Audit (SAA) Network and the Social Reform on Investment (SROI) Network on all but one of the seven identified principles...The seventh principle relates to the use of financial proxies and monetisation of value and is unique to the SROI approach." Joanne McNeill, quoted in *Third Sector Magazine*, October, 2009: http://thirdsectormagazine.com.au/news/how_to_measure_social_impact/008061/.

- how can we make informed decisions about the ongoing use of our resources?
- how can REDF test and convince others of what we believe to be true: that for each dollar invested in our portfolio agencies' efforts, there are impressive, quantifiable resulting benefits to individuals and to society?"⁸

This work was picked up by the new economics foundation, and by other agencies in the UK and in Europe, and culminated in The UK Government's Cabinet Office: Office for the Third Sector launching its *Measuring Social Value* project in 2008⁹ and The Scottish Government launching The SROI Project to run parallel with this. (Note: The Office for the Third Sector was renamed as the Office for Civil Society in 2010). These projects aimed to develop SROI with the view to highlight and strengthen social and environmental values contributed by third sector organisations.

At the same time, the increasing focus on outcome and impact – often expressed in the phrase, 'value for money' – had also been growing within philanthropic giving, by individuals, foundations and the corporate sector. Previously, giving involved a more relaxed attitude towards charitable impact assessment but this has now changed for a view that philanthropic investment should be based on a well-informed choice to ascertain that an investment will make a difference. This has recently been referred to as the "holy grail of 'impact'"¹⁰.

In addition to the influence and pressure coming from the public sector and philanthropic funders, there was a push from within the non-profit sector itself for organisations to become better at evidencing and communicating the value they create, as exemplified by REDF. A focus on outcomes and impact is being increasingly recognised as a means to not only prove what has been achieved to outside stakeholders, but also as a way of improving an organisations' management and strengthening its performance.

Within the corporate sector, there has been a steady evolution from Corporate Social Responsibility towards Social Investment and, most recently, to 'creating shared value', an approach promoted by Michael Porter.¹¹ This shift has entailed an increasing focus on the social impacts of corporations, not just in their corporate philanthropy but in relation to their supply chains and overall social impact as a company.

Interest in SROI in Australia commenced in 2005/6, when SVA started conducting SROI analyses. By 2008, SVA had completed fourteen analyses and, in the process, developed insight and expertise in SROI, which facilitated investor and non-profit

interest in it. The subsequent formation of the Partnership in 2009 has continued to foster interest in SROI in the Australian context.

In summary, over the last decade, the shift towards a focus on impact by governments, philanthropists, corporations, and the non-profit sector has given rise to a strong wellspring of interest and support for SROI, both internationally and within Australia.

1.3 How SROIs are conducted

Each SROI analysis is tailored to each organisation and the specific scope of the analysis within the organisation. For this reason, SROI is best described as an approach rather than a tool.

A range of approaches to SROI have emerged. The predominant approach is set out in *A Guide to Social Return on Investment* (Nicholls et al., 2009), published by the Cabinet Office, Office for the Third Sector (hereafter referred to as 'the Guide').¹² The SROI Network (in consultation with existing practitioners worldwide) promotes the Guide as the preeminent documented approach to the conduct of SROI analyses. The Guide identifies seven principles which underpin six stages for the conduct of an SROI analysis. These principles and stages are presented below.¹³

Conduct of an SROI: The Seven Principles

The conduct of each analysis is based on seven principles:

- 1. Involve stakeholders.** Stakeholders should inform what gets measured and how this is measured and valued.
- 2. Understand what changes.** Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.
- 3. Value the things that matter.** Use financial proxies in order that the value of the outcomes can be recognised.
- 4. Only include what is material.** Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.
- 5. Do not over claim.** Organisations should only claim the value that they are responsible for creating.
- 6. Be transparent.** Demonstrate the basis on which the analysis may be considered accurate and honest, and show that it will be reported to and discussed with stakeholders.
- 7. Verify the result.** Ensure appropriate independent verification of the account.

8 <http://www.redf.org/about-redf>.

9 <http://base-uk.org/node/126>.

10 *Alliance magazine*, Bruce Sievers, 1st March 2010.

11 <http://hbr.org/2011/01/the-big-idea-creating-shared-value>.

12 <http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide>.

13 The descriptive text is that published in: *SROI for funders*, Lucy Heady, New Philanthropy Capital, September 2010:

<http://www.philanthropycapital.org/download/default.aspx?id=1124>.

Conducting an SROI: The Six Stages

The Guide sets out the following stages:

Stage 1: Establishing scope and identifying stakeholders

The scope of the analysis is clearly delineated with the organisation, and the stakeholders to be involved as key informants are identified. The active involvement of stakeholders, which includes staff, management, investors and others, is a key element of SROI, and distinguishes it from classic cost-benefit analysis approaches.¹⁴

Stage 2: Mapping outcomes.

This step articulates the program logic: how resources (inputs) are used to deliver activities (measured as outputs), and how these activities result in outcomes for stakeholders. The rigour taken in this step is also a feature which distinguishes SROI from cost-benefit analyses.

Stage 3: Evidencing outcomes and giving them a value

Once outcomes are clearly identified, data is gathered to evidence and measure the extent to which they are being achieved and how long they last. The effort involved in undertaking this step varies in accordance with the quality of the organisation's planning and the extent of its information systems.

The last task in this stage is to ascribe a monetary value to the outcomes. This can entail significant and detailed considerations, and is an area of SROI which is subject to ongoing development.

Stage 4: Establishing Impact

In this stage, the extent to which the activities contribute to the impact achieved is determined by placing the organisation's impact in context. For example, a project to reduce homelessness might be operating in a context where rent support, public housing supply, and private investment in rental properties have all increased. These factors, which lie outside the organisation's ambit, would nevertheless contribute materially to the success of the project.

Steps are taken to bring these external variable factors to account, with the effect of discounting the organisation's impact. This is important in assessing the extent to which the project has contributed to achieving the measured impact, and thus the integrity of the SROI.

Stage 5: Calculating the SROI

In this stage the data that has been gathered is expressed in the form of an SROI ratio. Steps are taken to express financial figures in terms of net present value, and to conduct a sensitivity analysis. The final result may also be expressed in terms of a payback period.

Stage 6: Reporting, using and embedding

The results are written up in a report which is provided to all stakeholders. The SROI report includes qualitative, quantitative and financial findings, to provide the reader with information on the social value being created in the course of an activity. It tells the story of change and explains the decisions made in the course of the analysis.

The SROI ratios are very useful in communicating with stakeholders. Thereafter, the report can be used by the organisation to think through implications for organisational objectives, governance, systems and working practices. The ratio has most value when it is tracked over time, as this provides feedback, at impact level, on how an organisation is improving.

All SROIs should be conducted in accordance with the stages set out in the Guide, and should abide by the principles articulated by the SROI Network. In addition, every SROI analysis must report on the relationship of inputs to impact, in the form of an SROI ratio. Any efforts which do not meet these requirements should not be considered as an SROI analysis, and should not be named as such.

1.4 International Support for SROI

The SROI Network is an international member organisation which evolved from the UK SROI Network and subsumed the European SROI Network.¹⁵ The SROI Network conducts international conferences¹⁶, and has developed training and an accreditation process for SROI practitioners, as well as a process to assure individual reports. The details of the support offered by the SROI Network are described below.

Accredited Training

The SROI Network offers a two day accredited training course. There is a standardised curriculum, which follows the SROI Guide.

¹⁴ One interviewee noted in interview that the need to engage with stakeholders is "the main difference with the type of analysis we normally do, such as cost-benefit analysis and economic analysis."

¹⁵ Please see The SROI Network website, <http://www.thesroinetwork.org/home-uk> for more information. The European SROI Network's website (<http://www.sroi-europe.org/>) last posted events dating to 2008.

¹⁶ The most recent SROI Network International Conference – "A time for social value" – was conducted in February 2012, in Berlin.

The training is delivered by an accredited SROI trainer¹⁷ who usually adopts one of the following approaches:

- The experiential approach involves each participant completing an SROI impact map using their own project or organisation as an example. Some of the challenges of applying the SROI methodology are then discussed.¹⁸
- The theoretical approach involves participants being presented with a completed example report to illustrate the SROI principles and process. The trainer then encourages debate about the judgements made throughout the SROI analysis.

Successful completion of the course is based on attendance rather than an examination of a practitioner's knowledge.

Accreditation of Practitioners

The successful completion of the two day accredited training course is the first step towards becoming an accredited SROI practitioner. A practitioner must then complete an SROI report and submit it to The SROI Network. If the report is assured, the practitioner is then certified.

SROI accreditation lasts for three years from the date the report was assured. This can be extended to five years with the submission of a further report. As at October 2011, there were over 40 accredited SROI practitioners globally.

Assurance of Reports

Individual SROI reports can be assured for quality through independent verification by The SROI Network. The assurance process involves assessing the report against specific criteria related to the seven SROI principles. The assessment is completed by two independent assessors who are both accredited SROI practitioners. The assessors discuss the report and if it meets the requirements, it is submitted to a panel of SROI experts for a final check. If it does not meet the requirements, then the lead assessor provides feedback to the practitioner to amend and resubmit the report.

Ongoing development of SROI

There continues to be a good deal of discussion, debate and study undertaken by various bodies in relation to SROI, as experience is gained and practice matures. Contributors include, for example, DEMOS, new economics foundation (nef), Third Sector Research Centre, New Philanthropy Capital, the Social Enterprise Academy, The Roberts Enterprise Development Fund, and the Local Government Association (UK), among others.

The UK Government, through the Office for Civil Society, and the Scottish Government have provided significant leadership in developing and promoting SROI, and continue to contribute.

SROI Canada has recently been established and has launched a dedicated website.¹⁹

Developments in SROI are reported in a wide range of publications including, for example, Social Edge, Third Sector News, Philanthropy UK, Australian Philanthropy, and Pro Bono Australia.

1.5 Australian Support for SROI

As noted, interest in Australia commenced in 2005/6, when SVA engaged with SROI and conducted several SROI analyses. The Partnership formed in 2009 between the Centre for Social Impact (CSI), PricewaterhouseCoopers (PwC) and Social Ventures Australia (SVA) has fostered further interest in SROI. One objective of the Partnership was to develop a greater understanding of best practice in impact measurement amongst non-profit organisations, social enterprises and investors over a three year period. During the life of the Partnership, several developments have occurred, including:

- Growing awareness of the SROI methodology
 - Five SROI newsletters have been compiled and sent to the Australian SROI Network distribution list, which has over 800 contacts.

A national conference was held in Sydney in October, 2011, attended by over 80 people.

Members of the Partnership have followed and engaged in the ongoing dialogue and growing literature about SROI.

Members of the Partnership have contributed articles to industry publications. For example, two members of the Partnership (Les Hems, Director of Research at CSI and Kevin Robbie, Executive Director, Employment at SVA) contributed an article to Philanthropy Australia magazine²⁰. Kevin Robbie published an article entitled 'Seeking the Holy Grail of Impact Measurement', for the AFG Venture Group.²¹

The conduct of SROI analyses by SVA, a number of workshops and presentations at conferences, and the provision of training have all been instrumental in promoting broader awareness.

The distribution of this report is expected to further increase awareness of SROI in Australia.

¹⁹ <http://www.sroi-canada.ca/>.

²⁰ *Measuring Impact: the SROI pathway*, Kevin Robbie and Les Hems, Australian Philanthropy - Issue 77: Outcomes, Outputs and Impact, Summer 2010.

²¹ <http://www.afgventuregroup.com/dispatches/afg-venture-group-newsletter/seeking-the-holy-grail-of-impact-measurement-kevin-robbie-director-social-enterprise-development-social-ventures-australia/>.

¹⁷ As at October 2011, there were 10 accredited SROI trainers in the world.

¹⁸ An Impact map details the theory of change for each stakeholder group, and then defines a way to measure and value each outcome. It is the basis of an SROI analysis.

- Provision of SROI training

The Centre for Social Impact and the private professional consulting organisation, Net Balance, have both engaged accredited SROI trainers to run training courses over the past 2 years²². Each training course has been sold out. Net Balance has conducted two-day training courses with 150 participants²³ and CSI has provided training one and two-day day training courses with 240 participants²⁴. Participants have been drawn from governments, non-profit organisations, and the corporate sector.

- Conduct of SROI analyses

SVA has completed and supported a total of 49 SROI analyses using the Guide, which SVA adopted as the basis for its practice following the publication of the Guide in May 2009 and its international recognition as establishing best practice. Before then, SVA conducted 14 SROI analyses using other approaches. Of the 49 SROI analyses conducted, SVA was engaged as a mentor for seven of them.²⁵

Most of the SROI analyses conducted in accordance with the Guide (29 out of 49) were focussed on employment-creating social enterprises. This has been largely driven by SVA's work with social enterprises and the intent to build an evidence base using standard measurement and evaluation methodologies.²⁶

To support this effort, as of October 2011, eight SVA employees were accredited as SROI practitioners, with another two pending. Three of SVA's SROI practitioners have had experience in supporting a trainer to deliver the two day training program. In addition, two SVA employees have also been involved as assessors for SROI reports going through the assurance process.

PwC has participated in the Partnership, provided financial support for some of the activities of the Partnership, sent several PwC staff to training, and hosted conferences and training sessions. In addition to training, Net Balance offers SROI analysis services to business corporations and non-profit organisations.

Overall, these activities have provided considerable momentum to SROI, within the Australian non-profit, business and government sectors.

1.6 Recognised Limitations of SROI

In its current form, the SROI approach is neither a comprehensive evaluation framework, and nor is it intended to be. Rather, SROI complements, and in some cases borrows from, existing tools and methods such as the Balanced Scorecard, the Australian Business Excellence Framework, the European Framework for Quality Management, Social Auditing/Social Accounting, Risk Management, and the plethora of accountability frameworks established by funding programs.²⁷ Accordingly, organisations undertaking SROI should be cognisant of the specific contribution SROI makes, and how that contribution fits with other frameworks being used by the organisation.

As a matter of principle, each SROI analysis is tailored to each organisation. Accordingly, the SROI ratio is specific for each organisation and hence does not lend itself to cross-organisational comparison. On the other hand, the use of an SROI ratio as a benchmark datum within an organisation enables that organisation to measure changes in performance over time.²⁸

There can be a tendency for some investors or organisations to misunderstand the numbers, specifically the SROI ratio. SROI is about value, rather than money. The SROI ratio represents the social value created for each \$1 invested, rather than an actual financial return. Accordingly, care needs to be taken in the way the SROI ratio is communicated.

Overall, SROI is new. Ten years of development is not a long time. As Claudia Wood and Daniel Leighton noted, in their 2010 report, *Measuring Social Value: the gap between policy and practice*:

In the private sector, the current measure of profit has been refined over several hundred years, there are international standards and a very large accounting profession to police them, and investors and managers have considerable experience and training in interpreting the result. Even so, there remain significant problems in the interpretation of this single measure of profit (not to mention scope for profit manipulation) and in incorporating measures of risk in evaluating returns on investment.

22 Net Balance is an independent professional consulting services organisation. Please see www.netbalance.com for more information.

23 Interview with Ross Wyatt, Associate Director, Net Balance.

24 Interview with Les Hems, Director of Research, CSI.

25 As mentor, SVA provided support and guidance to practitioners outside of SVA to conduct an SROI analysis.

26 Funding for the conduct of these SROIs was obtained from a variety of sources, including: The Strategic SROI Partnership funded by PwC, Social Ventures Australia, the Commonwealth Department of Employment, and Education and Training, and the Queensland Department of Disability Services.

27 http://www.sroi-europe.org/index.php?article_id=9&clang=1.

28 This benefit is widely understood. For example, *Briefing Paper 49, The ambitions and challenges of SROI*, Dr Malin Arvidson et. al., Third Centre Research Centre, 2010: <http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=8LzzP8zWQB8%3D&tabid=762>.

The third sector is starting without this accumulated experience and infrastructure. The sector is moving fast: several organisations have done notable work to fill this gap by defining and explaining the purposes and methodology of calculating social returns and several grantees are making good progress in measuring social returns, but the sample in this report indicates that many are not yet ready for the full rigours of the SROI frameworks.²⁹

That said, there is a long standing literature on cost-benefit analysis, on which SROI is based. Moreover, as more experience with SROI is acquired, both internationally and within Australia, the gap between policy and practice should close rapidly, enabling SROI to become an increasingly useful approach to assess the performance of social projects, organisations, programs and policies.

²⁹ *Measuring social value: the gap between policy and practice*, Claudia Wood and Daniel Leighton, Demos, 2010, pg 4.

This chapter conveys observations and insights about the impact the application of the SROI approach has had on organisations, investors and the social sector over the three years. It also makes observations about the effectiveness of the SROI approach and the mechanisms used to support its delivery in Australia.

Evidence in support of the observations and insights is drawn from the 49 SROI analysis conducted by SVA over the last two and half years. It is also informed by the perspectives provided by the nineteen key informants interviewed for this report, and six case studies prepared for this report (see Appendix 2).

This chapter is organised into three sections: the impact on non-profit organisations and social enterprises; the impact on the sector; and, promoting and developing SROI in Australia. Each section summarises key observations and insights, including lessons for SVA and other practitioners, and is illustrated with examples.

2.1 The impact on non-profit organisations and social enterprises

The section assesses the impact of the SROI approach on non-profit organisations and social enterprises in relation to three key areas: strategy and operations, people, and fundraising/ investment.

Strategy and Operations

2.1.1 An SROI analysis gives organisations deeper insight into the impact they are having on all their stakeholders

Stakeholder engagement is a fundamental element of the approach to SROI set out in the Guide, and is also the first principle of the seven identified by the SROI Network.

Engaging stakeholders provided all organisations with a deeper understanding of who their main stakeholders were. The process encouraged them to communicate with their stakeholders, by providing a context in which they could ask questions, engage in dialogue, and develop a broader perspective of what was driving change.

Organisations remarked that involving stakeholders enabled them to observe what was and, in some situations, wasn't happening. It also provided an opportunity to begin discussing which elements of their program they might change or enhance in the future to create more value.

For example, the social enterprise Livingin Constructions³⁰ remarked that the feedback received from the interviews with stakeholders was the most critical component of the analysis. The interviews identified that different outcomes were being experienced by virtue of the differing support needs of employees supported by Livingin Constructions, which was new information to their management team. The interviews also opened up the communication lines between Livingin Construction's employees and management - employees had increased confidence in discussing the impact of their employment on their lives with Livingin Construction's management team.

"At first I was sceptical [about the SROI analysis] until I saw the outcomes of the interviews, and then realised that engaging with the stakeholder formed an integral part of understanding the value we create."

LIVINGIN CONSTRUCTIONS MANAGEMENT

For many organisations, the SROI analysis was the first time stakeholders had been engaged in a dialogue about the impact of the activities on them and how they value these impacts.

2.1.2 An SROI analysis strengthens the capacity of organisations to engage in strategic planning

Most organisations stated that the SROI analysis helped them to make important strategic decisions. This is because an SROI analysis evidences, in a structured format, the outcomes and impact the organisation creates and how this is done. This deepened understanding feeds directly into strategic planning the organisation undertakes.

For example, the SROI analysis conducted for SEED³¹, a social enterprise that provides property and maintenance services in the north of Brisbane, identified that co-location with the community organisation they are affiliated with, SANDBAG³², was a key driver of social value for their employees. The analysis highlighted that SEED employees considered the SANDBAG community centre as a home away from home. The outcomes experienced by employees at SEED, such as increased self-confidence and an increased sense of belonging in a community, were linked to their experience as a part of the SANDBAG community. For SANDBAG, SEED created an increased number

30 Livingin Constructions is a social enterprise which constructs buildings and landscapes that meet the requirements of families with complex needs, while also employing people excluded from the labour market. Refer to Appendix 2, Case study 5 for more details about its SROI analysis, and to <http://livinginconstructions.com.au/about/> for more information about the organisation.

31 Sandgate Enterprise for Economic Development (SEED) is a social venture located near Brisbane, Queensland, Australia, which provides landscape maintenance and commercial cleaning services. Please refer to Appendix 2, case study 6 for more details about its SROI, and to <http://seedppm.com/services> for further information about the organisation.

32 Sandgate & Bracken Ridge Action Group (SANDBAG) is an independent community based organisation located near Brisbane, Queensland, Australia. Please see <http://www.sandbag.org.au> for more information.

of positive role models in the community. As a result of these insights, SEED changed its decision to move away from the SANDBAG community centre.

SVA has also conducted an SROI analysis with a community service organisation which resulted in a full review of the operating model for the service and a subsequent redesign of its operating model. This was due to the SROI analysis highlighting the high cost of the service relative to the value being created.

People

2.1.3 The SROI process motivates the team

The SROI process involves all stakeholders and asks probing questions about the impact of the organisation. For these reasons, it creates an environment where the employees in the organisation understand and become deeply engaged with the real impact they are creating. This has motivated members of the team, from management through to employees.

“Although change is seen every day, when we reflect on data before and after it is very motivating for the team and there is much pride established from having this evidence-base.”

STREAT MANAGEMENT ³³

At SEED, a supervisor independently pursued further study to increase his capacity to emotionally support employees. At larger non-profit organisations, the results of SROI analyses have been distributed within the organisation, which has resulted in employees appreciating the impact of their work. Organisations also view themselves as leaders in social impact measurement.

2.1.4 SROI provides a powerful snapshot of an organisation's impact

Organisations commented that an SROI analysis was valuable as it provided them with a snapshot of their organisation's impact at a point in time. This provided organisations with a benchmark against which to assess and compare future performance, so providing incentives to do so.

Previously, people in the organisations had convictions about the change they were creating. By undertaking an SROI, these convictions are evidenced, corrected or, in some cases, enhanced.

The SROI approach requires the organisation to clearly articulate its program logic, or theory of change. This, together with the evidence gathered about the extent to which this change was being achieved, strengthens the organisation's strategic planning capacity.

2.1.5 The SROI approach is too limited in recognising only forecast and summative analyses

There are two forms of SROI analysis described in the Guide: a forecast analysis, and an evaluative analysis. A forecast SROI analysis projects the social value an organisation intends to create in the future; an evaluative SROI analysis assesses the social value an organisation has created in the past.

It is proposed that consideration be given by the international SROI community to a third form of analysis, one which forms a conclusion about the SROI the organisation is achieving now – in contrast to the past (evaluative SROI) or the future (forecast SROI). It is proposed that this new form be termed a 'Baseline SROI'.

A baseline SROI differs from a forecast SROI, in that it takes account such evidence as is available from past performance and, where appropriate, from projected social values. It differs from an evaluative SROI, which has the complete data set required to conduct an evaluative SROI.

It is strongly emphasised that a baseline analysis follows all the stages set out in the Guide, and conforms to the seven principles identified by the SROI Network. It also provides an analysis of the relationship between inputs and outputs, in the form of an SROI ratio, without which no evaluation can be called an SROI.

The need for a baseline SROI has arisen from SVA's experience in conducting 49 analyses in the last two and a half years. For most of the organisations with whom SVA worked the conduct of the SROI analysis was the first time evidence had been sought or collected about the organisation's social impact. As a result, the conduct of an evaluative SROI was not possible. However, there was some evidence that was available, or which could be collected during the life of the study. Ignoring this evidence, by producing a forecast analysis, would not have been appropriate.

The lack of suitable data on past performance sufficient to inform an evaluative SROI analysis is a common experience. This is no surprise, insofar as the shift in focus to outcomes and impact is recent, requires some sophistication and requires the allocation of resources. For example, a practitioner noted in interview that the lack of data had been a significant problem. She observed that the program had undertaken some surveys but had no data that was useful for the SROI analysis. This resulted in the need to create two surveys for existing and new clients, which are now being undertaken in the course of the analysis.

³³ STREAT is a social enterprise providing homeless youth with a supported pathway to long-term careers in the hospitality industry. Please refer to Appendix 2, case study 2 for more details about its SROI, and <http://streat.com.au/> for further information about the organisation.

This limitation is experienced internationally. Claudia Wood and Daniel Leighton, in their 2010 UK study, *Measuring Social Value: The gap between policy and practice*, reported that:

A snapshot of a range of third sector organisations suggests.... that very few organisations are implementing SROI as yet and, indeed, the majority are not 'SROI ready'. SROI readiness mainly involves being able to identify and measure organisational outcomes adequately in a quantitative way.³⁴

A baseline SROI analysis can be undertaken with organisations that are not 'SROI ready', so providing them with all the benefits of the SROI process, including guidance and strong incentives to improve data capture and measurement processes. It also provides a useful snapshot of the impact an organisation is creating now, against which it can benchmark future achievements.

2.1.6 Extensive uptake of SROI is dependent on non-profit organisations and social enterprises giving appropriate priority to ongoing measurement

All SROI reports completed by SVA recommended that organisations use the SROI analysis to continue to build an evidence base upon which to measure and evaluate their impact in the future. However, most organisations interviewed had not yet implemented such processes in the period since the completion of their SROI report. This activity was not given priority over their usual business activities relating to management of the organisation or attracting additional revenue.

This problem is not inherent to SROI. Historically, service provider agencies have not prioritised monitoring efforts on the grounds of competing demands in a resource scarce environment.

All monitoring and evaluation systems require ongoing data collection, capture, storage and application. This incurs a range of costs, including: staff time; IT systems development, implementation, training and support; and, management time in the collation, comprehension and use of monitoring and evaluation reports.

In addition, while many people in non-profit organisations and social enterprises appreciate the value of measurement data, they often lack the requisite skills and experience to design and implement data systems which meet the organisation's needs.

However, it should be noted that most of the SROI analyses SVA conducted were with employment based social enterprises. Many of these organisations were new, and their funding sources do not generally demand reporting of routine monitoring data.

Organisations which receive recurrent funding from governments for the provision of services are usually required to provide ongoing monitoring data to government, according to terms set out in their funding contracts. These demands can be extensive and are often supported by the provision of government supported IT systems which enable agencies to collect, store, collate and report on performance and other data. Accordingly, these organisations may be better placed to undertake SROI analysis, compared with social enterprises.

Moreover, many young or small organisations – and most of the social enterprises SVA worked with were young and small – find it more difficult to prioritise information system development since the few personnel involved invariably have competing priorities which draw their attention away.

"Often organisations who are at their infancy at the time the analysis is conducted are not able to focus on the SROI given competing day-to-day demands."

ACCREDITED SROI PRACTITIONER

Insofar as the demand for performance information is now irreversible, the problem of organisations not being 'SROI ready' can be expected to dissipate over time. Where organisations already provide monitoring data to funding agencies, it may be appropriate to negotiate with the funding agency to incorporate SROI-specific data collection requirements within their existing data systems. In the case of small or young organisations, the effort entailed in putting the right data systems in place can be a great deal less resource intensive, compared with large organisations conducting a wide array of programs in a complex environment. In all cases, the data required to enable the conduct of SROI is drawn from data that should already be part of an adequate measurement system. SROI is an approach to analysing core data, rather than approach which demands specialised data sets.

2.1.7 Non-profit and social enterprise managers should be exposed to, and be trained in, SROI

SROI introduces a new language which can be difficult for people to comprehend, in the same way that cashflow statements, Profit and Loss reports and Balance Sheets can be a new language for some people engaging in social enterprise for the first time.

For example, an SROI analysis uses terms such as: program logic, financial proxies, net present value, deadweight and displacement, and sensitivity analysis. The consultant conducting the project requires a broad skillset to successfully complete an SROI analysis, but non-profit and social enterprise managers also need to acquire a working understanding of the concepts inherent in these terms in order to contribute to the analysis and understand it at depth.

³⁴ *Measuring social value: the gap between policy and practice*, Claudia Wood and Daniel Leighton, Demos, 2010, pg 16.

In order to increase the take-up of SROI, non-profit managers and social venture entrepreneurs should be exposed to SROI and its benefits. There is readily available information on SROI, most notably the Guide, which is accessible on the Web. In addition, training events specifically directed to managers and entrepreneurs would enhance understanding of SROI terminology, and the concepts inherent within them. Whilst many would not intend to go on to become accredited practitioners there may be benefit in managers of non-profits and social enterprises in attending training to become familiar with the process of tracking change in their organisation.

Fundraising/Investment

2.1.8 SROI provides a compelling story to investors

All organisations agreed that applying the SROI approach helped them to present a clear and succinct message about their social impact to investors. An SROI analysis describes how an organisation's activities impact on each stakeholder group and the way the stakeholder groups value that impact. One of the main attractions of an SROI analysis is the SROI ratio, which expresses the relationship between input costs and impact achieved (e.g.: an SROI ratio of 5:1 means that for \$1 invested, \$5 in social value is created).

"This is just one way of telling the story, but for some people it's the most effective way of telling the story."

STREAT MANAGEMENT

The SROI report includes the story of change for each stakeholder group and identifies all the judgements made in the analysis. This transparency helps readers gain a fuller understanding of the organisation and view the report as an authentic and honest appraisal of the social return on investment being achieved by the organisation. Accordingly, the SROI report acts as an important component of a social enterprise's marketing material when speaking with investors.

However, most social enterprises who worked with SVA reported that although there is a wealth of information in an SROI report, communication with stakeholders or investors is usually time-constrained. To aid communication, SVA designed a two-page summary of the SROI report that highlighted the key results of the analysis.

"When he saw the two-page summary of the SROI report I had brought along he told me that it is exactly this type of report developers and large corporations are looking for to concretize their views on the benefits of working with [social] enterprises."

SEED MANAGEMENT

These two-page summaries have been used widely by organisations when communicating to investors and other stakeholders about the social value they create.

2.1.9 SROI informs investors and managers of the true costs associated with delivering an organisation's social impact

An SROI analysis requires that all costs and benefits for each stakeholder group are expressed in monetary units. Organisations commented that the process of identifying and measuring all costs, particularly the intangible costs, was illuminating.

The most striking example of how true costs were illuminated arose in regard to employment based social enterprises; businesses which have as their social purpose the employment of people who are excluded from or disadvantaged in the mainstream workforce. When conducting these analyses, it became apparent that one of the key costs for these enterprises was the additional costs expended to provide support for employees with high support needs. To ensure the SROI analyses were accurate, it was necessary to take account of these costs.

Accordingly, the Employment Support Costs Analysis (ESCA) methodology was developed by SVA to enable social enterprises to measure the additional investment required to deliver on their social purpose. The ESCA methodology, is designed to answer the following questions for employment based social enterprises:

- (1) What additional activities are undertaken in order to achieve the intended social impact?
- (2) What are the additional costs of running a business with employees with high support needs?
- (3) If the enterprise receives goods or services pro-bono, what is the value of the 'savings' accrued in this way?

The ESCA methodology has been applied by SVA Consulting to six employment-creating social enterprises. The enterprises remarked that the ESCA analysis provided them with a much deeper understanding of the true costs associated with providing support to employees with high support needs and achieving their social missions. The analysis yielded data about costs associated with the support, training and supervision of these employees, as well as an assessment of the productivity loss associated with hiring inexperienced and comparatively inefficient employees. For example, for the Nundah Co-operative's Espresso Train café, the employment of people with severe and enduring mental illness costs 24% more than an equivalent mainstream business.³⁵

ESCA is a useful tool for all employment based services that need to assess the level of investment they require in order to support, supervise and train people who are excluded from or are marginal to the mainstream workforce. "The information provided by ESCA can contribute to a deeper understanding and a more accurate calculation of the investment in an SROI analysis." In addition, ESCA enabled organisations to more accurately forecast their funding requirements, which in turn assisted them in their discussions with investors about their financial needs.

³⁵ Article published in the Brisbane *Courier Mail*, page 8, 9th June 2011.

2.1.10 Investors are realising that SROI is helpful in choosing what to invest in

As part of the due diligence process before an investment is made, philanthropic investors will often consider information such as business plans, program logic, financial accounts and conduct management interviews. In this context, SROI analyses are increasingly being recognised as a useful way to assess evidence of social impact.

“The first step in our investment due diligence process is about understanding the theory of change and the logic behind it. We then review other information including business plans and audited accounts, meet the management team, and review the evidence of impact. The SROI report is a means to review the evidence of impact.”

INVESTOR, AT INTERVIEW

Investors recognise that an SROI analysis is one piece of information and should be considered in the context of other information.

“The tool cannot be used in isolation. It must be used in combination with other due diligence tools. Considering the analysis on its own does not provide a complete view.”

INVESTOR, AT INTERVIEW

Investors who have used the SROI analysis to aid their decision making cite that, as with other types of evaluation, it is difficult to compare results between organisations. For example, SVA’s work with 29 employment based social enterprises found that outcomes varied greatly depending on the employment model enterprises used, the profile of their employees, and the industry in which the enterprise was located and its own stage of development.

“It is critical to understand that social enterprises and their support models vary greatly, so the changes will be different, and the value placed on the changes by the stakeholders will also be different.”

SROI PRACTITIONER, AT INTERVIEW

It is noted that where inputs, activities, outputs and target groups are largely similar – which was not the case for these 29 employment-based social enterprises – it is possible that the SROI analysis could be used for comparing results between organisations.

The SROI process engages investors as a stakeholder group. This leads to open dialogue and a clearer understanding of mutual expectations between the organisation and its investors. In some situations, the SROI process created an environment where the challenges an organisation was facing were discussed openly and honestly for the first time. Organisations which engage in SROI demonstrate that they are willing to be accountable,

and that they take measurement and evaluation seriously. This commitment, along with open dialogue, fosters a climate which is conducive to investors investing in an organisation.

2.2 The impact on the sector

This section describes how the SROI approach has, or could, impact the sector in Australia. The perspective of philanthropic investors, Government, and the non-profit sector are considered.

2.2.1 Investors are providing financial support for the conduct of SROI analyses

The majority of SROI analyses that SVA has completed have been funded by investors, with the willing assent of the organisation or enterprise.

Investors reported that they saw SROI as providing them with credible information on the “real impact” the organisation was achieving. The principles – such as stakeholder engagement, not over-claiming, and transparency in reporting – were regarded as appropriate. In addition, having an external accredited SROI practitioner undertake the analysis was regarded as enhancing the credibility of the report.

“[The social enterprise] has been provided with a short document which articulates the social enterprise’s value creation. It provides evidence that what they do they do well and this has been a key tool used in discussions with investors and other funding bodies.”

INVESTOR, AT INTERVIEW

Non-profit organisations and social enterprises consistently remarked that the funding provided was instrumental in their decision to complete the analysis. As with any evaluation, engaging an external accredited consultant to complete an SROI requires expenditure of funds. These costs can be defrayed if internal staff are trained and mentored in the conduct of an SROI, though SVA’s experience has been that staff allocated to undertake this task find it becomes an addition to their existing workload, with consequent delays and sometimes poorer execution of the analysis.

2.2.2 The Federal Government is well placed to support the development and uptake of SROI in Australia

The Federal Government has well established policy settings on which to rely in supporting the development and uptake of SROI in Australia.

As noted earlier, Treasury promoted a focus on impact assessment in its *Handbook of Cost-Benefit Analysis* (2006). For example, Departments are required to prepare a Regulation Impact Statement (RIS) to show that a regulation provides a public benefit. Specifically, a RIS includes “an assessment of the impact (costs, benefits and, where relevant, levels of risk) on

consumers, business, government and the community.”³⁶ Since SROI is cost-benefit analysis tailored to the social sector, it follows that Treasury would endorse the use of the SROI approach in the non-profit and social venture sectors.

The Productivity Commission published its report, *Contribution of the Not-for-Profit Sector*, in 2010. In the report, the Commission provided extensive commentary on monitoring and evaluation in the non-profit sector, and made several strong recommendations to improve performance in this area. The Commission observed that there was: “a lack of timely, quality data on the economic contribution, scale and scope and impacts of the sector” (emphasis added)³⁷. To redress this, the Commission recommended that an Information Development Plan be developed, which should provide for building databases that assess the contribution of the sector over time.

The Commission also called on Australian governments to adopt a common framework for measuring the contribution of non-profits, noting that an agreed measurement framework would encourage greater evaluation within the sector. It also observed that current evaluation requirements can be complex and provide little meaningful information, and called for efforts to ensure that reporting and evaluation processes are consistent with best practice principles.

The Commission also recommended that Governments provide funding for reporting and evaluation.

In the body of the report, the Commission provided extensive commentary on SROI, and stated that SROI – along with other approaches it identified– fitted with its proposed measurement framework. This is no surprise since, as noted, the Commission’s proposed approach is based on the same program logic used in SROI.

Since the Commission reported, the Government has stated that it “supports in-principle or in-part, all but one of the PC report’s recommendations relating to the Commonwealth and is using them as a reference and guide for the not-for-profit reform agenda.”³⁸

One of the key recommendations called for the establishment of an Office for the Non Profit Sector within Cabinet, supported by an independent advisory board. Both the Office and the board have since been created.

To date, the Office has given major priority to the establishment of an Australian Charities and Not-for-profit Commission, but can be expected to give attention to other recommendations made by the Commission, including those related to evaluation.

³⁶ <http://www.finance.gov.au/obpr/ris/gov-ris.html>.

³⁷ Summary of Recommendations, *Contribution of the Not-for-Profit Sector*, Productivity Commission, 2010: http://www.pc.gov.au/_data/assets/pdf_file/0007/94552/04-recommendations-summary.pdf.

³⁸ <http://www.notforprofit.gov.au/office-not-profit-sector>.

2.2.3 SROI may provide a better basis for funding arrangements.

Currently, most non-profits are funded by governments under contracts, an approach also used by some philanthropic foundations. These contracts are usually very prescriptive: they detail what the funds provided are to be expended on; the number of clients to be serviced; and, the number of service activities to be provided. The Productivity Commission found that:

“In some cases the purchase of service model is being poorly applied thereby eroding the ‘natural’ advantages of NFPs in delivering services. Issues include:

- poor consultation with the sector
- excessively short-term contracts
- tendering, contractual and reporting requirements that impose significant compliance costs
- overly prescriptive contracts resulting in micromanagement.”

Subject to SROI becoming more established and refined, it may well be practical to contract non –profit organisations using SROI as a primary point of accountability. This would shift the focus to the real purpose of the contract, since what the investor is seeking to purchase is not service activities or outputs, but social impacts. It would also likely decrease costs associated with contract administration for both parties, and considerably enhance the scope for innovation. This approach would entail the need for audit systems to ensure the integrity of SROI analyses, though this caveat applies equally to existing arrangements. Consideration is being given to the possible application of SROI to funding contracts in other jurisdictions, and in particular the UK.

Experiments with this approach are being undertaken in the form of ‘social impact bonds’. A social impact bond is a contract with the public sector in which it commits to pay for improved social outcomes. On the back of this contract, investment is raised from socially-motivated investors. This investment is used to pay for the conduct of interventions to achieve specified social outcomes. The financial returns investors receive are dependent on the degree to which outcomes improve. The social impact bond strategy is dependent on establishing an SROI, which is then used to arrange investment in service provision.

Should social impact bonds prove viable then, by extension, the use of SROI – as appropriate, and perhaps in conjunction with other accountability measures – in government funding contracts might be viable. If so, it would ensure that the focus of the contract is on social impact, which is the instigating and ultimate purpose of any social investment.

2.2.4 Information about the social sector's impacts will strengthen its public standing and capacity to win resources

The Australian Government's thinking in relation to evaluation is relatively well advanced. The philanthropic community is well informed about SROI, where it is being taken up. Engagement with SROI internationally continues to grow.

This context provides significant opportunities to Australia's non-profit and social venture sector to promote the use of SROI. Good evidence of the sector's impacts will strengthen the public's regard for the sector, and strengthen its capacity to win resources.

2.2.5 SVA's ability to complete SROI analyses has improved significantly over the course of the Partnership

SVA's application of the SROI approach has improved over the past two years. The quality of SROI reports submitted to The SROI Network for assurance has increased dramatically, which suggests that a common language and standard is developing. This is demonstrated by the SROI training course: participants are asked to review a number of reports that have been completed over the past five years against the most current checklist used by assessors to assure reports. The standards have improved to such a degree that reports that were considered the best examples five years ago do not now pass most of the criteria for assurance.

SVA Consulting has developed standards and templates underpinned by each of the SROI principles. This means there has been greater consistency in the application of the SROI principles between projects. As a result, less time is spent worrying about the correct application of the principles and more time can be spent on understanding and testing the implications of the insights from the analysis with the organisation. This effort is further underpinned by the development of an approach to coaching, to help prospective practitioners bridge the gap between the two-day course and accreditation.

The SROI accreditation process has also contributed to improvements in how SVA apply the SROI principles. The SROI accreditation process forces reflection and helps develop a deeper appreciation of how the SROI principles can be interpreted and applied. In addition, the international nature of the accreditation process fosters learning and development of the methodology amongst individual SROI practitioners and the organisations they work with.

2.3 Developing and Promoting SROI

This section describes how the SROI methodology has been developed and promoted in Australia.

2.3.1 The two day accredited SROI training is a useful introduction to SROI

Many participants at the accredited SROI training courses were there to simply learn more about the SROI methodology and did not intend to become SROI practitioners. The course was useful in providing a good understanding of the practical considerations of conducting an SROI analysis for these participants.

SVA's SROI practitioners all found the current two day training program to be a useful introduction to SROI for people with little or no exposure to the methodology. However, SVA staff commented that the current training does not provide participants with sufficient skills or confidence to then apply the methodology.

2.3.2 Mentoring is required to develop an SROI practitioners' skills

SVA has ensured that consultants who are completing their first SROI analysis are supported by an experienced SROI practitioner. Learning and development occurs through coaching while completing an analysis where the issues associated with measuring and quantifying social return are explored in depth and addressed.

It has been SVA's experience that this 'on the job' learning approach, when supported by a mentor with suitable skills and experience, has been the most appropriate way to familiarise a new practitioner with the SROI approach.

The SROI guide was also consistently described as a useful reference when completing an analysis. Practitioners reported that the Guide is clear, the steps follow logically, and the guidance provided is comprehensive.

"You learn best by doing the analysis however the SROI guide does provide a valuable step by step template to implementing the approach."

SVA CONSULTING SROI PRACTITIONER

SVA found that conducting an SROI analysis requires a broad skillset. As Les Hems, Director of Research, CSI commented at interview: "The level of competencies to deliver an SROI efficiently and effectively should not be underestimated." Practitioners need to be competent at interviewing, project management, data analysis, financial analysis, synthesising information, conducting research, managing complex stakeholders or clients, and writing reports. In addition, the application of the SROI principles requires judgements to be made in areas where there are few definitive answers or standards to use.

A mentoring relationship is necessary, post-training, to enable practitioners develop the skills and confidence to conduct SROI analyses. SVA has provided this service in-house, within the SVA Consulting Team, though this has given rise to issues in the accreditation process, which requires that practitioners undertake an analysis on their own. Les Hems said at interview that the journey from training to accreditation had been frustrating for people and that CSI is giving further consideration to how to best facilitate peer-to-peer support in future.

2.3.3 The sector is recognising and valuing the accreditation of SROI practitioners

The accreditation of SROI practitioners has been a critical step in establishing the credibility of the SROI methodology in Australia. The SROI accreditation process has been developed to ensure the SROI principles are consistently applied and a high standard is maintained for all SROI reports. SVA's experience has been that the accreditation process, although challenging, is meeting these aims.

There is already evidence that investors and non-profit organisations want accredited practitioners to complete an SROI analysis for them. A statement that says an accredited SROI practitioner has completed the analysis becomes an important part of an organisation's marketing material. From the perspective of an investor, it meets the SROI principle of appropriate verification, so that they can trust what is in the report.

2.3.4 The SROI accreditation process has not been consistent

SVA have found that the accreditation process has been applied inconsistently. Each assessor has their own standards for what constitutes a good SROI report. According to the SROI Network, the assurance of a report is against SROI principles, yet often an assessor has made judgements about the suitability of the data used, or whether the insights derived from the analysis are appropriate. The amount of written feedback from an assessor also differs greatly. The assessors benefit from conversations with the applicants during the process as they get a better understanding of whether or not the practitioner has a sound grasp of how to apply the principles within the framework, yet this did not happen for all applicants.

This inconsistency was inevitable when the assurance process was in its early phase. Achieving consistency will take time, as practice is refined and shared. The accreditation process has improved since it was introduced in mid-2010, but further improvements are still required.

The evolution in the accreditation process is crucial. As Les Hems commented: "A 'cottage industry' of inadequately trained people delivering SROIs carries significant reputational risk to SROI." Moreover, organisations and investors are starting to recognise accreditation as confirmation that the practitioner has knowledge and demonstrated expertise. A consistent approach to accreditation, which in turn ensures that practitioners are competent to conduct analyses, will meet this legitimate expectation and minimise this risk.

2.3.5 If an SROI report is completed by an accredited SROI practitioner there has been no external demand for the assurance of SROI reports

In Australia, there has been no demand from investors or organisations commissioning the analysis to submit reports for assurance to The SROI Network. If an SROI practitioner is accredited, then from the perspective of the organisation or investor, they have sufficient credibility, such that time and cost of having the report assured has not been deemed necessary.

Of the 49 SROI reports that SVA has completed using the new standard, the majority were completed or reviewed by an accredited practitioner. Ten reports were submitted for assurance, for the sole purpose of enabling the SROI practitioner who conducted the analysis to become accredited.

2.3.6 The public availability of SROI reports has been limited

SVA has noted that some organisations view their SROI report as confidential information, both in Australia and internationally. This is not consistent with one of the purposes of SROI, namely, to increase transparency and accountability of organisations.

In 2011, the SROI Network issued a request for more SROI reports to be made publicly available. There has been a response. There are now some assured reports, and reports going through the assurance process, available on its website. This is important, as it enables the development of a shared understanding of how the SROI approach is or should be applied. It also provides practitioners, organisations and investors with actual examples of what a good quality SROI report provides.

Making SROI reports publically available as a matter of protocol, both in Australia and internationally, would facilitate shared learning, and the refinement of the SROI approach over time.

This could be supported in concert with efforts to improve transparency of the non-profit sector overall. For example, one of the Partnership members, PwC, introduced a Transparency Awards program in Australia in 2007 to recognise the quality and transparency of reporting in the not-for-profit sector. Including SROI in the award criteria would create incentives for organisations to engage in SROI, with a view to achieving transparency in relation to impact.

Overall, the experience of investors, social enterprises and practitioners applying the SROI approach to non-profit organisations and social enterprises has been positive. Several opportunities exist to strengthen practice. This chapter synthesises the observations and insights into conclusions and makes recommendations for how the Partnership, in collaboration with investors, non-profit organisations and social enterprises, and governments, can continue to develop SROI and extend its use in Australia.

3.1 Conclusions

Conclusion 1: The SROI approach is indispensable for evaluating social impact.

By expressly relating inputs to outputs, the SROI approach fills a unique function in evaluation frameworks. As such, SROI focuses attention on the ultimate purpose of all social investment, being social impact.

It is essential that organisations seeking to create social change in Australia become more sophisticated in assessing performance against social impact. It is no longer sufficient to put accountability in terms of social impact into the “too-hard” basket. This is because SROI has emerged, internationally, as a viable approach to measuring the extent to which social impacts are being achieved.

More sophisticated, credible information about social impact will strengthen both the public standing of social impact activities and the capacity of organisations aiming to achieve social impacts to win more resources. Its application will improve the performance of those organisations and thus, in aggregate, increase the level of social impact being achieved with the resources deployed.

In future, SROI may provide a better basis for funding arrangements, by freeing up providers to manage resources to achieve impact, and engage in innovation.

Conclusion 2: Non-profit organisations and social enterprises in Australia are benefitting from applying SROI.

Organisations considered in this report have benefitted from the conduct of SROI analyses in several ways. An SROI analysis:

- gives organisations deeper insight into the impact they are having on all their stakeholders, helping management to better understand and refine their theory of change
- helps organisations increase their understanding of how and why they are having an impact, and also enables them to better understand their processes and improve their strategic plans
- can motivate the operating team
- provides a powerful snapshot of an organisation’s impact, which can then be used as a benchmark in planning and in future performance assessment
- illuminates the true costs of an organisation’s social purpose, which is often not fully understood by management. This can assist in making a case to funders
- provides a compelling story to investors, evidencing that their money is achieving social improvement.

All up, organisations benefit most when they use the SROI approach as a management framework, rather than just as an evaluation report.

Conclusion 3: The work done by the Investing in Impact Partnership has been instrumental in promoting the awareness of SROI and its take-up in Australia.

The Partnership has played a vital forum in bringing significant stakeholders together to collaborate on the development of SROI and support systems for it, promote its take-up in Australia, and contribute an Australian perspective to international dialogue on SROI.

As reported, the Partnership has directly facilitated the development of an Australian SROI network, conducted a conference, commissioned some SROI analyses, and provided forums for dialogue and shared learning about SROI. In addition, the Partnership has helped provide a context for training initiatives and the conduct of many more SROI analyses.

3.2 Recommendations

Recommendations are made in respect of the application of the SROI approach, the role of Government, and improvements in the SROI training, accreditation and assurance.

3.2.1 Structures for building momentum

Recommendation 1: That the Partnership give consideration to establishing a new body, tentatively named the SROI Partnership, to build on the achievements of the Partnership in relation to SROI.

The Investing in Impact Partnership was established with an end-date of June 2012. As pointed out in the third conclusion, the Partnership has played a vital role in bringing significant stakeholders together to collaborate on the development of SROI and support systems for it, promote its take-up in Australia, and contribute an Australian perspective to international dialogue on SROI.

To further this work, it is recommended that the Partnership give consideration to establishing a new body which has a specific focus on SROI. Its purpose would be to build on the momentum created in relation to SROI, including taking up recommendations made in this report.

A recent article in Stanford Social Innovation Review, titled *Channelling Change: Making Collective Impact Work*³⁹, identified five conditions for achieving 'collective impact'. The concept of collective impact refers to highly structured collaborative efforts that achieve substantial impact at scale. According to the authors, the five key conditions that distinguish collective impact from other types of collaboration are: a common agenda, shared measurement systems, mutually reinforcing activities, continuous communication, and the presence of a backbone organization. The role of the 'backbone organisation' is to resource the collective impact process and coordinate the participating organisations and associated initiatives.

In the absence of a backbone organisation - and given that the Partnership is ending in June 2012 - a leadership vacuum in relation to SROI in Australia would emerge. This would stifle the progress made in relation to SROI within Australia. While government may step in to fill this vacuum, it is more appropriate that leadership in relation to SROI continue to be provided from outside of government, to avoid SROI being seen as being imposed by government.

In addition to the three members of the Partnership, organisations such as Net Balance, SiiWA (Social Innovation in Western Australia), Matrix on Board, and government, should be consulted on the name of this new body, its structure, membership, role, plans and resource base. It is envisaged that initially the SROI Partnership will function as a forum for stakeholders to undertake strategic navigation of SROI in Australia, and that its operations and impact will increase over time, in proportion to the resources allocated to it.

For the purposes of this report, the name suggested for this body is: The SROI Partnership. This has been preferred over 'SROI Network', since it is anticipated that its membership will comprise interested organisations, rather than individuals. One of the activities of the SROI partnership should be fostering an Australian SROI Network.

Accordingly, most of the recommendations which follow are directed to the proposed SROI Partnership.

3.2.2 Application of the SROI approach

Recommendation 2: That the proposed SROI Partnership formally adopt the Guide to SROI published by The SROI Network as the basis for the conduct of SROIs in Australia.

The Guide has been recognised worldwide as the current 'Bible' in relation to SROI analysis. It is the basis of the curriculum used in SROI trainings provided by CSI and Net Balance. SVA's experience is that practitioners found the Guide to be an essential aid and followed it closely, when conducting SROI analyses.

Now that several hundred people have received some training in relation to SROI, there is a risk that people will conduct versions of SROI which fall short of, or even conflict, with the Guide. This will confuse the marketplace and lower the quality of service provision, so creating brand risk for SROI.

The purpose of this recommendation, which endorses the status quo, is to limit this risk by providing firm guidance on the way SROI should be undertaken in Australia.

³⁹ http://www.ssireview.org/blog/entry/channelling_change_making_collective_impact_work.

Recommendation 3: That the proposed SROI Partnership recommend to the International SROI Network that the SROI approach be extended to include baseline analyses.

As discussed earlier in this report (Section 2.1.5), the Guide currently recognises two forms of SROI analyses: forecast and evaluative. The unintended consequence of this is that organisations with some evaluative data are effectively excluded from SROI, since their dataset is insufficient to support a full evaluative analysis. At the same time, a forecast analysis would inappropriately ignore the historical data that is available.

In the course of conducting many SROI analyses, SVA identified and described a third possible form – ‘a baseline analysis’. A baseline SROI forms a conclusion about the SROI an organisation is achieving now – in contrast to the past (evaluative SROI) or the future (forecast SROI).

It is strongly emphasised that a baseline analysis follows all the stages set out in the Guide, and conforms to the seven principles identified by the SROI Network. It also provides an analysis of the relationship between inputs and outputs, in the form of an SROI ratio, without which no evaluation can be called an SROI

A baseline SROI analysis provides an organisation with all the benefits of the SROI process, including guidance and strong incentives to improve data capture and measurement processes. It also provides a useful snapshot of the impact an organisation is creating now, against which it can benchmark future achievements.

Accordingly, it is recommended that the SROI Network give consideration to adopting a baseline SROI as a third form of SROI analyses.

Recommendation 4: That SVA prepare and publish a *Guide to Employment Support Costs Analysis* for use by agencies addressing employment disadvantage and exclusion.

As noted (Section 2.1.9), SVA developed the Employment Support Costs Analysis (ESCA) tool in the context of conducting SROI analyses with employment based social enterprises. While the SROI analyses identified the social and economic value the enterprises create, which was generally significantly greater than the investment, outside of the SROI context ESCA was a very useful tool for identifying the full costs associated with supporting people with high needs in employment. As such, it can be used to inform resource allocation decisions within organisations, as well as evidence the levels of investment that are required to support to employees with varying support needs.

3.2.3 SROI and Government

The government in the UK has played an instrumental role in developing and promoting the uptake of SROI in that jurisdiction, as has the Scottish government. While it is not recommended that Australia should follow those leads, it is clear that Government support for SROI will be vital to its successful adoption in Australia. The following recommendations are to this end.

Recommendation 5: That the proposed SROI Partnership engage with the Australian Government on the take-up and development of SROI

The SROI approach has direct utility within government. Line departments can use SROI analyses to monitor and assess the social impact of programs and policies. Such analyses will inform program design and performance, and strengthen efforts to secure funding.

Outside of government, the extensive uptake of SROI in Australia will depend, in part, on securing the support and active assistance of the Australian Government and, over time, state and territory governments. To this end, consideration should be given to inviting appropriate government offices and departments to participate as members of the SROI Partnership.

Recommendation 6: That the proposed SROI Partnership advocate to the Australian Government that priority be given to taking up recommendations made by the Productivity Commission addressed to building knowledge systems in the social sector.

In its report, *Contribution of the Not-for-Profit Sector*, the Commission elaborated at length about the poor level of information – its inputs, activities, outputs and impacts – that is available about this sector. To redress this, the Commission made several recommendations for improving monitoring and evaluation in the sector.

SROI is one element of a comprehensive knowledge system, and uniquely examines the relationship between inputs and impacts. The more attention that is given to knowledge building, by governments and the sector, the more interest will grow in relation to SROI.

Recommendation 7: That the proposed SROI Partnership explore the potential role SROI could play in formal funding agreements between investors, including governments, and funded non-profit organisations and social enterprises.

As noted (Section 2.2.3), the possibility exists that SROI could become an important element in agreements between investors and service providers.

Were this to happen, it would place the focus of the relationship between investors and providers on common ground, being social impact. This could, in turn, free up the capacity of providers to manage, and increase the scope for innovation. It would also institutionalise SROI, which would then become a part of the core business of every funded non-profit organisation, so institutionalising a primary focus on achieving evidenced impacts.

Given these potential benefits, it is recommended that the Partnership give proper consideration – such as in the form of a White Paper – to the potential role of SROI in funding arrangements. This consideration should have regard to the experiments currently being undertaken in respect of social investment bonds.

3.2.4 SROI and Non-Profit Sector

Recommendation 8: That the proposed SROI Partnership give consideration to providing guidance on how the SROI approach integrates with other management frameworks.

For non-profit organisations, the SROI approach yields most benefit when it is employed as a management framework, inclusive of planning, program design, and measurement and evaluation processes. Using SROI only as an evaluation report to support fundraising not only under-utilises the approach but can put organisations in moral jeopardy, by creating incentives to over-claim (in contradiction to principle five). To have credibility, SROI reports must be ‘warts and all’ and to achieve full utility, the SROI approach should be embedded within organisations.

However, there are a plethora of management frameworks on offer to non-profit organisations, as well as frameworks imposed by funding agencies. These concern strategic planning, quality assurance and excellence, risk management, performance assessment, measurement and evaluation. As noted, (Section 1.4), SROI complements existing tools and methods such as the Balanced Scorecard, the Australian Business Excellence Framework, the European Framework for Quality Management, Social Audit and Accounting, and Risk Management.

This creates a confusing, even bewildering, array of offerings to non-profits, which operate in a resource scarce context. It is open to managers to view SROI as yet another demand placed on them, and this, in itself, can engender a reluctance to engage with SROI.

Accordingly, it is recommended that the Partnership give consideration to providing guidance to non-profit and social enterprise managers on how they can integrate the SROI approach within other management frameworks, or how SROI could replace other frameworks. This could then be considered by practitioners when formulating recommendations in their reports, by trainers of SROI, and – through consideration of published advice – by managers.

This effort would facilitate the take-up of the SROI approach as a management framework, rather than just as an evaluation framework, yielding its full utility and thus contributing to the achievement of impacts over time.

Recommendation 9: That the proposed SROI Partnership engage in dialogue with peak bodies and networks, with a view to those intermediaries formally recognising and supporting SROI as a valuable management framework for providers within their sectors.

The support of peak bodies and networks within the non-profit sector would considerably aid its take-up within the sector. It would also help ensure that SROI continues to be, and is seen to be, an initiative that is being led outside of government, rather than yet another imposition by government on funded organisations.

To garner this support, it is proposed that the Partnership look for ways in which it can engage in dialogue with intermediaries, with a view to those organisations formally recognising and supporting SROI as a valuable management framework for providers within their sectors.

3.2.5 SROI training, accreditation and assurance

The structure and process being implemented in Australia to accredit SROI practitioners are consistent with other parts of the world. There are opportunities to further improve the processes for training, accreditation of practitioners and the assurance of reports in Australia. The following conclusions are for representatives of the Partnership and The SROI Network.

Recommendation 10: That the proposed SROI Partnership facilitate the development of a suite of training options targeting: a) people who seek to familiarise themselves with SROI; b) managers and other stakeholders who wish to acquire a more in-depth understanding of SROI; and c) people who seek to become accredited SROI practitioners

The current two-day training course is pitched at an appropriate level of detail for people wishing to acquire a working knowledge of SROI. This is particularly appropriate for managers and other stakeholders who will be participating in an SROI analysis or are considering commissioning an analysis.

However, the two-day course is too extensive for people who simply wish to familiarise themselves with the SROI approach, the benefits of SROI, and support systems in place for conducting an SROI analysis. For these people, a one-day course – and possibly a 3 hour introductory program, or Webinar equivalent – should be sufficient.

For people who seek to become accredited SROI practitioners, the two-day program is insufficient. At a minimum, experience has shown that prospective practitioners require mentoring support when conducting their first analysis. Beyond that, consideration should be given to an approach which integrates mentoring with training. For example, a training program could comprise four 2-day sessions held in a six month period, during which time participants undertake an SROI analysis. Sessions could be constructed to mirror the stages set out in the Guide. The trainer could supplement the courses with individual tutoring and mentoring of participants, where appropriate.

Recommendation 11: That the proposed SROI Partnership support improvements in the processes used to accredit SROI practitioners

To achieve accreditation, a practitioner must prepare an SROI analysis which is then assured by the SROI Network. However, there is still significant variation in the assessment of reports submitted to the SROI Network for assurance. This needs to be addressed, to ensure that reports remain at a consistently high level of quality, and to ensure that confidence in the assurance process, and subsequent accreditation of practitioners, remains high.

One option is to ensure that an aspiring SROI practitioner has an experienced practitioner as their mentor when completing their first SROI analysis. This could formally be part of the accreditation process. It would provide the panel of assessors with an additional perspective on the skill and understanding of the SROI principles displayed by the aspiring practitioner, which goes beyond that demonstrated in a written report submitted for assessment.

The final accreditation process should also involve an interview (either face to face or using technology where appropriate). This will help assessors understand whether the author understands the principles.

Such costs as are incurred could be off-set by savings in relation to the efficiency of the assurance process (that is, there should be fewer iterations of the report between the practitioner and assessors, and in fewer demands for an assurance process for subsequent reports). There has been little demand from non-profits, social enterprises or investors to obtain additional validation for their report through the assurance process. The fact that the practitioner is accredited provides users with sufficient assurance as to the credibility of the report. Noting this, the SROI Network should consider how it can make the assurance process more accessible to organisations that have limited resources and are not seeking accreditation for individual practitioners.

3.3 Conclusion

The philosophical intent of SROI is to promote a strong focus on social impacts. Achieving positive social impact is the ultimate focus of all social purpose activities, whether conducted by non-profit organisations, social enterprises, corporations, investors, philanthropic foundations, or governments. SROI focuses a sharp lens directly on social impact, and relates it to the investment required to achieve those impacts.

Accordingly, the wide take-up of SROI and growing sophistication in its use will strengthen the overall contribution made by social purpose activities, and so improve the wellbeing of all Australians.

Contributors to the Partnership

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This section documents six case studies on employment-creating social enterprises to illustrate the impact of the SROI analyses.

Case Study 1: Food Connect Brisbane

Project – Social Return on Investment (SROI) analysis, completed May 2011



Background

Food Connect Brisbane (FCB) was established in 2005 by Robert Pekin, a small group of farmers and some dedicated Mums from Brisbane who were keen to see a fairer model of food distribution in their own community. FCB provides households in Brisbane with ethically grown fresh produce direct from local farmers and producers. FCB uses a unique ‘City Cousin’ distribution system, where food boxes are delivered to a home or community centre and then locals pick up their box. FCB sources food from local suppliers and applies a zero food waste policy. FCB’s operations generate revenues in excess of \$2m per annum.

FCB’s model is now expanding throughout Australia through a community replication system, guided by the Food Connect Foundation.

What were FCB hoping to achieve from the SROI analysis?

The completion of an SROI analysis was part of FCB’s funding agreement with an investor. The focus was to understand and value the impact FCB will have on its stakeholders given its growth plans. The SROI analysis was a forecast, supported by data and information gathered over their six years of operation.

What were the key lessons?

The SROI process and analysis enabled FCB to objectively and independently validate the impact they have created and intend to create.

“The SROI process has enabled FCB to articulate the ‘ripple effect’ of social return and objectively demonstrate the broad spectrum of impact which we were confident was being achieved.”

FCB MANAGEMENT

A limitation expressed by management was a lack of an understanding of what constitutes a “good result”. This made it difficult for FCB to compare themselves against other organisations or objective benchmarks.

In addition, the SROI process was resource intensive for FCB even though they were measuring outcomes they were familiar with. This was due to limited data collected in the past.



What has changed?

The full SROI report has been made publicly available. FCB are using excerpts from the SROI report for fundraising and marketing. In addition, FCB are sharing the report with academics who are experts in the food localisation movement.

For more information, please see <http://brisbane.foodconnect.com.au/>

Case Study 2: STREAT

Project – Social Return on Investment (SROI) analysis, completed June 2010



Background

STREAT was established in 2010 in Melbourne to assist homeless and disadvantaged youth find long-term and meaningful employment. STREAT's training program combines comprehensive social support with industry training and employment opportunities in 'street cafes'. STREAT operate food and coffee carts which sell a range of hawker-style street food dishes. The carts generate revenue for STREAT and also serve as a key part of the training program, providing trainees with paid work experience.

What were STREAT hoping to achieve from the SROI analysis?

SVA conducted a forecast SROI analysis for STREAT. The main objectives of this analysis were to:

- develop a measurement and evaluation framework to identify what data they should gather to value the social, economic and environmental impact of their activities
- provide a clear enunciation for stakeholders (e.g. investors) of the expected impact and value of their activities.

What were the key lessons?

The SROI analysis confirmed the value of STREAT's employment support approach and created baseline data for their measurement and evaluation framework.

"We see this data as being critical to understanding what's working and not working at STREAT. And with good quality baseline data we're in the very best position to track our progress longitudinally..."

STREAT CO-FOUNDER

A limitation of the SROI analysis was that it considered outcomes in isolation and did not fully capture their inter-connectedness.

"The SROI did not measure the multiplier effect of value created when inter-related outcomes for marginalised employees were experienced in tandem"

STREAT CO-FOUNDER



Due to the forecast nature of this analysis, it was difficult to engage with some stakeholders, so a number of stakeholders and their potential outcomes were excluded. From STREAT's perspective, the SROI analysis did not represent the full potential impact of STREAT's work.

What has changed?

Over the past year, STREAT's measurement and evaluation framework, partly informed by the SROI analysis, has evolved to include more useful and relevant data as the business has matured.

STREAT have also used the SROI report and sections of the report in key marketing and communications material.

For more information, please see <http://streat.com.au/>

Case Study 3: People Power Cleaning (PPC)

Project – Employment Support Costs Analysis (ESCA), completed July 2011

Background

People Power Cleaning (PPC) Services started as an initiative of the Rwandan Association of Queensland (RAQ) in 2010. PPC provides both residential and commercial cleaning, as well as carpet cleaning and lawn mowing services in the southern suburbs of Brisbane. PPC provide employment to refugees and migrants at risk of mental health issues who face employment barriers such as lack of functional English language skills and Australian work experience.

What were PPC hoping to achieve from the ESCA?

The completion of an ESCA was part of PPC's funding agreement with an investor. The objective of this analysis was to understand the costs associated with providing support to marginalised employees.

What were the key lessons?

The ESCA identified that the most significant support costs were for training and on-job supervision required for marginalised employees, as well as for personal support provided to individuals and their families. These activities were primarily performed by the PPC Manager who works almost twice as many hours than what he is paid for.

The ESCA provided a credible and transparent justification for funding an additional employee to share the PPC manager's workload.

"Initially I did not understand the tool, but it was appropriate and it was timely given the stage that the business was at, i.e. reliant on increased funding to cover the costs of additional labour required to grow the business and its social impact."

PPC MANAGEMENT



What has changed?

The ESCA demonstrated an urgent need to raise funds to hire an additional person to support the PPC Manager. The ESCA was subsequently used as an attachment to a grant application for the funding of an additional supervisor.

For more information, please see

<http://www.peoplepowercleaning.com/>

Case Study 4: Tasty Fresh

Project – Employment Support Costs Analysis (ESCA), completed August 2011

Tasty Fresh
Community Catering



Background

Tasty Fresh Community Catering (Tasty Fresh) is a social enterprise operating under the auspice of Logan Women's Health and Wellbeing Centre. Tasty Fresh provides support, training and job opportunities for underprivileged women in Logan City, Brisbane. They target women in the Logan community who are long-term unemployed because they have been carers or have had mental health conditions, a disability or addiction.

What were Tasty Fresh hoping to achieve from the ESCA?

The completion of an ESCA was part of Tasty Fresh's funding agreement with an investor. The objective of this analysis was to understand the costs associated with providing support to marginalised employees.

What were the key lessons?

The ESCA assisted Tasty Fresh to identify the real costs associated with achieving their social mission, many of which had been underestimated and not accurately factored into forward projections.

Tasty Fresh believe that the ESCA is an important document for internal purposes in terms of the business understanding the resources and work involved in supporting marginalised employees.

The timing of the analysis was not ideal from the social enterprise's perspective. Tasty Fresh's management indicated that the results would be more useful had the process been conducted at a time when there was more clarity around forecast growth and revenue targets.



What has changed?

Tasty Fresh intend to use the analysis for fundraising and for internal management.

"We will be able to use this tool to assist with our funding requests... it is helpful that the analysis has been conducted from an external source."

TASTY FRESH MANAGEMENT

For more information, please see http://www.loganwomen.com.au/catering+_workshops/tasty_fresh_community_catering

Case Study 5: Livingin Constructions

Projects – Social Return on Investment (SROI), completed May 2011
– Employment Support Costs Analysis (ESCA), completed August 2011



Background

Kyabra Community Association (Kyabra), established Livingin Constructions (LC) social enterprise in 2009. LC's objective is to construct affordable and accessible buildings and landscapes that meet the requirements of families with complex needs, while employing people excluded from the labour market. LC provides employment to marginalised employees including refugees, migrants and individuals with mental health conditions. For many employees this job is either their first opportunity to earn money in Australia or an opportunity to return to paid employment after a long time out of the job market.

What were Livingin Constructions hoping to achieve from the ESCA and SROI analyses?

The completion of both an ESCA and SROI analysis were part of LC's funding agreement with an investor. The projects were focussed on understanding the additional costs incurred, and value created from, the employment created by LC's operations. The objectives of the projects were to provide management and the investor with an understanding of:

- the range of outcomes generated by the employment program for stakeholders, including employees, funders (e.g. Government) and the wider community
- the value of these outcomes as well as the costs required to achieve them.

What were the key lessons?

The feedback received from the stakeholder interviews was the most critical component of the SROI analysis for LC. It illustrated that the key driver of social value was generated through increased employee social interaction.

"At first I was sceptical [about the analysis] until I saw the outcomes of the interviews, and then realised that engaging with the stakeholder formed an integral part of understanding the value we create..."

LC MANAGEMENT

LC also gained clarity on the different outcomes, values and costs associated with the two distinct employment support models they operate: an intermediate labour market model for refugees and migrants, and a long-term sustainable employment model



for disadvantaged employees who may have a disability or other ongoing disadvantage. This information not only informed what data they should collect and evaluate in the future, but also forced the organisation to review how they might deliver the same outcomes at a lower cost.

Finally, while the SROI analysis was useful LC believed it could have been more powerful if it incorporated all elements of their model i.e. both the universal housing design and employment support programs.

What has changed?

The SROI analysis created a platform for open and honest communication between LC's employees and management. Management were able to get a complete picture of how and to what extent the programs were delivering social impact and learn what they could change to increase their impact.

The SROI analysis has also been used for fundraising purposes and with prospective clients to demonstrate the social impact LC creates.

In addition, the ESCA analysis has re-focused management's attention on offering alternative employment activities that require less supervision and specialised skills in order to reduce the relatively high support costs associated with their employment support model.

For more information, please see <http://livinginconstructions.com.au/>

Case Study 6: Sandgate Enterprise Economic Development (SEED)

Projects – Social Return on Investment (SROI), completed April 2011
 – Employment Support Costs Analysis (ESCA), completed July 2011



Background

Sandgate Enterprise Economic Development (SEED) is a social enterprise initiative, established by SANDBAG community centre, that provides jobs for people who are excluded from the labour market in Brisbane's northern suburbs. Parks and Property Maintenance (PPM) is the first social enterprise created under the SEED banner.

The SEED operating model is based on "real work, real pay" for all employees. SEED does not operate an intermediate labour market model, but intends to retain employees for as long as possible, if that is in their best interests.

What were SEED hoping to achieve from the ESCA and SROI analyses?

Both the ESCA and SROI analyses were part of SEED's funding agreement with an investor. SEED did not have any knowledge or experience of either of these methodologies before the projects began. For both analyses, SEED were keen to learn about the methodologies, including what the insights might be and what they might do differently to improve their impact.

What were the key lessons?

The SROI analysis demonstrated that significant social value was created for both employees and the community centre, SANDBAG. The outcomes generated for SANDBAG demonstrate how social enterprises can create value to meet a community organisation's social mission.

The SROI was highly valued by SEED's management due to the integrity of the analysis. It has credibility with SEED's corporate customers and investors (including government).

The ESCA was insightful for management, but the presentation and key messages about SEED's additional costs need to be managed carefully.

"I would find the ESCA more helpful if a summary was provided, for instance a two-pager similar to the SROI. I would also be careful about how the result of the analysis is to be used, as I do not want our business to be seen as non-competitive due to a higher cost structure."

SEED MANAGEMENT



What has changed?

The SROI analysis resulted in significant changes for SEED. SEED's management did not move their enterprise's headquarters from SANDBAG, a move they were previously contemplating, as a result of understanding that co-location was a key social value driver for their employees and SANDBAG. The process of stakeholder engagement increased motivation amongst all staff. For example, a supervisor independently pursued further study to increase his capacity to emotionally support his employees. SEED have also used the SROI analysis, especially the 2 page summary, extensively in fundraising and marketing to potential customers.

For more information, please see <http://seedppm.com/>