Recent approaches to measuring social impact in the Third sector: An overview

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Introduction

There is a growing interest in the measurement of social impact across the business, government and nonprofit sectors. Even though the term social impact is not well defined, in some countries such as UK, there are moves towards making the use of some form of social impact measurement framework or model compulsory for Third sector organizations that receive government funding. This has potential dangers, especially when as some have argued, social impact and performance measurement is socially constructed. As a recent text on performance management and measurement stated:

For social enterprises (particularly), performance is not some underlying attribute that exists and can be known independently of the people centrally involved in and concerned about that organization. Performance is what those people more or less agree, implicitly or explicitly, to be performance, what they have in mind when they use the term.¹

In addition, approaches to measuring social impact also borrow from many other tools for measuring, or in other ways ensuring maximum, organisational performance.

This paper is primarily concerned with approaches to social impact measurement in the social economy. There are three levels of analysis in measuring the impact of the social economy. The first level of analysis is identifying and measuring the contribution or impact of the social economy or the slightly smaller nonprofit sector. The second level of analysis is measuring the impact of individual organisations within the social economy. The third level of analysis is measuring the impact of individual programs run by organisations within the social economy.

It should be noted that it is generally not easy to move from the third to the second level (although this is what one of the frameworks outlined below, Social Accounting and Auditing, attempt to do) and not possible to move from the third and second levels to the first level, that is, aggregating from the micro to the macro level. The frameworks and methods used and being promoted for the second and third levels (i.e. the micro level) are conceptually different from the approach that needs to be taken at the first level (i.e. the macro level), such as the current inquiry by the Productivity Commission. Furthermore, for a small organisation running only a single program, the second and third levels are synonymous, while the impact for larger organisations is likely to be more than the sum of its several distinct program impacts.

The three main approaches outlined in this paper refer and relate only to the second and third levels (the micro) of analysis. The next section of the paper will briefly describe the context and outline the intellectual milieu in which approaches to social impact measurement and improving organisational performance are embedded. The following section will outline the key features and characteristics of three approaches that are gaining traction in Australian discussion and practice around social impact measurement in the Third sector: Social Accounting and Audit (SAA); Logic Models; and Social Return on Investment (SROI). Following this overview, some of the key similarities and differences across these approaches will be outlined highlighting certain issues that should be kept in mind by organisations that may be planning to adopt them.

The paper draws on the relevant literature as well as the authors’ own experience as expert observers, researchers and evaluation practitioners of and within the Third sector.

**Business**

The rise and influence of the Corporate Responsibility movement has led to an interest in assessing the social impact of corporations. This interest can be seen in the myriad indexes for ranking corporate responsibility performance, most of which have a category for assessing social impact. Nevertheless, corporates generally remain uninterested in measuring the impact of their social initiatives. As Margolis and Walsh argued:

> Although the financial effects of corporate social performance have been extensively studied, little is known about any other consequences of corporate social initiatives. Most notably, as calls for corporate involvement increase, there is a vital need to understand how corporate efforts to redress social misery actually affect their intended beneficiaries.²

Most of the corporate responsibility guidelines, standards and reporting frameworks that have been developed over the last decade have remained primarily at the level of capturing companies’ inputs and in some cases outputs with respect to their social and community initiatives. So it largely remains the case that many community initiatives reported by companies merely emphasise the money spent or the time of employees volunteering on particular projects rather than discuss the outcomes of a particular social initiative for the intended community.

As a recent study on corporate responsibility reporting concluded, the majority of companies tend to emphasise their positive contributions without mentioning the negative implications and there still remains great variation in terms of how each company communicates the impact of their initiatives:

> It would appear that the majority of the companies do not apply the same sort of measurement rigor to the management of work related to their relationship with community as they would to other aspects of their business. While there are exceptions to the rule, community impacts appear to be something not many companies are able to clearly define or report on.³

This stands in contrast to the often sophisticated approaches to measuring the financial impact of business (e.g. Return on Investment, debt/equity ratios, price/earnings ratios), driven usually by management seeking to obtain the best return on funds and investors and their advisors seeking the best return on their capital.

**Governments**

Meanwhile within government there continues to be an interest in and application of techniques for program or project evaluation such as cost benefit analysis. In the area of social programs there is still a residual interest in social program evaluation. Some efforts have been made by agencies such as the Australian Institute for Health and Welfare to collect data that might be useful in measuring impact, but while this is well developed in health, it is still embryonic in the social assistance field. The Productivity Commission has performed heroic efforts to measure outcomes and compare the effectiveness of various State government social programs.⁴ Similarly, several State government agencies have introduced and

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³ Global Reporting Initiative, Reporting on Community Impacts: A survey conducted by the Global Reporting Initiative, the University of Hong Kong and CSR Asia, 2008.

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promoted impact measurement frameworks as part of their funding to community based organizations, the New South Wales Department of Community Services and its adoption of the Results Based Accountability framework being just one example.

The impact of the nonprofit sector is one of the terms of reference of a current inquiry by the Productivity Commission and was the subject of a study by the Allen Consulting Group for the Victorian Government’s Strengthening Community Organisations Project (SCOP) in 2007-08. While these are important intellectual endeavours that will help develop an appreciation of the many ways in which nonprofit organisations contribute to Australia’s economy, society and political system, they will continue to find it difficult to measure many of these contributions.

Nonprofits

There is a renewed interest in specifying and measuring the contribution of organisations that constitute the Third Sector or Social Economy. These are organisations that are private and either do not distribute a surplus to members or are democratically governed or both. They include churches, trading as well as nonprofit cooperatives, credit unions, most sports clubs, registered clubs, private schools, church or community run hospitals, theatre companies and community radio, many employment and training organisations, aboriginal housing and development corporations, as well as the social assistance charities (or community sector).

International focus on impact measurement in this sector has morphed into an interest in the measurement of the impact (and health) of civil society, which despite some confusion is generally seen as a wider phenomenon than the nonprofit sector. The impact dimension of the Global Civil Society Index, for example, contained four indicators that were thought to provide an adequate proxy of the impact of civil society organisations. One was the overall value added by the civil society organisations to the economy (data used include the wages paid to employees of civil society organisations together with the imputed wages of their volunteers, as a percentage of GDP). A second measure was the contribution by civil society organisations to human services (measured as the percentage of total employment in health, education, social services and culture and recreation). A third indicator sought to measure the contribution of civil society to advocacy and expression (measured as the number of employees and volunteers as a proportion of the adult population mobilised by civil society organisations primarily engaged in expressive activities such as advocacy groups, professional associations, unions, environmental protection and culture and recreation). A fourth indicator was popular commitment (measured as the percentage of the adult population claiming membership of voluntary associations as reported by World Values Surveys.

At the end of this process for each country there were a set of 12 numbers. While these were comparable for each indicator, to derive an index, the researchers had to normalize and aggregate all the indicators, so for each country, each indicator was expressed as a percentage of the highest score achieved by one country. For the record the Netherlands had the highest score of 74, followed by Norway (65) and the

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5 Productivity Commission, Contribution of the Not for Profit Sector, Commissioned study, 17 March 2009. The study’s focus is on improving the measurement of the sector’s contributions and removing obstacles to maximising its contributions to society.
6 www.dpcd.vic.gov.au
United States (61). Sweden scored 60 and the UK 58, while Australia came in at 49, equal with France. South Korea scored 35 with Pakistan having the lowest score at 19.7

At the organizational level, interest in measuring social impact is greatest within the social enterprise movement, flowing into the wider group of mainly nonprofit organisations that seek to address social problems, especially those associated with the exclusion of some people from the labour market as a consequence of one or more forms of disadvantage, such as physical or developmental disability, mental illness, substance abuse, poor education, homelessness or frequent incarceration.

The interest is usually measuring the impact of a new program or of the organisation that operates the program. It should be noted that an interest in developing measures of impact is not shared by all organisations seeking new ways of addressing social problems. In many cases what is sought is developing a clear and coherent program with a clear logic linking objectives, actions and outcomes.

An important driver of this renewed interest in social program evaluation or social impact was the emergence of the new so-called venture philanthropists of the 1990s, many of whom were unwilling to trust the old ways of traditional charities and saw philanthropy as a form of social investment which like a financial investment, demanded a measured statement of return.

One of the more ‘rigorous’ measurement techniques, which is outlined in more detail below, reflects in its title the driver of the interest in social enterprise and impact measurement. It is a technique that promises to measure the ‘social return on investment’ – suggesting that it can do for social programs what many of the conventional measures of business performance do for traditional investors. The difference in this case is that the investment is really a gift and the return is measured in benefits to society rather than financial benefits to the investor.

Despite the innovative language, these apparently new approaches are shaped by their past and by experiences with a range of organisational development techniques that drew on a similar logic even though they did not always seek the holy grail of measures that were rigorous and enabled cross program comparisons.

**Underlying assumptions and related management techniques**

Underlying all efforts to measure social impact is the rational choice approach to decision making. This emerged out of decision science and psychology in the 1950s. It posits an ideal model of decision making – where the decision maker sets objectives, identifies several ways of attaining those objectives, evaluates these and chooses the one that will be most effective (or efficient). The program is then monitored and perhaps later evaluated to see that the assumptions underlying the choice have been proven. This approach has often been criticised as not representing the way people choose or as too demanding of information and time. In the 1950s, Herbert Simon suggested that a satisficing model more accurately reflected the modified rationalism of most decision making.8 At about the same time Charles Lindblom

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criticised the application of the new rational choice model to policy making, arguing that policy developed by muddling through – or a process of incrementalism.9

Nevertheless, the heroic goal of the rational model retained a strong attraction. Built on it were a number of sub-disciplines, approaches, fads and lasting techniques such as policy science/policy analysis, cost benefit analysis, program evaluation, management information systems, quality improvement, benchmarking, process re-engineering, and strategic management. Each term encompassed a variety of techniques or tool and each had periods when they were extremely popular and for the most part each generated tools that were designed more for organisational development rather than the precise measurement to feed into a rigorous decision process assumed by the underlying model.10 That is, in Simon’s terms, optimising approaches often softened into satisficing approaches.

There is much of value in many of these approaches, provided they are used sensibly. Interest in them does tend to fluctuate and we are now entering a new period of heightened interest. In this context it is important to keep in mind what happened the last time there was a strong interest in the measurement and evaluation of social programs.

Social impact measurement: its companions and its predecessors

The current interest and enthusiasm for measuring social or program impact is not new. Indeed, it is similar to the social program evaluation that was popular from the mid 1970s through to the 1980s. The aim of social program evaluation was to measure the effectiveness of a program (achievement of objectives over inputs), as well as its efficiency (outputs over inputs). The impetus came from the United States, especially from university social work departments and was embraced by both the community sector and government.

The movement lost traction however and spawned a variety of less rigorous techniques that were designed to encourage program staff to continuously improve the program by thinking about it in systemic ways, although not necessarily measuring outcomes. The reason for the fall away of the full measurement approach to social program evaluation had two sources. First, the difficulty of measuring the achievement of objectives which were set far into the future, for example, to assess whether a particular program for helping disadvantaged children transition into well adjusted adults would require a life time of longitudinal data. This led program evaluators to develop proxy measures, which in turn were dependent on the quality of social research available and/or the subjective views of experts.

Second, the uptake of evaluation made great demands on the time and resources of non-profit organisations and various modifications to the original model were made to make it less numerically rigorous and more descriptive (e.g. a greater focus on process evaluation which largely describes what people do in a particular program). A key insight from this experience was an understanding that conducting a program or organisational evaluation could be useful as a tool for organisational review and development rather than producing objective and comparable measures across organisations.

10 See Paton, op.cit., for a review of some of these practices and how they have been translated to social enterprises.
These trends are still evident today. A recent study of evaluation practice among nonprofit organizations in the US, for instance, where the drive for introducing more formal evaluation and performance measurement has been strongest found that organizations are generally undertaking *monitoring* and *quality management* rather than evaluation per se. It concluded:

> Although today’s community-based organizations may be under increasing pressure to provide evaluation and performance information to funders and stakeholders, some community-based organizations do not understand or distinguish between reporting, monitoring, and management practices and evaluation. They tend to think about all of these activities together, as part of the broader agenda and pressures to make community-based organizations more accountable.¹¹

Overall the study found that although a minority of organisations are collecting outcome and results data, very few have internal evaluation staff, even fewer use external evaluators, most are not using Logic models, and very few receive funding to undertake evaluations.

While similar large scale studies of the evaluation practices of nonprofit organizations do not exist for Australia, we know that many of the nonprofit organisations in the social assistance (previously community services) industry continue to use many older evaluation techniques and indeed many are enjoying a new lease of life. This is particularly the case in the large social assistance nonprofits (i.e. those with an annual turnover over $20 million), and especially those that have developed strong partnerships with large corporations. Many of these organizations have over the past decade invested in building in-house capacity to undertake social research and evaluation with a view to program development and the need to report to corporate partners.

In effect they have adopted a research and development approach. Sometimes they engage in benchmarking (though government funding policies have inhibited the adoption of some comparative techniques for program improvement and dissemination). Some have invested in improved management and client information systems while many have applied techniques such as program logic (a survivor of the earlier social program evaluation movement and outlined further below) to better understand and coordinate their various activities. In a few cases they also have remnants of other fads such as quality improvement and the balanced score card.

Some of these larger organisations are also interested in the growing number of techniques that are emerging from the social enterprise space, where people with ideas for new programs (social entrepreneurs) mix with people and organisations (such as Foundations and Prescribed Private Funds) that wish to encourage and support them and are also interested in achieving optimal impact. Some of these techniques can be used to plan a new program, evaluate and improve a program (or determining to withdraw support), while some are designed to ensure clear and consistent links in the program logic, and others are designed to facilitate the ongoing collection of information.

The remainder of this paper will briefly outline the key features and characteristics of three approaches that are gaining traction in Australian discussion and practice around social impact measurement in the Third sector:

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1. Social Accounting and Audit (SAA);
2. Logic Models;

Following this overview, some of the key similarities and differences across these approaches will be outlined, highlighting certain issues that should be kept in mind by organizations that may be planning to adopt or implement them.

**Social Accounting and Auditing (SAA)**

Social accounting originated in the 1970s as a way to compensate for the focus of traditional financial accounting on shareholders and other financial providers to the exclusion of a wider range of stakeholders and as a way to document and ‘account for’ the social impact that organizations have. Social accounting has been defined as the ‘systematic analysis of the effects of an organization on its communities of interest or stakeholders, with stakeholder input as part of the data that are analyzed for the accounting statement’.12

While some of the early social accounting frameworks did attempt to create or at least present social accounts within a financial statement framework, the model that has had the most influence (at least with respect to the Third sector) and is outlined here, utilises primarily qualitative and descriptive statistical data to assess whether an organization is keeping true to its mission and meeting their stakeholders’ expectations. It is now usually known as the SAN (Social Audit Network) or Scottish model, of which John Pearce has been the leading exponent and practitioner. The SAN model is described as:

> A social accounting framework with tools and processes for assessing and managing the performance of organisations; especially social enterprises and other organisations operating in the social economy.13

The SAN model has and continues to evolve although its essential principles and approach has remained the same. It is documented in several manuals available on the SAN website14 and although a revised manual is planned for 2009, the two main earlier versions were produced in 2001 and 2005.

A key advantage (and attraction) of the SAN model is that it enables organizations to build on existing information and documents that they may keep for monitoring, reporting and evaluation purposes, but place this information within a broader process and framework so that:

> Through the social accounting and audit process it can understand its impact on the surrounding community and on its beneficiaries and build accountability by engaging with its key stakeholders. In this way it can prove its value and improve its performance.15

In this way the SAN process is different to an external evaluation as it is the organizations themselves that identify their values, their social, environmental and economic objectives and endeavour to report the extent to which they are meeting them based on stakeholder views.

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14 www.socialauditnetwork.org.uk
Box 1: The three step process of social accounting and audit

**Preparation:** Understanding the overall framework and the Three Steps. Being aware of the principles; the history of social accounting and audit and the framework; the implications for the participating organisation if social accounting were introduced to it; the resources required; and how the process would be managed. Making a clear commitment to do it. At the end of this preliminary stage the social enterprise or organisation should know how to proceed and what it all implies. Like starting on any journey it is important to know where one is heading and to be prepared.

**Step One – Planning:** Clarify the mission, objectives and activities of the social enterprise or organisation as well as its underpinning values. Identify and analyse the stakeholders. These exercises are the foundations for the social accounting framework and reveal the essence of the organisation – what it does, why and how it does it and who it works with and for. After completing Step One the organisation may decide to move on to Step Two.

**Step Two – Accounting:** Decide the scope of the social accounting process – what the Social Accounts will focus on and when. Set up social bookkeeping systems that collect relevant information (indicators) over a period of time that enables the social enterprise or organisation to report on its performance against its values and its objectives. The bookkeeping systems will collect quantitative data and qualitative information and will involve consulting stakeholders using a number of consultative tools. The information will be compiled and analysed and feed into the ongoing management of the organisation. After completing Step Two you may decide to move on to Step Three.

**Step Three – Reporting and Audit:** Bring all the quantitative and qualitative information together and interpret it in the draft Social Accounts. These are then audited by a panel of impartial people who verify that the report is based on information which has been properly gathered and interpreted and is therefore a fair and honest reflection of what has happened in the organisation during the accounting period. The panel, when satisfied, will issue a Social Audit Statement. The approved Social Report is then made publicly available and the organisation may want to make a summary version to inform its stakeholders. The verified Social Accounts will give the organisation a clear understanding of what it has achieved, how much it has cost to do that and how different stakeholders regard what it does. Based on the findings the organisation can:

- Review its objectives and see if they are still appropriate
- Consider what other things it might do
- Set new targets for the next year
- Review the information it is collecting to ensure it is still relevant and useful.
- See if and how the stakeholders are benefiting from it
- Engage in dialogue with stakeholders over issues raised
- Make sure that the social enterprise or organisation can justify its existence!


In the most recent iteration of the social accounting and audit principles the process consists of a preparatory phase followed by three key steps leading to a full set of audited Social Accounts. This process is outlined in Box 1.
There are also eight underpinning principles to the SAN model that organizations undertaking social accounting and audit should follow:

1. **Clarity of purpose**: Organizations should be clear as to why they are undertaking the social accounting process;

2. **Scope**: Organizations should acknowledge and articulate all their values, objectives and stakeholders before agreeing which aspects their social accounting will include;

3. **Stakeholder engagement**: Social accounting should engage with and reflect the opinions of a wide variety of key stakeholders affected by and able to affect the organization;

4. **Materiality**: Organizations should determine what must be included in the social accounts so that stakeholders and others can draw conclusions about the organization’s impact and performance

5. **Comparative**: Organizations should make comparisons of performance and impact using appropriate benchmarks, targets and external standards

6. **Transparency**: Organizations should demonstrate the basis on which the findings can be considered accurate and honest

7. **Verification**: The social accounts should be independently verified by a social audit panel

8. **Embedded**: Organizations should ensure that the process of social accounting and audit becomes embedded in its life cycle and practices.

### Logic Models (LogFrame)

Logic models or the Logic approach to program design and evaluation 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 end of a project or program. This lead 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 Logic models is that they provide a framework that enables organizations to embed evaluation and performance assessment into the program design and life cycle process of the program. In brief, logic models are a:

> [S]ystematic and visual way to present and share your understanding of the relationships among the resources you have to operate your program [inputs], the activities you plan to do [strategies], and the changes or results you hope to achieve [outcomes and impact].16

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<table>
<thead>
<tr>
<th>Resources/inputs</th>
<th>Activities</th>
<th>Outputs</th>
<th>Outcomes</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>If this…then</td>
<td>this…if this</td>
<td>then this…</td>
<td>if this…then</td>
<td>this…</td>
</tr>
</tbody>
</table>

As the above diagram illustrates, the essence of Logic models is a focus on the assumed causal relationships and/or linkages within a program (causal logic as opposed to sequential logic), so if a certain activity is undertaken, then that should lead to certain outputs being completed, which in turn should lead to the achievement of certain outcomes and eventually impact on the target group.

While there are many versions or types of Logic models, most of which are open source although some are proprietary, they all share the feature of being frameworks to facilitate the clear articulation of the difference between inputs, outputs, outcomes and longer term impact of any planned project or program. If used correctly Logic models can provide a theory of change, namely, a description of how a series of activities can lead to a series of outcomes (short, intermediate and long term) over a specific period of time.

The most well known and used Logic model framework is Logical Framework Analysis (LogFrame) which was first formally adopted by USAID in 1971, and is now used by many other government agencies and NGOs around the world. It is a mandatory framework for organizations applying for government funding (especially in the development field) in several countries including Australia (Ausaid), Canada, New Zealand and the European Union.

LogFrame is an analytical tool to assist in the planning, design and management of projects. It 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. The LogFrame is useful at all stages of the project management cycle and the logical analysis leads to a LogFrame matrix which sets out the different components of a project or program according to its goal, objectives, outputs and activities.

The essence of the LogFrame matrix framework is outlined below. When completed this matrix provides a key way of setting out and thinking about the design elements of a project or program that clearly articulates to all stakeholders a program’s causal logic or theory of change, 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. The Logframe matrix is a living document that should be reviewed and revised in light of experience during project implementation, monitoring and evaluation.17

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17 As LogFrame is open source there are several guides and manuals available on the web, including one produced by AusAid.
The logframe is a **SUMMARY** of the project, to answer the questions **WHY** the project is being done, and **WHAT IMPACT** the project will have.

<table>
<thead>
<tr>
<th><strong>Hierarchy of Objectives</strong></th>
<th><strong>Verifiable Indicators</strong></th>
<th><strong>Means of Verification</strong></th>
<th><strong>Assumptions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td>Usually not necessary as too general and hard to measure in limited time period</td>
<td>What records will be kept</td>
<td>What must hold true for the rationale to work</td>
</tr>
<tr>
<td>1. Broad.</td>
<td></td>
<td></td>
<td>What risks exist to not achieving ultimate goal</td>
</tr>
<tr>
<td>Project contributes to the overall goal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Explains the extent of the results at end-of-project. QQT-quality, quantity, time Used for evaluating the project</td>
<td>eg. baselines surveys, government records minutes of meetings trip reports training evaluations</td>
<td>What must hold true for the purpose to result from the outputs.</td>
</tr>
<tr>
<td>1. (2 if necessary)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The use/result/immediate impact of the project Include beneficiaries in statement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>Express the scope of the project. How many? What type? Use for monitoring the project</td>
<td>as above</td>
<td>What conditions must remain valid for the activities to result in the outputs.</td>
</tr>
<tr>
<td>1-4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What we produce.</td>
<td></td>
<td></td>
<td>Conditions Precedent</td>
</tr>
<tr>
<td>What the management is responsible for achieving.</td>
<td></td>
<td></td>
<td>Agreements or inputs necessary to begin project Policy or activity of other agencies required</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td><strong>Summary of Inputs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-4 for each output</td>
<td>Mention total budget and inputs of various participants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What we actually do</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The question of **HOW** the project should be implemented should be addressed in the **NARRATIVE, ACTIVITY SCHEDULE** and **BUDGET** of the proposal.

Some of the key advantages of Logframe (and Logic models generally) are, that they:

- Encourage project staff to see their projects within the wider organizational context and mission;
- Allow project staff to identify the interlocking activities of a project in a logical and systematic way;
- Allow the project objectives and results to be identified clearly;
- Help to clearly articulate risks and constraints;
- Provide a structured starting point for identifying activities, implementation details, costs and monitoring criteria;
- Provide a summary of the project that can be used for communicating details of the project to key stakeholders;
- Facilitate evaluation as a task performed by all members of a project team or organization;
- Embed evaluation into the program life cycle;
- Shift the focus of programs (and the organizations that design and run them) to longer-term impact;
- Enhance partnership and understanding between funders and recipients of funding;
- Can increase organizational and sector knowledge;
- Enable, facilitate and simplify internal evaluations, which can be seen as a learning process rather than a point in time judgment.

Overall, there are very few disadvantages of Logic models although some caveats that should be noted include:

- Causal logic is always our interpretation of how reality works, so logic models are only ‘models’ of reality;
- The causal logic used to underpin a project or program can only be as good as the quality of evidence that exists to support that particular line of reasoning or intervention;
- Logic models are premised on a linear mode of thinking (if this, then that) – in reality most social issues and problems are not likely to be linear but dynamic, complex and networked;
- While logic models are meant to clearly specify the outcomes intended, programs usually also have unintended consequences that may or may not be consistent with the outcomes specified;
- While logic models imply causation (if this, then that) there are usually many other exogenous factors and variables that will also influence the outcome being sought.
Social Return on Investment (SROI)

Social Return on Investment (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 to the initial investment, so for example, an investment of $100 may have returned $10 in one year, or a 10% financial return for an investor. A social investor (philanthropist or government) may wish to quantify the (social) return on an investment (or donation) made to an organisation that provides housing for the homeless, and express that return in a monetary fashion.

SROI was initially developed by Jed Emerson at Harvard Business School for the Roberts Enterprise Development Fund (usually referred to as the REDF model) in 2000, which is now one of three main social impact measurement frameworks it promotes. The other two include Social impact reports, which are based on data collected in interviews with staff and clients; and OASIS (Ongoing Assessment of Social Impact) – an organisation wide management information system designed to provide timely and accurate information about social impacts of the entire organization.

The initial REDF model led to discussions and interest among other individuals and organisations (such as the London based think tank, the New Economics Foundation) such that SROI began to be promoted in the UK and Europe, and a European SROI Network was formed in 2003 of which the New Economics Foundation (NEF) was a member. Finally, a separate SROI Network was incorporated in the UK in 2007 which now has over 100 members.18

Similar to the SAA and Logic models outlined above SROI has evolved through several iterations from the first REDF model in 2000 to the latest version being promoted by the Office of the Third Sector in the UK.19 The comments here will focus on this latest version, referred to as the SROI Network model. Earlier models, thinking and guides to SROI are available on the NEF website.20

The impetus for preferring SROI over other frameworks has moved from the U.S to the UK, where the Office of the Third Sector (OTS) within the Cabinet Office is sponsoring the Measuring Social Value project (2008-2011). This project is being run by a consortium led by SROI UK, New Philanthropy Capital, the New Economics Foundation, the Charities Evaluation Service and the National Council of Voluntary Organisations. In addition, a complementary project (funded by the Scottish Government’s Third Sector Division) will be responsible for developing an SROI portal and training materials for practitioners.

The aim of the OTS project is to promote, facilitate and standardize the use of social impact measurement tools among the Third sector, in particular SROI. As the respective Ministers for the Cabinet Office and for the Third Sector stated in their forward to the most recent SROI guide:

While many third sector organizations have a powerful story to tell, the social and environmental value of the impact being made is often underplayed. As we face tough economic times, it is now more important than ever that we allow for better recognition of those who create social and

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18 See www.thesroinetwork.org
environmental value, leading to more efficient movement of resources to the right people, in the right place, at the right time.21

Reading between the lines, the British government is seeking a way to allocate increasingly scarcer resources to those non-profits that supposedly have a greater positive social impact than others. To facilitate this, the longer term aims of the OTS project are to:

- Have a standardised approach across the sector to using SROI;
- Make SROI more accessible for social investors and third sector organizations;
- Develop a network of practitioners who will raise awareness of SROI and social reporting;
- Increase the evidence base of the impact of the third sector;
- Enable social enterprises and other third sector organisations to prove the social value they create;
- Support social investors and commissioners of public services to make more intelligent investment or purchasing decisions (i.e. assist in deciding which organizations should receive funding).

In brief, the key assumption of SROI analysis is that there is more to value creation than purely economic value, indeed the value creation process can be thought of as a continuum with purely economic value at one end, through to socio-economic somewhere in the middle, and social value at the other end.22 Economic value creation is the raison d’etre of most for-profit corporations (i.e. taking a product to service to market that has greater value than the original inputs and processes that were required to generate it) and economists and accountants have refined and standardized a range of measures to capture and compare this type of value creation. Money being the main unit of economic value, then whether value is generated can be expressed in monetary or dollar terms.

Social value, according to the originators of the SROI model, is created when ‘resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole’.23 Social value creation is the raison d’etre of most not-for-profit organizations (e.g. facilitating social inclusion and access for those that may be marginalized). Unlike economic value, social value is difficult to quantify, varies according to the type of organization involved in its creation and does not have a common unit of analysis (such as money) that enables it to be standardized and compared across an economy or society. SROI is about using money as the common unit of analysis in order to attempt to quantify and express social value creation, hence making some comparative assessment of social value creation possible.

The other key assumption of SROI is that social value generates cost savings for the public purse in the form of decreased public expenditure on things such as health payments, welfare benefits, criminal justice and so on and in turn increases revenues to the public purse via the extra income tax from people that may now be employed who were previously excluded or marginalized from the labour market and mainstream economy.

23 Ibid.
The kernel of SROI analysis is to arrive at the SROI ratio, which is expressed as:

\[
\text{SROI ratio} = \frac{\text{Net present value of benefits}}{\text{Net present value of inputs (investment)}}
\]

In other words, SROI measures the value (in monetary terms) of any benefits that may be generated by a program relative to what it cost the particular organization to achieve those program benefits. So an SROI ratio of 7:1 suggests that an investment of $1 delivers $7 worth of social value. As with any economic modeling however 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.

Further critical assumptions that will effect the final ratio relate to deducting the proportion of any outcomes that would have been achieved even if the particular activity or program had not been undertaken (what SROI analysts refer to as ‘deadweight’), as well as the proportion of any outcome that may have displaced other outcomes (e.g. reducing crime in one community may merely see it increase in a neighbouring one) – this is what SROI analysts refer to as ‘displacement’ effects. A final assumption relates to attribution, namely, adjusting the outcome by the proportion that may have been caused by the intervention of other organizations, people or polices. The nature of these assumptions are particularly salient for ‘Forecast SROIs’ which predict the amount of social value creation that is likely to result from a particular project or program, as opposed to ‘Evaluative SROIs’ which are done at the end of a project or program and based on the actual outcomes achieved.

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. As we are dealing with social phenomena, whose value is often intrinsic, the decisions made with respect to monetizing that value will inevitably be subjective which necessarily limits the ability (and claims) of SROI to provide a means of comparing social impact across organizations within the social sector and therein lies its biggest danger. In part these potential problems are addressed in the SROI Network model by including an external assurance process that will enable the verification of the process followed and/or the integrity of the data. While some of the proponents of SROI are careful to point out that the focus of SROI analysis should not be solely on the SROI ratio, the machinations and reality of public policy however means that there is likely to be little focus on anything but the neatly expressed SROI ratio.

Like the SAA process outlined previously, the SROI Network model has also developed a process of key steps that should be followed when undertaking an SROI analysis as well as a set of underlying principles. The six step process for SROI analysis is summarized in Box 2.
Box 2: The six step process to SROI analysis

**Step One**: *Establish scope and identify key stakeholders.* This step relates to establishing clear boundaries about what the SROI analysis will cover, the people that will be involved in the process and the nature of their involvement.

**Step Two**: *Map outcomes.* Develop an impact map, or theory of change that demonstrates the links between inputs, outputs and outcomes.

**Step Three**: *Evidence outcomes and value them.* This stage relates to finding data that will show whether outcomes have occurred and then giving them a monetary value.

**Step Four**: *Establish impact.* Having collected evidence on outcomes and given them a monetary value, this step involves discounting the impact by those aspects of change that would have occurred in any case or resulted from exogenous factors.

**Step Five**: *Calculate the SROI.* This step involves adding up all the benefits, subtracting any negatives and comparing the result to the investment made. Test the sensitivity of the ratio.

**Step Six**: *Report, use and embed.* Sharing the findings with stakeholders, responding to any questions they may have, embedding good outcomes processes and verifying the SROI report.


There are also seven underpinning principles to the SROI Network model that organizations undertaking the SROI process should follow:

1. **Stakeholder engagement**: 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, recognizing 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 recognized;

4. **Materiality**: 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**: Only claim the value that organizations are responsible for creating;

6. **Transparency**: 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. **Verification**: Ensure appropriate independent verification and assurance.
Some of the claimed benefits of SROI include:

- Improved performance measurement, program planning and evaluation;
- Allowing organizations to easily demonstrate the social value and impact achieved from activities and programs;
- Facilitating the communication of the social value and impact achieved to internal and external stakeholders;
- Raising an organization’s profile, which can improve the case for funding;
- Facilitating the comparison of social value creation across organizations in broadly similar areas or with similar goals (e.g. organizations that seek to place disadvantaged and socially excluded people into employment).

**Similarities and differences between the approaches**

Logic models such as LogFrame can be seen as complementary to frameworks such as the Social Accounting and Audit and methods like 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 (e.g. pre and post intervention measures, including quantity, quality and time dimensions). Also like SAA, LogFrame encourages the engagement and involvement of stakeholders in the LogFrame design process.

The SROI Network model also has several similarities with SAA and Logic models. First, the eight principles underpinning SAA are virtually identical to the seven underlying SROI, with one key exception, that SROI is premised on the principle of placing a monetary value on the extent of social impact or change that is either intended or already achieved. Second, leaving aside the monetization issue, both are premised on foundational principles of stakeholder engagement, materiality, transparency and external verification and assurance. In part this is due to the fact that the various iterations of SROI developed by the New Economics Foundation have gradually incorporated more of the SAA framework.

Dialogue between the main proponents of SAA and SROI has commenced with the aim of making the two approaches more complementary, although monetization remains the key sticking point. As the recent review of SAA noted:

SAA by no means rejects the importance of numbers and indeed advocates the use of financial indicators when this is appropriate. However, SAA believes that there are some outcomes and impacts which can only be described and reported using the views and perceptions of stakeholders – in effect the “story”.

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

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24 Pearce & Kay, op.cit., p.15
examinates organisational processes and capacities in areas such as strategic planning, human resources, governance and accountability, financial management and sustainability, environmental and economic impact.

Second, and as a result of this, SAA is a framework that is 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. Another way of thinking about it is that the use of Logic models at a project or program level can facilitate the planning and undertaking and reporting of social accounts. This has implicitly been recognized in some of recommendations and guidance notes following a review of the SAN model. 25

A third key difference relates to the requirement for external assurance. There is no requirement for Logic models (unless included as part of a set of social accounts) to be externally verified as are social accounts and more recently SROI reports. In practice, because many organisations produce Logic models for government or private funding programs, a form of verification or assessment occurs at that stage, although not necessarily by people who are experienced logic model practitioners.

Finally, while SAA, SROI and Logic models 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 Logic models are broader and more flexible frameworks that can be used and applied across a wider range of Third sector organisations, especially those in the arts and culture, advocacy, and small community-based organisations where social value creation is more intangible and more 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 Logic models such as LogFrame, as long as indicators are developed using best practice principles they can be quantitative or qualitative.

In contrast, 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 rather than a framework as the key and final indicator of social impact is prescribed and must be based on financial proxies. This is not a criticism of SROI per se, but merely an acknowledgement that it is based on a particular (and therefore narrower) methodological approach and hence may not be appropriate for all types of organisations. It remains the case 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. SROI can only ever capture part of the picture, as one study on measurement in nonprofits concluded, ‘nonprofits will never resemble businesses that can measure their success in purely economic terms’.26

When looking at the broad area of social impact measurement therefore, 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. Social Accounting and Auditing and Logic models are such frameworks, with SAA being generally more

25 Pearce & Kay, 2008, op.cit; SAN website.
applicable at an organisational level and Logic models generally more applicable at a project or program level. In contrast, SROI should be seen as a more specific method or evaluation tool rather than a framework as the key and final indicator of social impact is prescribed and must be based on financial proxies.

Discussion & Conclusion

Of the three approaches examined, there is relatively more experience with Logic models such as LogFrame, with only less than a handful of organisations having gone through the SAA process and fewer still with SROI.

While LogFrame has been used in the international development field in Australia for several decades, it has only relatively recently become more widely used among social assistance charities in Australia, following its introduction by one of the authors to The Smith Family between 2000 and 2003 to assist that organization’s program design and evaluation work, and subsequently to several other nonprofit organizations through his work in the nonprofit sector and as a consultant Executive Officer with The Westpac Foundation.27 Social Ventures Australia also developed a logic model variant based on Logframe now known as their Program Logic and Performance Assessment (PLPA) Framework which the organizations it supports are expected to use.

With respect to SAA, despite being around in various forms for almost four decades for instance, there are still relatively few organisations that have produced a set of Social accounts and fewer still where the process has been embedded in their reporting on a regular basis. In the UK, where the practice has been more popularly supported and promoted, only 115 social economy organisations that had used some form of social accounting in the Northeast of England and Scotland could be identified in 2008.28

The number of organisations that have undertaken social accounting using the SAN model in Australia can still be counted on one hand and include Maleny Credit Union, Streetwize Communications, Mission Australia (only for parts of the organisation) and Beyond Empathy. There have also been a number of organisations that have gone through the social accounting process to produce draft social accounts but decided not to proceed with the final step of verification by an external social audit panel. This is in spite of several social accounting workshops held in Australia since 2000 on the SAN model, as well as seminars and workshops to promote social accounting by the Australian Institute of Social and Ethical Accountability and other bodies.

While one reason for the low uptake of social accounting in Australia may be its relatively low profile, other reasons are likely to be similar to some of the barriers that emerged from a study of social accounting in the UK conducted in 2008.29 Organisations that had conducted social accounts experienced the following problems:

- The excessive time taken to keep social accounts and write the social report (usually at least 12 months);

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27 Since 2006, organizations applying for Tier 1 funding from The Westpac Foundation must include a Logframe analysis matrix as part of their submission. The Foundation also runs a two day workshop on Logframe for all organizations it funds. To date almost 50 organizations have attended.
28 Pearce & Kay, op.cit.
29 Ibid.
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- The difficulty in managing the social accounting material;
- Undertaking and writing the social accounts;
- The financial resources required to undertake the social accounting and audit process.

One of the authors has been associated with two of the organisations in Australia that have undertaken the social accounting process using the SAN model, both of which were relatively small and the resources in terms of time, money and staff required proved to be challenging. This is in spite of the fact that one of the organisations received some support in the form of an external facilitator paid for by one of their funders to assist them through the social accounting process.

The practice of SROI, especially in its latest iterations is still in its initial stages, although several case study reports using the SROI Network model exist in the UK, especially Scotland. The use of SROI in Australia has also been minimal, with some organisations supported by Social Ventures Australia (SVA) having undertaken SROI analyses using earlier SROI versions. SVA has now also commenced using the SROI Network model and is a key proponent of its wider use and application to measure social value in the Third sector in Australia. One of the key developers, proponents and practitioners of the SROI Network model in the UK, Kevin Robbie, is now employed by SVA.

Given the relatively recent nature of the SROI Network model (in the UK and Australia), issues relating to methodology, quality assurance, and the training of both practitioners and qualification of independent specialists that will be able to undertake the external assurance and verification of reports are still being worked through. Given the lack of resources and expertise that exists within the Third sector to undertake relatively simpler forms of evaluation, it is hard to imagine that nonprofit organisations will be able to carry out SROI analyses without them being resourced to do it, in terms of money, time, training and the provision of external specialists.

The reality is that all of 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. Of the three approaches, the ranking from least to most resource intensive is:

- Logic Models
- Social Accounting and Audit; and
- SROI.

Social impact measurement initiatives should therefore also address or seek to engage those organisations and individuals (such as Foundations, companies, PPFs) that fund nonprofit organisations. In particular, they need to be made aware that funding for social impact measurement should be explicitly provided for in the grants they make to nonprofits. At present only a handful of funding bodies (e.g. The Westpac Foundation, Social Ventures Australia) provide resources (both financial and capacity building) to their grantees to undertake social impact assessment.

Furthermore, the current funding paradigm that exists among the Boards and Trustees of grant making bodies in Australia still tends to be one of providing grants for specific programs and service delivery and
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does not generally include funds for social impact measurement which is seen as part of an organisation’s administration and overheads. In addition, the decision makers within funding bodies also need to understand the key principles and processes underlying social impact measurement techniques, their advantages and flaws, if they expect the organisations they fund to use them.

Finally, there is a push by some proponents of these approaches, such as the Social Accounting Network (SAN) and the SROI Network in the UK to have government mandate their respective frameworks for Third sector organisations. A recent review of the SAN model for instance recently recommended that social accounting and audit move from being a voluntary framework to one which is compulsory for organisations that receive funding (as long as resources are provided to the organisations to undertake the process).

Few would argue with the statement that it would best serve the common good if Third sector organizations were better able to conceptualize, articulate and demonstrate the impact of their programs, either in the design phase or at their completion. There is also an argument that making a social accounting report, SROI report or use of some Logic model framework a condition of receiving funds (from either government or corporate or individual philanthropists) would lead to the wider use and awareness of social impact measurement.

As has been seen however the take-up of these frameworks is still in their infancy and imposing frameworks on an unprepared (and perhaps unwilling) sector risks doing more harm than good. These frameworks undoubtedly have benefits but they are equally laden with costs such as the resources, skills and time required to undertake them. We would argue that before considering polices which may require such frameworks and methods to be compulsory, the role of policy should first be one of raising the profile, awareness, skills and benefits of using such frameworks among Third sector organizations, those that fund them and the communities and individuals they work with.

The history of social program evaluation however suggests that there is a risk that new approaches to program evaluation will be oversold. This risk increases if governments mandate the use of particular models to be used by all organisations within the Third sector and across all areas of activity. Another risk of mandating one approach over another is that it ignores the different stages that organisations are at, not only in terms of their size and resources, but in terms of their cultural openness to and capacity for evaluation. Given the diversity of the organisations within the nonprofit sector, it is virtually impossible that one single measure of impact or one approach will be suitable for all of them.

There may well be a role for governments to play in funding the provision of greater training, education, and accreditation for those interested in using social impact measurement frameworks, especially for those in the Third sector. In other words, public policy can be used to increase what has been referred to as Evaluation Capacity Building:

\[\text{[A]}\text{N exercise in developing evaluation skills and knowledge, of some, or all of the organisation’s staff, with a view to increasing their ability to undertake high-quality evaluations of an organisation’s projects and programs}^{30}\]

Following on from this, governments can potentially facilitate the creation of a pool of experts in these frameworks and tools that nonprofit organizations can engage to assist them in undertaking social impact

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assessment. Ideally, as has happened in some countries, grant making bodies can directly fund people or organizations from within this accredited pool to undertake the social impact assessment component relating to projects or programs they may fund.\textsuperscript{31}

There may also be a role for government policy in encouraging business to use and fund some of these frameworks, SROI in particular, for projects they may be involved in as part of their wider Corporate Community Involvement (CCI) and Corporate Social Responsibility (CSR) programs. As was noted previously, current frameworks for measuring and reporting corporate social initiatives focus mainly on inputs and outputs and measuring the value to the corporate (in terms of brand and reputation enhancement, staff engagement, customer satisfaction and sales and so on) rather than the target group or community the project is aimed at.

\textsuperscript{31} See for instance the model established at Evaluation Support Scotland and the Charities Evaluation Services in England. Both of these organisations were established to help nonprofit organizations and those that fund them measure the value of their work.
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Prior to being appointed to CSI, Gianni has held teaching, research and policy positions at the universities of Sydney, Cambridge, Wollongong, the Australian National University, Parliament House Canberra, NSW Government agencies and The Smith Family. Over the last decade he has consulted with organisations from the business, not-for-profit and government sectors including The Westpac Foundation (currently consultant Executive Officer); Mallesons Stephen Jaques; Fundraising Institute Australia; Mission Australia; WorkVentures; The George Institute and CanTeen.

He has taught and published on a wide range of social and economic policy issues including Corporate Citizenship and Spirituality and Business. Most recently he co-authored with Mark Lyons ‘Not-for-profit organisations and business: Mapping the extent and scope of community-business partnerships in Australia’, in Jo Barraket (ed) Strategic Issues in the Not for Profit Sector, UNSW Press, 2008.

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