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FROM THE EDITOR

In the previous issue of Knowledge Connect we featured articles on social investment, noting that if the field is to mature it needs to be able to consistently measure social returns. This issue puts the spotlight on the debates over how best to measure social impact. A uniform performance metric for all Third Sector organisations is an ongoing quest, in both practical and academic circles. The search for the 'Holy Measurement Grail for the Third Sector' continues. The summaries we've selected below highlight recent publications which address the challenges of measuring the Third Sector's social impact.

This issue is dedicated to Professor Mark Lyons, formerly CSI's Director of Research. Mark passed away earlier this month after a dedicated career advancing the study of the nonprofit sector in Australia. He leaves behind an important legacy and body of research. In discussions with Mark I was continually struck by his willingness to grapple with the full complexity of the nonprofit sector; he did not take intellectual shortcuts. With credit to his long decades of committed study of the sector Mark could identify and contextualise trends and debates. His final paper written with Gianni Zappalà is on measuring social impact and is summarised below. It is the best synthesis of the major approaches to social impact measurement that I came across in preparing this issue. I will leave it to my colleague Gianni to share the insights that he and Mark have drawn.

Links are provided to the full articles so that you can investigate those that interest you. You are invited to suggest ideas for future issues at:

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Barbara J. Merz
Editor, *Knowledge Connect*

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1. A GUIDE TO SOCIAL RETURN ON INVESTMENT

published by The Office of the Third Sector, United Kingdom; 2009.

How to measure organisational impact in the Third Sector is a long held conundrum. Now, however, there is a new pressure that confers an aura of urgency to the issue: the social marketplace. Advocates of the social marketplace understand the need for a universally recognised unit of measure for social returns.

Given the lack of agreement in the sector, the UK government has stepped in to regulate an approach. In May 2009 the UK government's Social Enterprise Summit launched a new guide for Social Return on Investment (SROI). This guide aims to give Third Sector organisations the toolkit to calculate their social returns for the benefit of investors and public sector funders. The government chose SROI as the way to calculate and articulate the social, economic, and environmental impacts of Third Sector organisations.

SROI is simply defined as a framework for measuring a concept of inclusive value. It encompasses social, environmental, and economic dimensions and uses money as the common unit to represent all three types of value. Since the costs of funding various projects are known, SROI allows the calculation of cost-benefit ratios. There has been some grumbling in the sector about the imperfections of the approach, but also a push for the state to lay-out some direction.

To check out its usefulness for your organisation see: www.cabinetoffice.gov.uk/third_sector/news/news_stories/090512_sroi.aspx

2. WHY MEASURE? NONPROFITS USE METRICS TO SHOW THAT THEY ARE EFFICIENT. BUT WHAT IF DONORS DON'T CARE?

by Katie Cunningham and Marc Ricks, *Stanford Social Innovation Review*; Summer 2004.

Do donors really care about performance measurement? According to this *Stanford Social Innovation Review* piece: not really. Through interviews with individual donors, the authors reveal that the real motivations behind giving are a personal connection to the cause, leadership, or trustees. There is also a widespread belief in the donor community that there's not much difference between organisations engaged in similar work. Individual (distinct

from institutional) donors reported that they do not have the time or energy to minutely inspect grantee activity.

This report underscores suspicions that big evaluation efforts often end up gathering dust rather than directing dollars. This skepticism about measurement is not just held by third sector leaders but by funders themselves. Donors do not have confidence in performance measures. Purely quantitative performance metrics are a magnet for particular unease. Donors report that easily measurable items like fundraising efficiency and overhead ratios are incomplete. This is because these measures are simple to gather so their performance can be overestimated. Real performance measurement costs money. Some donors believe it robs organisations of those same resources from their core work. According to these authors, individual donors look to institutional funders to lead and fund performance measurement.

In the face of this, the authors maintain that organisations which measure will still be better off in the long term. In any case, the attitudes and practices of both the donors and nonprofits will need to shape measurement if they are to overcome this inherent reluctance.

See: www.ssireview.org/articles/entry/why_measure/

3. THE END OF CHARITY: HOW TO FIX THE NONPROFIT SECTOR THROUGH EFFECTIVE SOCIAL INVESTING

by David E. K. Hunter, *Philadelphia Social Innovations Journal*; October 2009.

This author lights a fire under funders to promote social impact measurement through social investing. His claim is clear: "Social investing, if widely adopted, will help channel funding streams that are directed by measurable performance rather than feel-good stories, habits of giving and rank sentimentality. And social investing has the potential (yet to be realised) to advance a selection process that either forces poor performers to evolve and improve, or weeds them out."

This argument is based on three 'unpleasant truths' he has observed across the sector. First, there is no evidence that most nonprofit organisations actually create social value. Second, few, if any, social service nonprofits want to calculate their social impact. Third, most nonprofits are funder-driven; they do what their funders tell them to do. Hunter then provides examples of nonprofits which have created more harm than good: abstinence only teen pregnancy prevention programs, a drug prevention

program called D.A.R.E., and an after-school program called 21st Century Community Learning Centre.

Rigorous impact evaluations have shown that these programs not only failed to deliver on their promised social impact, but also had negative ancillary consequences.

To avoid wasting precious social funding, the author describes a path towards effective social investing. It begins with selection criteria. Funders must insist on making nonprofits examine their long term social impact. For example they can ask themselves whether there is an empirical basis for believing they are achieving what they set out to do. If a nonprofit cannot answer basic questions like these related to their core mission, then the author believes social investors should put their money elsewhere.

For more see: www.philasocialinnovations.org

4. BREAKTHROUGHS IN SHARED MEASUREMENT AND SOCIAL IMPACT

The Foundation Strategy Group; 2009.

The breakthroughs reported by the Foundation Strategy Group (FSG) refer to efforts underway to develop shared approaches to measure and report performance across organisations. This informative report highlights twenty such efforts, categorised into three types:

- 1) Shared measurement platforms
- 2) Comparative performance systems
- 3) Adaptive learning systems

The research also refers to consistent elements of success across the approaches. These include solid leadership and funding during the multi-year development period, voluntary participation, use of the web, independence from funders in devising indicators, ongoing dedicated staffing, and regular meetings to share and coordinate efforts.

At its best, shared measurement can be an adaptive learning system for organisations engaged in tackling similar social challenges. Rather than the old model of one-off grants and organisational capacity building, FSG asks funders and Third Sector organisations to consider aligning their efforts. They encourage building measurement systems that examine Third Sector performance against the underlying problem but not against one another.

Refer to the report to study the cases and examples of how this is being done: www.fsg-impact.org/ideas/item/breakthroughs_in_measurement.html

5. SROI ACT II: A CALL TO ACTION FOR NEXT GENERATION SROI

by David Lascelles and Sam Mendelson, *Centre for the Study of Financial Innovation; June 2009.*

'Act II' comes with more humility and empathy than is typically attributed to the founders of the SROI movement. REDF (The Roberts Enterprise Development Fund) pioneered the SROI approach through applying it to their work in re-employment services.

Responding to years of criticism during their evangelisation of SROI as the way to measure impact, they now characterise social return on investment with a softer edge. They refute that the single number SROI result is the "silver bullet" for social impact measurement. Such a search for a single number to determine the success or failure of a nonprofit is driven by "bureaucratic fantasy" rather than reality. Instead, the report acknowledges that there are inevitably types of impact which cannot be easily reduced to a financial equation.

This report is forward looking. In order for SROI to mature, the author argues three scenarios need to unfold. First, organisations must have software that links accounting (costs) and performance (benefits) if they are to successfully measure cost/benefit. Second, SROI analyses should include non-monetary values. Finally, the precise SROI analysis employed should respond to the types of questions being asked of the nonprofit. Ultimately, SROI Act II seems a more sober, mature, and kinder missive to the sector.

For more see: www.redf.org/learn-from-redf/publications/809

6. A PLACE IN SOCIETY

The Economist Print Edition; 25 September 2009.

When the GFC hit, financial innovation fell out of favour. Yet *The Economist* reports that the Third Sector is embracing it with abandon. The movement is premised on the belief that financial innovations can solve our most entrenched social problems. Recent events point to its growth in two distinct cultural contexts: San Francisco/Silicon Valley and New York/Wall Street.

San Francisco hosted SoCap09, a conference infused with entrepreneurial energy for constructing 'sustainable hedge funds', 'social stock exchanges' and more generally the architecture of the 'social capital market'. All these concepts are based on a broadly accepted means of measuring and comparing returns.

New York, under the auspices of the Clinton Global Initiative, began to attract major players to commit to common practices. Banks and funders are teaming up to create a common language. Banks such as Citigroup, Deutsche Bank, JPMorgan, and major foundations including the Bill & Melinda Gates Foundation have agreed to create common measures of performance. One of these is the Global Impact Investment Network (GIIN) which will innovate a new asset class—impact investing—yielding both financial and social returns.

The impact investor network has agreed to publicise information about what works and what does not. This move was instigated by The Monitor Institute in their publication reviewed in the last issue of Knowledge Connect.

As *the Economist* points out: “The key [to successful investment] is to measure performance clearly, so that contracts can be enforced.” Evidently new investments touting *both* financial and social profit have claimed a place in circles previously referred to as only nonprofit.

See: www.economist.com/displaystory.cfm?story_id=14493098

7. A PRACTICAL GUIDE FOR ENGAGING STAKEHOLDERS IN DEVELOPING EVALUATION QUESTIONS

Robert Wood Johnson Foundation Evaluation Series, by Hallie Preskill, Ph.D., and Nathalie Jones, October 2009.

The finding of this report should come as no surprise: successful evaluation projects depend upon meaningfully engaging stakeholders early and often in framing the project's questions. Happily, this guide shines a light on the important practical question of how to engage them. The authors note that to achieve meaningful evaluation results, organisations should solicit stakeholder buy-in from the start.

‘Stakeholders’ is a broad term encompassing an often motley group of program beneficiaries, internal staff and board, external donors, community members, and even policymakers. First the organisation must identify its stakeholders. Then it may consider engagement strategies and select one. The guide provides worksheets to lead organisations through this process.

Options for engaging stakeholders are detailed. These include one-on-one interviews, logic modeling, mind mapping, appreciative inquiry, role playing, brainstorming, focus group interviews, discussion of an article, moderated discussions, and delphi technique. Selecting the appropriate engagement strategy depends upon a range of factors such as budget, time, geographic locale,

numbers, and complexity of the evaluation. The four worksheets at the back are worth a look. Unlike much of what is out there, this stakeholder engagement guide deserves to be called ‘practical.’

Find out more: www.rwjf.org/files/research/49951.stakeholders.final.1.pdf

8. CONTRIBUTION OF THE NOT-FOR-PROFIT SECTOR

Draft research report, The Australian Government Productivity Commission; 14 October 2009.

This commissioned study by the Australian Government has an ambitious ambit. It seeks to measure Third Sector contributions to Australian society at the aggregate, organisational, and program level. In doing so, the Productivity Commission states that it aims to enhance organisational performance, transparency for stakeholders, and related public policy.

Chapter Three reveals the Commission's evaluation approach. The Commission employs the theory of change model to standardise performance metrics though not necessarily a specific technique. Their articulated framework is built upon four tiers:

- Inputs (measures of resources employed)
- Outputs (indicators of the level of activity)
- Outcomes (benefits to the activity participants)
- Impacts (longer-term benefits to participants and the broader community)

The chapter centerpiece is a one page diagram illustrating the interconnected picture. This diagram raises as many questions as it answers as it must necessarily walk a tightrope strung between accommodating diversity within the sector to get meaningful data reported and the need for consistent metrics to aggregate sector impact from organisational reports.

The final report is due out later this year so keep your eye on this space to see how the Sector responds.

For the draft and to access many informative submissions from the sector see: www.pc.gov.au/projects/study/not-for-profit/draft

9. RECENT APPROACHES TO MEASURING SOCIAL IMPACT IN THE THIRD SECTOR: AN OVERVIEW

by Gianni Zappalà & Mark Lyons, CSI BP No.6, 2009.
Summary by Gianni Zappalà.

There is a growing interest in the measurement of social impact. In some countries, there are moves towards making the use of some form of social impact measurement framework or model compulsory for those Third Sector organisations that receive government funding. Three such social impact measurement approaches are gaining traction in Australia:

1. Social Accounting and Audit (SAA);
2. Logic Models such as LogFrame; and
3. Social Return on Investment (SROI).

These frameworks undoubtedly have benefits but are equally laden with costs such as the resources, skills and time required to undertake them. Before considering making any one approach compulsory, the role of policy should first be to raise the profile, skills and benefits of using such frameworks. This paper contributes to this issue by examining each of the three major approaches in turn.

1. SAA originated in the 1970s as a way to compensate for the focus of traditional financial accounting on shareholders to the exclusion of a wider range of stakeholders and as a way to document and 'account for' the social impact that organisations have. Social accounting has been defined as the 'systematic analysis of the effects of an organisation on its communities of interest or stakeholders, with stakeholder input as part of the data that are analysed for the accounting statement'. A key advantage (and attraction) of SAA is that it enables organisations to build on existing information and documents which they may keep for monitoring, reporting and evaluation purposes, but also place this information within a broader process and framework. It is a way an organisation can prove its value and improve its performance. In this way SAA is different to an external evaluation as it is the organisations themselves who identify their values, their social, environmental and economic objectives and then report the extent to which they are meeting them based on stakeholder views.

2. LogFrame also emerged in the 1970s as a response to the shortcomings of many program evaluations that were being conducted. A key problem with evaluation was (and in many cases still is) that it is seen as an 'end of pipe'

task, something that is done at the conclusion of a project or program. This led to many large-scale and well funded programs going off-course and not achieving their desired goals and objectives. The focus of program assessment tended to be on 'outputs' rather than 'outcomes' and evaluation was not built into the project design process. The advantage and attraction of LogFrame is that it provides a framework which enables organisations to embed evaluation and performance assessment into the design and life cycle process of the program. LogFrame is a systematic way of identifying the elements of a project and the linkages between them to provide a logical, concise and objective analysis of the project design. It also provides a way of setting out the design elements of a project or program that clearly articulates to all stakeholders a program's causal logic or theory of change, as well as how a program's activities, output, objectives and goals will be measured (the indicators of success), where and how those indicators will be obtained, and the critical assumptions that must hold for the program to achieve its longer term impact. Logic models such as LogFrame can be seen as complementary to frameworks such as SAA and SROI. Like SAA, LogFrame is a framework to assist in thinking about, collecting and presenting information about a project or program. Also like SAA, LogFrame does not prescribe a specific set or type of indicator. Indicators may be either qualitative or quantitative, although there are guidelines for how best to develop and use indicators. Also like SAA, LogFrame encourages the engagement and involvement of stakeholders in the LogFrame design process.

3. SROI is a process and method to understand how certain activities can generate value and, importantly, a way to estimate that value in monetary terms. Like Return on Investment (ROI) it is also a way to gauge the magnitude or quantity of the value created compared with the initial investment. SROI has evolved through several iterations (from the REDF model in 2000) to the 'SROI Network' version currently being promoted by the Office of the Third Sector in the UK. The key assumption of SROI analysis is that there is more to value creation than purely economic value. The value creation process should be thought of as a continuum with purely economic value at one end, socio-economic value somewhere in the middle, and social value at the other end. SROI measures the value (in monetary terms) of any benefits that may be generated by a program relative to what it cost the particular organisation to achieve. For

example: an SROI ratio of 7:1 suggests that an investment of one dollar delivers seven dollars worth of social value. As with any economic modeling though the problem (or skill) lies in the quality of the assumptions made. In the case of SROI, with respect to the outcomes generated and the time taken to generate them and then crucially placing a financial proxy or monetary value on those outcomes. Making these assumptions is not impossible but fraught with difficulty and risks, as making an incorrect or unrealistic assumption at any point along the process may have a significant impact on the final SROI ratio. Therein lies its biggest danger: As we are dealing with social phenomena - whose value is often intrinsic - the decisions made with respect to monetising that value will inevitably be subjective which necessarily limits the ability (and claims) of SROI to provide a means of comparing social impact across organisations within the social sector. While some of the proponents of SROI are careful to point out that the focus of SROI analysis should not solely be on the SROI ratio, the machinations and reality of public policy means that there is likely to be little focus on anything but the neatly expressed SROI ratio.

Comparing the approaches

When looking at the broad area of social impact measurement, it is important to distinguish between frameworks and methods. Frameworks provide a way for organisations to think about, design, plan, implement and embed performance measurement into a project, program or organisation as a whole. They do not prescribe a particular method or indicator to use to assess social impact or performance. SAA and LogFrame are such frameworks, with SAA being generally more applicable at an organisational level and LogFrame generally more applicable at a project or program level. In contrast, SROI should be seen as a more specific evaluation tool.

There are several key differences across the approaches. First, SAA is an organisation-wide framework that enables an organisation to assess and outline its overall social (and economic and environmental) impact. So in addition to the outcomes and impact of any particular project or program it may run, SAA also examines organisational processes and capacities in areas such as strategic planning, human resources, governance and accountability, as well as financial management and sustainability, environmental and economic impact.

Second, and as a result of this, SAA is a framework best suited to capturing the social impact at an organisation-wide level, while LogFrame works best when used at an individual project or program level. A third key difference relates to the requirement for external assurance. There is no requirement for Logic models to be externally verified as are social accounts and more recently SROI reports. Finally, while SAA, SROI and LogFrame require stakeholder input and engagement, the first two are more firmly predicated on stakeholder engagement principles. In fact, it is not possible to produce a set of social accounts without stakeholder involvement, whereas a LogFrame can technically be drafted by one person sitting at a desk (which unfortunately does occur).

SAA and LogFrame are broader and more flexible frameworks that can be used and applied across a wider range of Third Sector organisations, especially those in arts and culture, advocacy, and small community-based organisations where social value creation is more intangible and difficult to quantify. They provide a way to think about, design, plan, and embed evaluation into a project or program but do not prescribe a particular method or indicator to use to assess performance.

With SAA and LogFrame, as long as indicators are developed using best practice principles they can be quantitative or qualitative. Even though some of its proponents refer to SROI as a process or framework, it is in fact a more specific method or evaluation tool. It is not surprising therefore that SROI has almost exclusively been applied to nonprofit organisations in the social assistance field or social enterprises that operate as intermediate labour markets.

Of the three approaches examined, there is relatively more experience in Australia with LogFrame, with only less than a handful of organisations having gone through the SAA process and fewer still with SROI. Key reasons for the low uptake of these frameworks and methods in Australia include their relatively low profile until recently, but more importantly the fact that all these approaches are resource-intensive for nonprofit organisations to implement in terms of the time taken and the money required to either divert existing internal staff (if they have the required skills) or employ external specialists to assist them through the process.

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