Supplementary Briefing Notes for Entries In The ROI Category

The Australian Effie Committee is keen to encourage entries for both commercial and social campaigns in the ROI Category.

Commercial ROI Entries
This note explains how commercial ROI entries will be assessed.

The calculation method below is mandatory for all entries in the ROI category and should inform ROI calculations in all categories.

ROI measures by what percentage the <u>incremental gross profit</u> (not gross sales) generated <u>exceeded</u> the campaign costs/investment.

'Incremental' means comparing what happened, with what would be expected to happen had the campaign not taken place and/or that status quo maintained.

So, if the incremental gross profit is $1,000 and campaign costs are $1,000, they cancel each other out and the ROI is 0%. If additional gross profit was $1,500 the ROI is 50%.

The following calculation method is recommended for all entries where a quantifiable profit was a commercial objective. It is compulsory for <u>all entries to the ROI category.</u>

Gross Sales Increase	$5,400,000
Gross Profit Margin	60%
Gross Profit Increase	$3,240,000
Campaign Costs	$1,250,000
Gross Profit minus Campaign Costs	$1,990,000
ROI	1.59 times or 159%

If client profit margins are confidential, <u>then you may apply a standard or indicative industry profit margin. Indexing of data is also acceptable.</u>

Social Return on Investment (SRIO) Entries
There is a long history of excellent Effies entries in the social space. Grand Effie winners include "How Suffering Made People Quit" for the Australian National Prevention Health Agency, "Enjoy the Ride" for the Office of Road Safety Western Australia and "Speeding. No-one thinks big of you" for NSW Roads and Traffic Authority.
Government and Not-For-Profit organization are becoming more sophisticated in assessing the overall return on programs and we would like to encourage special entries into the Government & Not-for-Profit categories.

The judges will recognize that it is more difficult to develop a standard formula for the SRIO and encourage entrants to read two articles written by Social Ventures Australia before developing their submission.

Social Return on Investment: Accounting for Value and Shared Measurement: Easier than you think are below.

Submissions may find it helpful to use the following guide:

Outcomes – what were the results of the campaign?
Incremental Indicator – what increase can reasonably be attributed to the campaign?
Financial Proxy – what is a reasonable dollar figure you might attribute to the increment (consider long term impacts)
Attribution – extent to which other factors might have contributed to the result
Deadweight (equivalent to baseline sales) – probability of what would have happened without the campaign
Final Value – to be used as SROI approximation

The judges understand that this is a new measurement for the Effies and will reward honest efforts that tell a credible story. It is likely that the Effies organizing committee will evaluate, learn and modify the SROI over time.

Note: The data for both ROI and SROI can be excluded from the published case upon request.

Social Return on Investment: Accounting for value

socialventures.com.au/sva-quarterly/social-return-on-investment-accounting-for-value/

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How can Social Return on Investment (SROI) help you evaluate your performance or that of organisations you wish to fund?

Interest in Social Return on Investment (SROI) continues to grow, both in Australia and around the world. As funders and other stakeholders place increasing pressure on organisations to become more sophisticated in assessing their performance, it is no longer sufficient to put social impact accountability into the "too-hard" basket.

Having undertaken over 60 SROI analyses, SVA Consulting reflects on its experience with SROI, the feedback it has received from its clients, and considers future uses of SROI.

SROI first emerged in the 1990s in Los Angeles when the Roberts Enterprise Development Fund developed ways of demonstrating the social value of their programs. Since then, there has been an explosion of interest in it. It was first taken up in Scotland and then in England, where the Office for the Third Sector in the Cabinet Office invested heavily in its development. People across Europe and Canada started to engage with it, networks were developed, and academics undertook studies.

In Australia, SVA conducted the first SROI analysis in 2005. There are now over 800 individuals receiving the SROI newsletter, more than 400 people have participated in one or two day training courses, and a national conference was held in October 2011.

Why this interest in SROI? What is SROI, anyway? And what is the future of SROI in Australia?

SROI and accountability

The essential purpose of SROI is to provide a simple way for non-profit organisations to hold themselves accountable to their stakeholders. This is a challenge because, compared with businesses and governments, non-profit organisations have a complex, even complicated, range of stakeholders to whom they are accountable.

Businesses are structurally accountable to their consumers. All day, every day, consumers exercise a veto right over the survival of the organisation: provide poor service or charge high prices, and people stop buying. The business suffers immediately and, if it doesn't change, will fail.

> … it deals directly with this complexity by addressing the overall question: how is 'society' benefiting from the program?

Governments are structurally accountable to their voters, having to regularly face the electorate. While we may be acutely aware of the weaknesses of the democratic system, it is accountable to its 'clients', the voters.

The situation with most non-profit organisations is much more complex: human service non-profits are unique in that they are accountable to 'everyone' – all their stakeholders: clients, funders, staff, boards, members and the community at large. The 'accountability context' for many non-profit organisations is more complex than even that suggests. Those with suppliers are accountable to those suppliers; those in the media spotlight are accountable through the media; those working in legislative contexts have legal accountabilities, and so on. This complex operating environment can result in many organisations having low accountability to their stakeholders.

The unique 'value add' of SROI is that it deals directly with this complexity by addressing the overall question: how is 'society' benefiting from the program? Here, 'society' means 'the aggregate of all stakeholders – direct and indirect – in the program'. Central to the SROI methodology is involving all stakeholders in the process and understanding change from the perspective of each stakeholder group. These requirements ensure that an SROI analysis addresses the complex array of accountabilities which every non-profit deals with.

What SROI is

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 specifically tailored to the analysis of social purpose activities. This is taken into account both in articulating and measuring impact, and in the manner in which the analysis is undertaken. SROI is also stakeholder informed. This increases the depth of analysis required as it engages more broadly with those who experience 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 SROI Guide[1] – 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**[2]. In these terms, the purpose of SROI is to examine the relationship between **inputs** and **impact**.

To take a simplified example: an employment project is funded at $100,000 per annum to place long term unemployed people into jobs. The project is successful in placing 10 people in ongoing jobs. The project's social impact is assessed by: adding the savings in social security payments (which would have been paid if those 10 people had not got a job), plus the taxation paid by the participants (once employed), plus a monetised measure of other benefits such as increased self-reliance and self-esteem for the participants. In this example, the benefits add to $500,000 over the course of a year, resulting in an SROI ratio of 5:1 that shows that every $1 invested brings a social return of $5.

… SROI is best understood as 'accounting for value', where value is understood in its broadest sense.

The SROI ratio is arrived at by adding the benefits to the client and to tax payers and comparing this with the cost of the program. Since the ratio shows that the social return created is greater than $1, it follows that there is a net benefit for the stakeholder community associated with the program. The clients are benefiting by securing employment, and developing greater self-respect. The funder is satisfied that the social impact sought for the funds provided is being achieved. The organisation's board, members and staff can be satisfied that the program is achieving a positive social impact. The community at large also benefits from the success of the program.

Importantly, the ratio represents the **social value** created, rather than just the economic value created. In addition to economic values (such as savings in social security payments), SROI also places a monetary value on outcomes such as gains in self-esteem, increased social skills and the like. Because intangible values such as these cannot be bought and sold in the market place, they are usually given no monetary value. SROI seeks to express the value associated with such intangibles in monetary terms and, for this reason, SROI is best understood as 'accounting for value', where value is understood in its broadest sense.

At a more technical level, the SROI ratio also shows whether a program is effective and/or efficient. The example program is effective, since it is achieving its goal of placing people excluded from the workforce into paid work, which is a shared goal of the clients, organisation, and funder. It is efficient, in that every dollar invested produces a social return on investment of $5. Thereafter, the SROI ratio can be used as a benchmark for measuring the efficiency and effectiveness of the program over time. Using SROI as a benchmark for comparing different programs with each other is generally not advisable, since the range of variables is usually too great to make such comparisons meaningful.

If a program's SROI ratio shows that the social return is between $0 and $1 for every $1 invested, then the participants are likely to be benefiting, but at a cost greater than the social value being created. For example, one employment-based social enterprise with whom SVA conducted an SROI analysis showed an SROI ratio of 0.75:1 indicating that for $1 invested there was $0.75 in social return. This was because, while the enterprise was benefiting its six employees, the cost of providing this benefit to these employees was greater than the social value being created. As a result of the analysis, we made a suite of recommendations for changing the program’s direction and modus operandi.

By undertaking an SROI analysis, an organisation can be satisfied that it is holding itself accountable to all its stakeholders, in a way that is readily communicated and understood.

> In February 2012, a report entitled *Social Return on Investment: Lessons Learned in Australia*, was published by the Investing in Impact Strategic Partnership, comprised of: the Centre for Social Impact (CSI); PricewaterhouseCoopers (PwC) Foundation; and Social Ventures Australia (SVA). The report provides an overview of SROI and its application in Australia in recent years, and makes several recommendations for how SROI can be improved and its uptake extended. This article has drawn on that report for many insights and case histories.

Why conduct an SROI analysis?

There is a great deal more to SROI than simply arriving at the SROI ratio. This is only one output of an SROI analysis. The report generated by an SROI analysis provides a thorough and comprehensive account of the program, its mode of operation, and the views of all stakeholders.

As organisations report, this brings a wide range of benefits in addition to identifying the social return they are achieving.

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

As noted, stakeholder engagement is fundamental to the conduct of an SROI analysis. Engaging stakeholders provides an organisation with a deeper understanding of who its main stakeholders are. It also provides a context which enables profound questions to be asked which leads to greater dialogue and greater insight into what is driving change.

For example, Livingin Constructions is a social enterprise that constructs buildings and landscapes to meet the requirements of families with complex needs, while also employing people excluded from the labour market. In reflecting on their experience with SROI, its managers remarked that the stakeholder feedback was the most critical component of the analysis. The stakeholder interviews revealed that the employees experienced outcomes that the management team were not aware of. 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. As one manager said: “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.”

For many organisations, the SROI analysis is the first time stakeholders are invited to express how the organisation’s activities affect them, and how they value these impacts.

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

Most organisations report that the SROI analysis has helped them to make important strategic decisions. This is because an SROI analysis provides evidence, in a structured format, of the organisation’s outcomes and impact and how this is created. This deepened understanding feeds directly into planning.

For example, the SROI analysis conducted for SEED, a social enterprise that provides property and maintenance services in Brisbane's north, identified that co-location with SANDBAG, the affiliated community organisation, provided significant social value for their employees. The analysis highlighted that SEED employees considered the SANDBAG community centre as a home away from home. The outcomes as expressed by SEED employees, 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 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.

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 employees in the organisation understand, and become deeply engaged with, the real impact they are creating. This motivates members of the team, from management through to employees. As a manager at STREAT said, "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."

At larger non-profit organisations, the results of SROI analyses have been distributed within the organisation resulting in employees appreciating the impact of their work. Organisations also view themselves as leaders in social impact measurement.

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.

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.

SROI provides a compelling story and credible evidence to investors

All organisations have reported that the SROI approach has 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.

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.

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. As Ann Pickard, Chairman of Shell Australia, recently observed, 'SROI data informs and reinforces funding decisions made by Shell in its annual social investment of $15 million'.

A manager at SEED reported that when an investor saw the SROI report, he was told 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.”

SROI informs investors and managers of the full 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 that have undertaken an SROI analysis report that the process of identifying and measuring the full costs has been illuminating.

A striking example of how true costs were clarified 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 ventures was the incremental costs expended to provide support for employees with greater needs. 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 it costs an equivalent mainstream business to employ people without these needs.

Conducting an SROI analysis

SROI is ‘open source’; it 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.

To become an accredited practitioner a person is required to participate in the two day accredited training course provided by The SROI Network, which covers a standardised curriculum based on the SROI Guide. Thereafter, a practitioner must complete an SROI report and submit it to The SROI Network so that it can be assured. The assurance assessment is completed by two independent assessors who are both accredited SROI practitioners.

The conduct of an SROI analysis involves direct engagement with all stakeholders to gather data, and thereafter, analysis of that data and preparation of the report. SVA Consulting’s practice is to produce a two-page summary report, which clients value as a way of making the findings accessible to everyone. The time required to conduct an SROI depends on the size of the organisation or the program being analysed, and the scope of the SROI.

SROI: next steps

While there is some hype around SROI, the evidence is in. Feedback from close to 60 organisations with whom we have conducted SROI analyses shows that in addition to the ‘headline’ ratio, organisations have found a wide range of benefits from undertaking the analyses. Whilst SROI is a relatively new methodology, SVA Consulting, along with many non-profit organisations, governments and investors are increasingly persuaded of its potential to improve organisations and their programs.

One possible future application of SROI is in funding contracts. As is well known, these contracts can be overly prescriptive, impose significant compliance costs, and be excessively short-term, a concern noted by the Productivity Commission in its 2010 report, *The Contribution of the Not-for-Profit Sector*. It may well be practical to contract non-profit organisations using SROI as the primary point of accountability. This would put the real purpose of the contract in the spotlight, since what the investor is seeking to purchase is not service activities or outputs but social impacts. It is also likely to decrease costs associated with contract administration for both parties, and considerably enhance the scope for innovation. This approach would require audit systems to ensure the integrity of SROI analyses, though this caveat applies equally to existing arrangements. Experiments with this approach are being undertaken in the form of ‘social impact bonds’.

Taking up SROI more extensively will help the non-profit sector develop an ever more sophisticated approach to social impact, and so strengthen the contribution made by social purpose projects, programs, organisations and policies to the wellbeing of all Australians.

If you’d like to know more, contact us onconsulting@socialventures.com.au

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1. http://www.thesroinetwork.org/sroi-analysis/the-sroi-guide
2. 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