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A Year in the Life of Western Australia's Social Enterprises

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The Bankwest Foundation has partnered with the University of Western Australia Centre for Social Impact (UWA CSI) to undertake a research program **Supporting Development and Growth in the Community Sector in Western Australia**. The aim of the research program is to increase our understanding of the difference community programs make to the lives of Western Australians and what factors enhance the resilience and long-term financial viability of Western Australia's emerging social enterprise sector. Improving the evidence base on the measurement of the outcomes of community programs and of the financial sustainability of Western Australia's social enterprises will support growth and innovation in the community sector and build community resilience.

Outcomes of the research program will be delivered through the **Bankwest Social Impact Series** and through community workshops and forums. This paper is the seventh paper in the **Social Impact Series** and focuses on the theme of **A Year in the Life of Western Australia's Social Enterprises**

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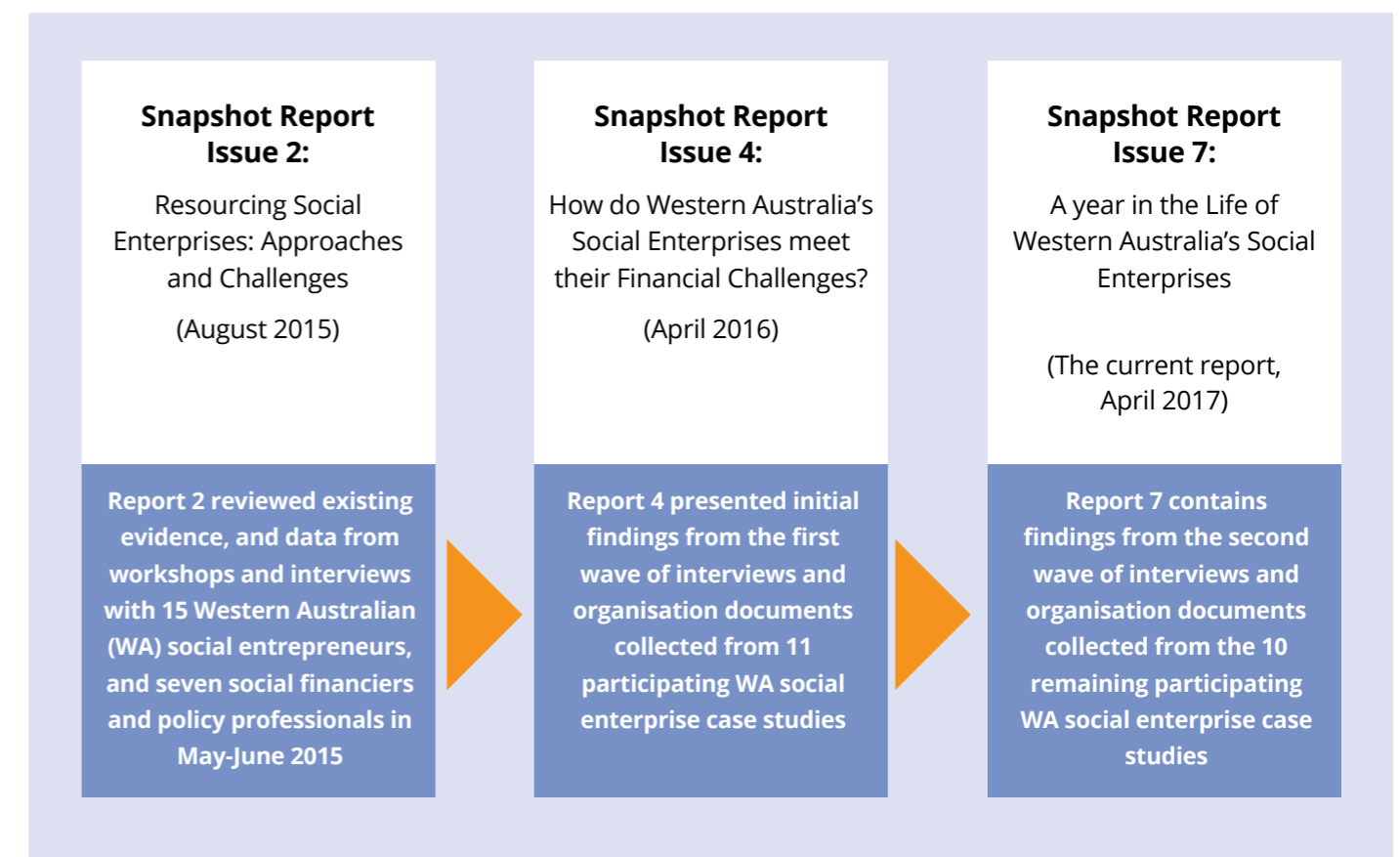
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INTRODUCTION

Social enterprises continue to make significant impacts to the lives of many Australians. A recent study has shown there are an estimated 20,000 social enterprises operating in Australia, present in every industry (Barraket, Mason and Blain 2016). Although they are a growing presence in our communities, we still lack important knowledge about how social enterprises operate. Social enterprises aim to produce defined social impacts through sustainable business models. If we can better understand their business and reporting needs, then support for their needs can be tailored to help them achieve greater social impacts.

Previous reports in the **Social Impact Series** have gone some way to documenting the business and reporting needs of social enterprises in Western Australia. Using interview and organisational data collected from social enterprise case studies, these reports describe social enterprises' resourcing practices (Barraket, Barth and Mason 2015) and uncover organisational tensions, challenges and opportunities that influence their resilience¹ (Mason, Barraket, Simnett and Lee 2016).



This report builds on the findings from **Snapshot Report 4: How Do Western Australia's Social Enterprises Meet Their Financial Challenges** (April 2016). Based on a second wave of interviews with our social enterprise case studies, we found some important themes emerging in the past year related to changes in the operating environment for social enterprises in Western Australia. Our analysis focuses on both the experiences of our case studies over the past 12 months, and a comparison of their perceptions and practices over Waves One and Two of the study.

¹Young and Kim (2015) refer to social enterprise resilience as the organisation's ability to absorb shocks and change before crossing 'thresholds' to other forms or states.

Much of the emphasis on change reported by social enterprises in Wave Two relates to external changes – to policy, funding, and economic arrangements – that are affecting their opportunities and internal operations. Social enterprises’ responses to these changes suggest they are highly agile and flexible during challenging times. Given the organisational tensions they face, we begin to see what makes these social enterprises resilient in the face of change and uncertainty. While the locus of change is largely external to social enterprises during this period of research, the issue of effective reporting emerged as an internal mechanism by which organisations can improve their access to external resources, including finance and legitimacy with other sectors. Thus, effective reporting becomes a ‘bridge’ between internal operations and external opportunities.

Based on information provided by our case studies, we can see that key reporting materials - such as internal operational and financial reviews, and external annual reports and strategic plans - are largely absent. Many social enterprises recognise the value of clearly communicating their objectives and achievements through reporting, but find it challenging to dedicate significant time and resources to this process, particularly when the immediate cost of doing so is not always balanced by an immediate benefit.

Beyond mandatory compliance reporting, social enterprises need to regularly collect business and social impact data to deliver effective reports. Measuring and reporting on double or triple bottom line performance remains notoriously difficult for small to medium social enterprises. Developing effective reporting systems can be highly beneficial to supporting business development, and resilience. For social enterprises in Western Australia, given the scale of external change in the recent past, systems to support resilience have become critically important.

The report concludes by recognising a ‘missing link’, i.e. a robust system allowing social enterprises to collect and report on financial and social performance. Supported by the Statement of Social Performance (Luke 2016), the report concludes by outlining the development of a social enterprise reporting tool, the prototyping of which will form the next stage of this project.

SECTION ONE

OVERVIEW OF THE PROJECT

This project was initiated because access to financial and other resources was identified as a major issue affecting the resilience of social enterprises in Western Australia. The first report of the project series identified the resourcing practices and factors influencing social enterprises. These included; bootstrapping² and bricolage³; utilisation of boards and governance models; and the availability of external financial products/services for social enterprises⁴. The adoption of these practices and factors are influenced by external changes that affect new business opportunities, funding sources and increases in internal costs.

The second project report was based on the first wave of interviews with eleven case study organisations. It highlighted that organisational culture, systems and processes were important in navigating changes in social enterprises’ operating environments. The findings also identified some persistent barriers to organisational resilience. These include a tension between informal approaches to gaining resources to meet short-term organisational needs and strategic approaches to accessing the resources required for longer-term financial resilience. Another persistent challenge was access to suitable financial resources, and access to business development supports that are appropriate to the scale of the social enterprise.

Building on the previous report, this report presents key findings from Wave Two of the research, and what they explain about Western Australian social enterprise resourcing and resilience during the past 12 months. However, our focus in this report is more specific: to discover if and how reporting has supported social enterprises to meet challenges and opportunities. A better understanding of how reporting systems support resilience could play an influential role in social enterprise development in the longer-term. This also helps to develop support systems that social enterprises can use that closely match their specific business needs.

²Bootstrapping refers to “the process by which firms avoid the need for external financing through reducing overall costs of operation, improving cash flow, or using financial sources internal to the company” (Ebben & Johnson 2006, p.851-2).

³Bricolage is making do and improvising, a refusal to be constrained by limitations (Baker & Nelson 2005). For further details on these concepts, please refer to Snapshot Report 2, p.9 – full citation below.

⁴For further details, see Barraket, Barth & Mason (2015). Resourcing social enterprises: approaches and challenges, Bankwest Foundation Social Impact Series No. 2, Bankwest Foundation, Western Australia.

Issues affecting social enterprise in Western Australia during the research period

In Western Australia, there have been some economic changes during the course of the research that directly affect the operating environment for social enterprises. There has been a significant drop in business investment growth, falling by 16.9% during 2015-2016, fuelled by the decline of the mining boom. Knock-on effects include a drop in full-time employment, a rise in job casualisation and growing underemployment (Government of Western Australia 2016a, b).

Increasing pressure for diversification in the state’s economy offers opportunities for new business ventures and business models, such as social enterprise. With this in mind, the 2016-17 state budget provides for increased public investment in education, healthcare and infrastructure projects (Government of Western Australia 2016c). Social enterprises are well-represented in health and social care service provision in Australia (Barraket et al. 2016). These changes could represent opportunities for development and growth for social enterprises in these industries.

In particular, an additional \$26 million of new investment has been earmarked in the 2016-7 state budget for investment in trials of the National Disability Insurance Scheme (NDIS), with a further \$50 million to support demand for services outside of the NDIS. Although it is still unclear the scale to which the NDIS represents an opportunity for social enterprise in Western Australia, the national data on business confidence among disability service providers presented in The State of the Disability Sector Report 2016 found that:

- Service providers are diversifying, with 48% of survey respondents reporting that they are entering new markets.
- Mergers are increasingly being explored, with 41% of respondents having discussed this possibility.
- With 22% of respondents making a loss, there is concern that the current National Disability Insurance Agency-set prices and declining average levels of funding per service user will ultimately affect the quality of services providers are able to offer.

(Centre for Applied Disability Research 2016)

Beyond public expenditure and quasi-market development, the availability of philanthropic grant funding appears to be increasingly competitive, with the increasing difficulty of attracting donors highlighted as a key issue both for the national non-profit sector (The Australian Centre for Philanthropy and Nonprofit Studies 2016) and for social entrepreneurs in Western Australia (Pickles 2015). Despite distributing almost \$119 million in direct grants in 2016, Lotterywest also noted in their annual report that changes in the economy, and changes in levels of government, corporate and philanthropic support were significant environmental challenges (Lotterywest 2016).

Over the past 12 months, there have been some significant changes that directly impact on social enterprises in Western Australia. From financial support and grants, to market changes and the NDIS, the external environment looks to have become more challenging for social enterprise. The next section provides an overview of what the participant social enterprises viewed as the most important challenges and opportunities.

SECTION TWO

APPROACH

Wave Two data was collected via thirteen telephone interviews with participating organisations, and the submission of their financial reporting information⁵. This section summarises the major trends in Wave Two. Section Three compares Wave One with Wave Two data to understand if the major external changes in the past 12 months have been followed by changes in attitude towards key themes.

Unique findings from Wave Two

Change creates challenges and also opportunities for social enterprises. This insight overlays most of the experience reported in Wave Two. For example, the ongoing climate of external change that drives necessary internal changes (such as organisational restructuring and planning) was a common theme in the data.

During the past 12 months, new challenges have emerged. For example, market changes continue to increase competition for service provision. For some social enterprises, this is perceived as a direct threat to their strategic goals and the sustainability of their business model. This also creates further challenges, such as how to respond to the increased competition, and reduce its likely impact on the business.

...change is consuming a lot of resources of organisations. Just in terms of their ability to constantly access information about the [NDIS] changes, and to be making all of the internal changes that they need to be, in order to reposition themselves, to market directly to individuals.

Case Study C

Quick, clear responses to emerging market threats can be critical to small business survival. However, the results suggest that quick responses are sometimes difficult to achieve. This can be caused by slow decision-making processes in larger organisations and a lack of marketing skills and capacity.

...we've changed the model to open on the weekends, where hopefully the income from that will increase and we're able to offset the cost of running... the business plan I wrote last year, it went through to the exec and the CEO, who approved it...that literally took six months, with budget constraints.

Case Study F

Some social enterprises respond to these challenges by working harder to create new opportunities. For example, through increased networking and relationship building, social enterprises try to consolidate their strengths to work around perceived threats. Increasing their visibility among influencers in their networks appears to help social enterprises to maintain and grow their market presence.

Having...key supporters who are either supportive of the organisation, or supporters of me personally, who are constantly aware of what our funding situation is, and what our funding needs are. Those people... almost act as my eyes and ears to be able to just extend my radius that little bit further. In terms of the new opportunities that might come on to the scene, that I might not be aware of immediately, but one of them might pick it up and send it through to me.

Case Study C

⁵ More details of the approach taken to collect and analyse data can be found in Snapshot Report 4 (Mason et al. 2016).

Case study social enterprises reported some persistent challenges in the past 12 months that are less easily overcome, such as the availability and access of suitable financial resources. Being unable to obtain the financial resources to sustain the business directly affects its longer-term resilience. Many social enterprises continue to rely on short-term project-based funding to resource social programs. The problem is that a short-term focus on obtaining funding (i.e. working with what is available) can work against the development of a more strategic, mission-oriented approach in the long-term.

...now it's just very specific programs, it's not even programs, very specific projects and very small minor thinking and very short term thinking [to keep] our income stream, and with that is real hand to mouth. So, we don't know if we're going to have enough cash flow in three months' time to survive - even in two months' time really.

Case Study H

SECTION THREE

In this section, we consider the dynamics of change among the case studies between Waves One and Two of the study. This provides a closer look at changes to sentiment (that is, the way participants feel about issues) over time, indicating why and how social enterprises have responded to pressing external and internal influences. The data from both waves is compared to illustrate the shifts in frequency and perception over the two-year period. The infographic below (Figure 1) summarises the major thematic changes between Waves One and Two.

Context

10 social enterprises

10 social enterprise organisations participated in both waves of data collection

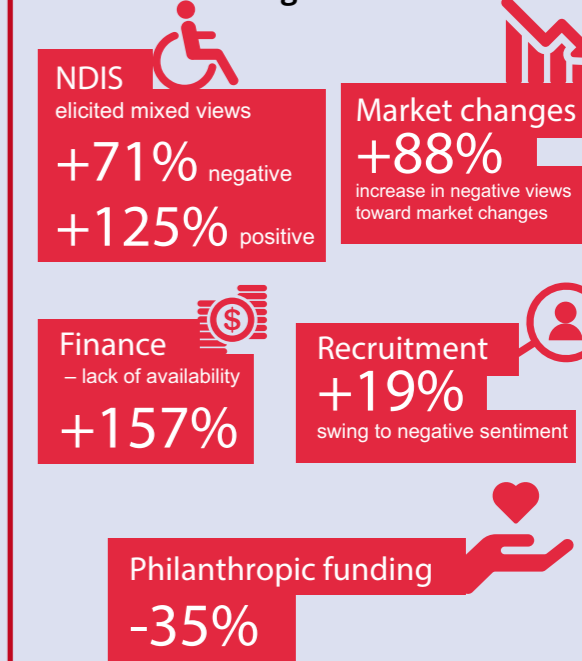
2 data collection waves

Data collection in two waves - Wave one in late 2015 and Wave Two in late 2016

Key themes associated with positive sentiment - changes at Wave 2



Key themes associated with negative sentiment - changes at Wave 2



WHAT ARE THE MAJOR POSITIVE CHANGES?

Given the scale of change underway in Western Australia, the data illustrates that social enterprises are responding pro-actively to opportunities.

Growth in Partnerships

First, it is clear that social enterprises have been more open to developing formal partnerships with other organisations and institutions since the first wave of the study was conducted. Over the 2015/2016 period, positive sentiment to developing and working in partnerships increased by 33%. As some of the participants explained, these partnerships are needed to share risk and maximise available skills, experience and expertise:

So, we are running it more as a joint venture whereby we do the back end. Our beneficiaries are still getting the experience of working with these products but it's a mainstream product. So, we've recognised that whatever the product is it has to have a more mainstream appeal and that we don't want to be carrying all of the overheads of running that operation ourselves.

Case Study A

How do social enterprises use these partnerships to enhance their resilience? Because of the instability of resources, social enterprises respond by identifying and building strategic relationships with other organisations with complementary skills. For example:

But what I will do is I'll go to this other organisation we are talking to and suggest that they put one in as a lead agency because I think combined we will probably have a really good chance but independently we don't. I'm lucky that I've got an organisation that will do that.

Case Study A

Increased interest in collaboration

Alongside the rise of partnerships, there is also a 60% increase in reference to collaborations. Distinct from partnerships because of their longer-term focus, collaborations⁶ comprise social enterprises and like-minded or complementary organisations working together on projects. The fluid nature of these collaborative arrangements appears highly beneficial to the organisations' work and need for increased responsiveness to challenges and opportunities:

...the other thing that's happening is that [our organisation] for six years has been talking about innovation, co-working, collaboration and probably for five of those years people have been like we don't get it. Literally since the day that Malcolm Turnbull starting talking about innovation at a national level our phone has not stopped ringing, and it's like finally people actually get what we're doing and understand the value of it.

Case Study G

⁶ Collaborations are characterised by strong, interdependent relationships with high levels of trust, communication, and shared power between collaborators. While cooperation and coordination involve working together within existing systems and service models, collaboration is about creating new systems and models, and working collaboratively toward a shared vision (Keast 2016).

These collaborations are a useful way for social enterprises to engage with new networks, creatively developing alternative ideas and problem-solving approaches to social issues. They allow an increase in resourcing through bricolage, while minimising the financial costs associated with more formal partnerships:

So, you need to have a different way of running. So, it's almost like you have a hub and then spokes that go out to all the different enterprises. Those enterprises can come back into the hub to get the support they need when they need it to be able to keep going, and then go as a consortium. That hub can then manage grant applications or do the due diligence or reporting governance.

Case Study A

In fact, networks and networking appear highly relevant to most participating case studies at the point of Wave Two data collection. References to 'networking' increased by 67%, while positive references to 'networks' increased by 37%. So, how are networks and networking helping the social enterprises through partnerships and collaborations?

I've heard some people show a bit of interest in helping out and I've been just reflecting on that... I think I need to have a closer look at what my needs are [but] it's really just tapping back into that network that I haven't been able to pay much attention to for most of this year.

Case Study E

I think it's really important in my case to keep my 'hands in the dirt' and not just in the business side of things but in the social activity as well because otherwise I think you lose touch of the people you're trying to help and what you're trying to do. So, that sort of connection to who we're trying to help and what we're trying to do is really important to maintain.

Case Study J

Boards and governance

The importance of governance in accessing resources, and supporting the social enterprise is shown by a continued positive influence found in the data. Boards also remain important to effective governance and organisational support.

[The board] said, look, we've really given it a good go. We've been there with you along the way with all of the plans. We approved the plans. We approved all the strategies. It's not that what you came up with hasn't been carried out or any of that kind of stuff. So, they have been really very supportive.

Case Study A

...they've helped a lot. There's a couple of members on the Board that go to the café regularly. One in particular goes and has regular business meetings there and brings people to the café. I know another one of the Board members - I was there for breakfast last weekend. He was there with his wife and they were saying they'll be bringing more people. So, they are customers, and they bring other people to the café. They've supported the decisions, they've attended the art gallery opening, so we've had a lot of support from various members of the Board who have come to the café, which has been great.

Case Study F

Organisational restructuring

The past 12 months has seen increased internal restructuring among the social enterprises (up significantly from Wave One). Rather than occurring reactively (e.g. in response to pressures to lower internal costs), these changes seem to reflect growth or proactive responses to new market opportunities.

The executive team was restructured, and so I brought people on board with different skill sets than we needed in the past. I've got a manager of relationships, for instance, who understands how our customer service can change a business, who understands taking products to market and what's involved in that. So, that's a skill set we haven't had before. So, I've brought that into the organisation.

Case Study B

Well, we have a nice team now in [our primary location], and we've set up an office here. So, that's been what we've focused on this year, and I guess where a lot of our finances have been - I guess a lot of our money has gone into setting that up.

Case Study I

The social enterprises reported taking a proactive approach to strategy development. This process is supported by regular information-gathering activities. Being able to accurately predict changing customer needs and identifying new opportunities feeds directly into strategy development. Reflecting on this information, many of the social enterprises said they had changed their structures to meet emergent challenges and market conditions.

Business skills

Social enterprises continue to need business skills development to support service delivery and meet their social purposes. In Wave Two, there has been a large increase in references to the need for business skills (180%), such as: market analysis and business modelling; strategy and development; administration and financial management; marketing; networking; financial resourcing (successfully obtaining funds); and human resource management.

I think that's our biggest drawback at the moment is that none of us [has business skills]. We've now got a little bit of a business focus on the Board, which is great, but we really need that kind of marketing expertise to help us.

Case Study I

There has also been increasingly positive reflection on how these skills can be developed informally, through networking and relationship-building to develop the business.

We've got some great relationships now with people that are keen to support us with value adding type programs... We're not getting millions of dollars donated, but we're getting enough to do things that we're really passionate about that deliver on our mission.

Case Study B

Interestingly, discussion of the importance of marketing - an area that was represented strongly in Wave One - actually fell by 79%. Despite this decline in the volume of discussion, participants still stressed the value marketing skills can have when operating in new or changing markets:

It's going to be critical to the business. Without it, I'm going to continue making really poor sales. It's not so much stopping me from accessing other resources. I think it's just without a solid marketing plan, and something to implement, put in action, I'm not accessing the market.

Case Study E

WHAT ARE THE NEGATIVE CHANGES?

Market changes, the availability of finance and attracting and keeping the right staff were all identified as problematic areas needing attention in Wave Two of the study.

Market changes and the NDIS

Changes to existing markets was one of the most negatively perceived challenges for the case study participants. In comparison to Wave One, negative views toward general market changes increased by 88%. Some social enterprises are concerned that changes to the market will intensify competition at the cost of collaboration, and also create confusion for service users.

There's definitely been an attitudinal shift from cooperation and collaboration, towards competition, that's been precipitated by that movement. That's becoming quite difficult really for us to work with organisations in any kind of way.

Case Study C

Your average person who has got a disability and is now faced with NDIS and user choice and so on is just thoroughly confused. They really don't know what to do and how to do it. So, the difficulty from our perspective is, what can we offer?

Case Study A

Regarding the NDIS, participants had mixed views. Although there was more negative sentiment than in Wave One, the number of positive reflections about NDIS also increased by 125%. Participants appeared guardedly optimistic that the NDIS will offer business and service development opportunities.

What I've been trying to do is to talk to mentors... [there] have been some positive results there and I'm currently in the midst of some really positive conversations with a few of those organisations...and are actually seeing the change of the NDIS as much more of an opportunity than a threat.

Case Study C

I see it as an opportunity. I think we can expand and grow and I believe there's a lot of opportunities, so I don't see that as a negative. I think probably the negative that everyone is with at the moment is it's just really hard trying to run two [trial sites]... I think I would speak for most organisations we'll be relieved when we know who's doing what and can just settle on one system and move forward.

Case Study F

For those social enterprises already working in health and social care markets, the possibility of new business development opportunities is attractive, but not without its drawbacks. One respondent discussed how the increase in competition for health-related services has seen an increase in for-profit competitors.

I think that as clients and their families become more adept at managing their own funds and seeking out the organisations that they want to provide services to them, I wouldn't be surprised if a lot of it eventually comes quite simply down to the dollars.

Case Study B

These competitors actively imitate the social aspect of the social enterprises' business, putting the latter at a competitive disadvantage.

I think primarily other people are seeing 'social enterprise' and saying "Oh yeah, okay there's an opportunity for this, it's wanted. We might try to either contribute or get some of that market as well." I noticed that people were copying our writing. I've needed to keep some of this a little bit hidden until I felt that we were in a position to say it publicly and confidentially without feeling like bigger organisations are going to imitate that.

Case Study D

Availability of external finance

Increasingly, social enterprises participating in the study are finding it difficult to secure private finance, by way of debt facilities and loans, with an increase in negative sentiment (157%) here compared with Wave One. Key issues identified here were the complexity for financiers of assessing risk in unfamiliar hybrid business models, and the effects of the contracting economy in Western Australia.

The level of bureaucracy that that type of funding relationship can start to create within our own organisation...all of the different types of policies and procedures and reporting requirements, that are all required to be in place. Again, for that funder it's all about them managing their risk, of the types of organisations that they are putting funding towards. But to actually set up all of those systems for a start, is really resource intensive. To maintain them, to a level that you would be expected, I question whether it is the best use of our resources, or whether that's just not the best funder for us.

Case Study C

Unfortunately, because of the economy basically half our offices are now empty. So, we've had a number of people basically just made redundant. There are businesses in Perth that have an office here with us and they've just contracted back to Perth and said we're not having an office here anymore, and the person gets made redundant and we lose a tenant.

Case Study G

Reflecting the broader trends concerning philanthropic giving to social enterprises in Western Australia, positive sentiment about philanthropic grants fell by 35% in the past year. Although many respondents felt strongly that philanthropy remains important for social enterprise development in Western Australia, the fall in positive sentiment largely related to the challenges of obtaining philanthropic financial support:

...the philanthropy dollar is getting harder and harder because the climate has changed, and certainly in WA where there were a lot of people making a lot of money when the boom was on, that has changed quite considerably. So, people who would normally be giving money [are] saying, "It's a bad year, we're not going to give money this year."

Case Study B

A highly competitive grant-funding environment, and a decreasing level of funding available makes it harder for social enterprises to obtain the funding they seek. There are two main reasons for this. Firstly, the process of applying for grants is time-consuming, and it is difficult for the social enterprises to dedicate enough time to apply.

I mean, even like getting the support from someone else it just takes so long. I mean, this morning I was part of a webinar for an impact philanthropy grant. Now it opens tomorrow, but you don't find out until next June whether or not you get a grant. It's such a long process. For a small not-for-profit, that's too long. You need something that's a quicker turnaround or at least to know because you are putting so much effort into writing these grant applications.

Case Study A

Second, applicants remain pessimistic of their chances of securing these funds if they do manage to apply. The high level of competition among applicants is one factor, although many respondents also feel that many funding opportunities are not specifically targeted to social enterprises.

It can also make me quite despondent because with some of them - a couple got me more determined to say well look we can do this but then when there were others where I put in a lot of time and thought it was a really amazing application, to not even get a second-round interview, sometimes you just think mm, well it's too hard.

Case Study D

Recruiting and retaining staff

Like many growing businesses, social enterprises are often dependent on highly-motivated, self-directing and committed employees (and volunteers). The varied nature of social enterprise missions is often a significant draw to people looking to contribute to communities and apply their business skills to social issues. That said, our research participants told us it is becoming increasingly difficult to recruit and retain these people. Social enterprises reported a 19% swing to negative sentiment on the issue of 'recruitment'.

There appear to be two reasons for this. First, as the social enterprises benefit from their high responsiveness to change, they require highly flexible people to run the operational side of the business. Often, staff and volunteers play multiple roles, which creates significant demands on people to work across different dimensions of the business. One respondent explained this problem and how they have tried to work around it.

In a tiny organisation, we have seven staff across two business units and those seven staff are also senior management staff. The way that we have changed is to separate roles so that people don't have mixed head spaces trying to perform three, four, five and six roles at the same time. The reason for that is to increase the accountability and focus; the focus which also increases the accountability of people to basically just do their job.

Case Study H

A second challenge is staff retention. Being able to attract and retain good people through the strength of a social mission creates managerial challenges. Some of the social enterprises find that, despite new business opportunities and growth, they are sometimes not able to retain staff, who are forced to seek employment with better prospects of job security. Often, working for social enterprises can be precarious due to the irregular, highly competitive and restrictive funding opportunities.

It's been more challenging in the ability to attract and retain the right staff, who have the skills and experience that are needed in order to grow the projects effectively. However, it's really difficult to not be able to offer those individuals any sort of terms of security for their jobs, beyond a certain duration. But basically, the fact that we're never really told what the situation is going to be like, beyond that 12-month period, until a matter of days before that 12 months coming to an end.

Case Study C

This section provided an overview of the major positive and negative changes in the data over the two waves of data collection. Based on these accounts, it is clear that, alongside the strong tactical responses shown among all of the case studies, there remain some significant challenges and gaps. Despite the increase in partnerships, collaborations, networking and positive internal support (i.e. governance), some barriers to resilience persist, such as the availability of external finance and inconsistent reporting systems.

Combined with the findings in Section Two, a picture emerges of highly capable social entrepreneurs and teams, thinking strategically and acting quickly to the growing demands of the business. The other picture that emerges is of the challenge of organising and communicating the right information to support the underlying social mission. In Section Four, we explore if and how reporting is used by social enterprises to capture and present key business and social impact data relating to the challenges and opportunities above.

SECTION FOUR EVIDENCE OF SOCIAL ENTERPRISE REPORTING

Accurate and regular reporting is an important feature of a robust business (Brinckmann et al. 2010). Good reporting systems drive effective strategic decision-making (Schwenk and Schrader 1993).

External reporting, for example, helps social enterprises to communicate with stakeholders about their work and impact. Reports can also be used to support submissions for funding opportunities. Internal reporting encourages social enterprises to communicate organisational performance with employees and volunteers, assist with decision-making and improve resource governance. All reporting processes are intended to have a positive influence on appraising resourcing, supporting and promoting current and future planned work⁷.

Reporting systems can become a reliable resource too, by making it easier for businesses to draw on the necessary information to support resource-creation activities, such as applying for grants, government tenders or dealing with financial institutions.

Many social enterprises will undertake both formal (compliance) reporting and more informal processes for internal communication. Reporting documents were collected from the case studies during both Waves One and Two, and a

⁷ Further information can be found in Snapshot Report 4.

comparison of external and internal documents is shown in Table 1. In Wave One, the evidence showed a varied level of both external and internal reporting among the case studies. This trend continued in Wave Two. Although the table indicates a high number of external reports - for example, those used for tendering opportunities - a large number of these were submitted by a single organisation.

Table 1: Comparing reporting documents between Waves One and Two

Internal Documents	No. of Internal Documents Wave 1	No. of Internal Documents Wave 2
Minutes from meetings	4	14
Budgets/forecasting	5	15
Financial reviews	2	2
Operational profiling/review	4	2
External Documents	No. of External Documents Wave 1	No. of External Documents Wave 2
Tendering opportunities	8	27
Annual reports	5	1
Financial statements	9	10
Strategic plans	6	2
Year book	2	1
Total	45	74

There is a significant amount of incomplete or missing secondary data in this analysis. While the interviews indicated that reporting is perceived as highly important among the social enterprises, it is interesting to see highly inconsistent evidence of both internal and external reporting. Two case organisations were able to provide evidence of both external and internal reporting, while a large number of submissions were incomplete.

Regarding internal reporting, although the number of budgets/forecasting documents increased from Wave One, this reflects only five out of ten participants across the study. The documentation largely focuses on short-term financial goals and discussions regarding financial resources. Non-financial reporting is less evident in both Waves One and Two.

Although some of the external reports indicate adherence with compliance processes (e.g. financial statements, annual reports), there are only a small number of strategic plans. This could reflect some of the reporting challenges noted in the interviews across Waves One and Two. Strategy is deemed important by the majority of cases, but the absence of strategic plans means that it is difficult to corroborate this claim.

Yet, given some of the challenges and opportunities identified in the interviews, such as market changes, the NDIS and the need for collaboration, it is worth considering why there is such inconsistency. Some social enterprises in the study, such as those auspiced as part of a larger non-profit, have more established reporting lines and mature systems. While these systems are reliable and important for the sound running of the organisation, interviewees also reflected that these can become onerous and slow down their responsiveness to business challenges.

Other case studies appear to have less evidence of reporting systems. Although this might reflect a need for leaner management teams, closer ties with key stakeholders and more responsiveness, it could also create significant disadvantages. The lack of a formal and regular data collection and reporting process means less reliable and obtainable reports when they are needed. Given the difficulties regarding obtaining financial support through grant-making foundations and mainstream financial institutions, a more formal, or regular approach to reporting could be useful.

I guess I go back and forth between whether my time is well spent in that space or not... I think what we could do, is perhaps being stronger on our focus, on our outcomes. Articulating that really clearly, and I guess being able to put forward a really strong case. That not only are we able to create really positive outcomes, that are directly linked to their objectives... But we can also do it in a far more cost-effective way than some of the other providers that they are currently funding.

Case Study C

SECTION FIVE IMPLICATIONS

Over the past two years, social enterprises in this study have experienced significant changes. Securing financial resources from philanthropy, government or financial institutions remains a challenge. Increased competition for funds, grant funding and restrictive lending practices are all cited as perceived barriers to growth.

BOX 1: KEY FINDINGS

1. Changes in the operating environment are prompting social enterprises to adapt as rapidly as they can to shifting markets and opportunities. Strategies seen were:

- Growth in partnerships and increased interest in collaboration
- Organisational restructuring
- Stronger emphasis on gaining and using business skills to improve resilience.

2. Key challenges noted by case study organisations were market changes, availability of external finance, and recruiting and retaining staff:

- Market changes such as the NDIS elicited mixed views in terms of challenge and opportunity, but many organisations noted the intensified resources required to stay informed of changes, and adapt their marketing strategies
- Availability of external finance remained a persistent challenge, with difficulties obtaining private finance, and high competition for philanthropic funding
- Funding uncertainty increased difficulty in recruiting and retaining staff, and finding and keeping staff with the required skill-sets was a challenge.

3. Evidence from our social enterprise case studies suggests that current reporting practices vary widely, and could be improved by:

- Collecting key organisational data (financial and social) more consistently and regularly
- Implementing reporting systems and processes that enable key information to be easily accessed and shared with stakeholders – for example when applying for funding or tendering opportunities.

However, as the study has progressed, there has been a marked increase in proactive responses to such challenges. Developing new opportunities, services and revenue streams has been a feature of the past 12-months across nearly all the participating social enterprises. Wave Two data shows several other positive developments. Overall, boards continue to provide the necessary governance compliance, while supporting and advocating for the organisation where appropriate.

While bootstrapping has declined, bricolage remains a vital aspect of how the social enterprises navigate their immediate resourcing tensions. In tandem, the development of partnerships and collaborations has risen rapidly, with active networking prominent across the data. These tactical responses to the business environment reveal the social enterprises as agile in the face of constraints, though there is a strong strategic focus that drives this behaviour.

The past year has seen an increasingly reflective approach to strategic development, with social enterprises seeking to clarify how their business models suit their missions. Overlaying the tactical, operational activities is an on-going process of information gathering and strategy refinement. It is here that the guiding role of the board and mentoring appear to benefit social enterprises most effectively.

However, issues remain for social enterprises in developing simple processes to bring this information together. Social enterprises that form part of a larger non-profit follow formal and systematic reporting processes. This helps to communicate performance but also identify resource needs. Independent social enterprises often do not follow formal processes, suggesting a need for a simple and reliable output-based reporting resource.

Such a resource could contribute to the goal of longer-term sustainability and resilience. Potential funders need to be able to assess social enterprises fairly and equitably on their merits. That said, social enterprises also need to be able to provide potential funders and partners with clear performance information. To date, there is no tailored (and cost-effective) resource available for social enterprises to collect and share this information.

One of the major objectives of this study is to develop a resource that meets the needs of both social enterprises and potential funders, contractors, partners and other stakeholders. The availability of robust and efficient reporting systems is increasingly important for social enterprises, bearing in mind the constraints above, but also as new opportunities emerge from the NDIS.

How can social enterprises organise the diverse range of financial and non-financial resource data, including their social impacts, to clearly convey their performance to external stakeholders? Recent research provides impetus for a solution. Luke's (2016) Statement of Social Performance (SSP) provides a simple and clear summary of financial performance and non-financial impacts (see Appendix 1).

The SSP brings together all key income, expenditure, staffing and other inputs into a simple template. Social impacts are reported simply and clearly, avoiding the over-complications often associated with alternative social impact measurements, such as Social Return on Investment (SROI). Given that social enterprises are constantly collecting a variety of data on their business and impact, the SSP could be used to collate this and generate a useful output.

However, the demands on social enterprises of running the business and engaging with stakeholders limit the time available to bring the necessary data together to create the SSP. What is needed is a system to process operational and impact data to create the SSP. The Wave Two data illustrates how many of the tensions the social enterprises experience could be alleviated by regular and robust reporting data. Resource barriers could be addressed by having necessary data to hand, when applying for grants or meeting with an investor.

The SSP could be used to help develop resilient social enterprises in several other ways. With the increase in partnerships and collaborations, individual social enterprises could use the SSP to consolidate performance data and effectively communicate this between partners. By improving the quality and communication of financial and social performance, social enterprises are able to work more transparently in partnership with other organisations.

In terms of the board and governance, the SSP could form an additional component of more standard compliance-based reporting. This improves standards of accountability to the board, as well as to key stakeholders, while also improving the effectiveness of resource governance in the business. In addition, having a clearer picture of business performance and social impact can help social enterprises in their strategic planning. By informing this planning with accurate and consistent data, teams will be able to focus planning activities based on systematic analysis.

Regarding responses to market changes and NDIS opportunities, a clear and reliable use of the SSP would allow social enterprises to clearly express their financial health alongside the scale of their social impacts. This could be extremely helpful if required by government tenders where such evidence would be beneficial (such as through social procurement).

In the final section of the report, we explain the next steps required to develop a resource that will help social enterprises to participate in regular reporting.

SECTION SIX

RECOMMENDATIONS

There are several recommendations arising from this report, set out below according to policy leadership, supply of finance, and social enterprises. The recommendations are drawn from lessons learned across the data, and consider the complexity of the policy and operational environment affecting social enterprises.

Policy leadership

- Establish clarity over the reporting requirements for social enterprises entering, or operating in the NDIS. This would allow social enterprises wanting to operate in the NDIS to clearly assess their current systems and what needs to be done to meet NDIS standards.
- Develop Social Enterprise policy development to promote capacity building activities. State governments should support social enterprises through policy leadership in key areas, such as the Victorian state government's Social Enterprise Strategy (Victorian Government 2017).
- Specifically, governments should consider developing social procurement policies. Already supported by some Australian governments, social procurement allows social enterprises (and other social benefit providers) to tender for government service contracts on a level playing field. Evidence suggests that widening its deployment can build both social enterprise capacity and better public value (Barraket, Keast & Furneaux 2016).
- The creation of an online portal to promote partnership and collaboration opportunities. Our data indicate that demand for collaboration is rising, although some social enterprises find it difficult to find the right organisational fit. Understanding both the benefits of collaborations, but also the potential pitfalls, would help social enterprises think strategically (and selectively) about who they collaborate with and when and how to start those conversations.

Supply of finance

- A review of mainstream lenders' attitudes and practices towards social enterprises as investible businesses. A recurrent theme in this project has been the difficulty social enterprises have in accessing mainstream finance. This is an important problem, since social finance and grant funding are becoming more competitive. A review of attitudes and lending practices towards social enterprises, especially how their businesses are assessed, could increase financial resourcing flow in the system.

Social enterprises

- The development of a robust, easy-access, data collection and reporting system. Social enterprises need to understand the benefits of regular and systematic data collection and analysis. This will help to drive data-informed strategic and operational decisions, and provide evidence of business health to beneficiaries or members, partners, collaborators and funders.
- Closer engagement between professional bodies/institutes and the social enterprise sector, for example, accountancy, human resources management, marketing and governance. A number of managerial and governance issues confront social enterprises. Working more closely with professional bodies, such as the Australian Institute of Company Directors, could result in developing more focused training and support resources to improve resilience in relation to these issues.

SECTION SEVEN

NEXT STEPS

The next steps for this project will involve developing, piloting and launching a web-tool that implements the SSP. This will bring to bear many of the learnings from Waves One and Two, to address the inconsistent level of reporting among social enterprises in the study.

By developing the tool, the project will trial a robust and systematic approach to financial and social impact reporting. In the first instance, it will provide an opportunity for case study participants to capture and understand their data. This will create an opportunity for social enterprises to utilise a reporting system on a regular basis, without the significant resource costs of obtaining and using other approaches, such as SROI. A key outcome will be to analyse user data to create a simplified SSP, which can be exported and used to communicate performance to key audiences.

To achieve this, the team will now work with key stakeholders to design and test the web-tool. Initial development work has already begun and, based on stakeholder input, a full launch of the reporting tool will be scheduled for late 2017.

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Appendix I – Statement of Social Performance (adapted from Luke 2016)

Organisation:

Mission:

Statement of Social Performance Year ended 30 June 20..	
Income	\$
- Grants/donations (monetary)	
- Earned income (e.g. sales)	
- Interest	
- Other	
Total income	(a)
- Expenses	
- General administration expenses	
- Social expenses	
- Other	
Total expenses	(b)
Net profit/loss from operations	(a-b)
Inputs	
- Cash	\$x
- Program costs	
- Volunteer time	x hours
- Other (e.g. non-monetary donations)	...
Social contribution: Outputs and outcomes	
[For example]	
- Employment provided	
- Employment training	
- Welfare savings	
- Other	

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WESTERN AUSTRALIA

#1 - March 2015

Flatau P, K Zaretsky, S Adams, A Horton and J Smith (2015), Measuring Outcomes for Impact in the Community Sector in Western Australia, Bankwest Foundation Social Impact Series No. 1, Bankwest Foundation, Western Australia.

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#5 - July 2016

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#6 - October 2016

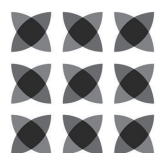
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