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From the SelectedWorks of Michael J Roy

Winter 2011

Making it Count: A social enterprise guide for accounting for value [Review]

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Available at: https://works.bepress.com/michaeljroy/4/
Making it count: A social enterprise guide for accounting for value

Social Enterprise Live, SROI Network and Buzzacott. November 2011


The phrases “social impact” and “social value” (and the measurement thereof) seem to appear everywhere these days – from political and policy statements, to broadsheets and their online brethren, and, of course, in academic discourse. The terms are particularly relevant to those working in social business who will all – at one time or another – have likely grappled with notions of demonstrating to stakeholders, to funders, potential investors, or simply themselves, that they are actually ‘making a difference’ and wondering how best to approach this. At the same time a profusion of arguments exist over which approach from the 150 or so tools available (at last count according to McKinsey & Co) is best to help third sector organisations.

The current leading technique of measuring social impact/value is Social Return on Investment (SROI) which has gained considerable traction in recent years – particularly in the UK. This – it must be pointed out – is in no small part due to significant Government investment into promoting its use by third sector bodies, including social businesses. As one might imagine, a number of guides to SROI – of varying degrees of usefulness – have emerged along the way, the latest of which Making it count: A social enterprise guide for accounting for value was formally launched at November 2011’s ‘Good Deals’ – the UK social investment conference – at which Muhammad Yunus delivered the keynote speech.

The Guide attempts to draw together some of the latest thinking and practice around ‘accounting for value’ a phrase the SROI Network has persistently attempted to get the sector to adopt, and explores some of the challenges and myths that seem to have built up around social impact measurement, and the SROI brand in particular, through the use of case studies.

Taking the First Steps

Section A commences (helpfully) with a bright and solid introduction to the whole topic of accounting for value, advice such as recognising the need for planning and considering what data is needed and how to keep it. The section also advises the social business to critically evaluate existing systems as to their fitness for data collection, and work to clarify their aims and objectives and thus establish what outputs and outcome measurements are necessary to demonstrate that these are being met. Importantly, the need for keeping self-evaluation in proportion is stressed, due to the time-consuming nature of the work:

“For many organisations, particularly those starting out in outcomes assessment, it is not appropriate to be thinking of scientific approaches to establish cause and effect. It is often sufficient to be able to make a plausible connection between the change and benefits and your intervention, rather than to ‘prove’ cause and effect.”

This sound advice is well demonstrated in the subsequent case studies (indeed, the Guide is sprinkled throughout with case studies that add considerable value to the key messages). The Hoxton Trust gathered qualitative data from beneficiaries using volunteers. Simply by investing a little time and effort the organisation were able to feel more confident in talking about SROI and had developed a “lexicon to describe the impact its work delivers,”
gathering quotes that could be used for marketing purposes. One social entrepreneur then compellingly speaks of planning her social impact measurement process prior to her company’s launch, so that as time progressed she would then be in possession of rich and varied datasets that would help tell a compelling, powerful and true story of change over time. This, she is convinced, will help attract potential investors and partners down the line.

**Challenges to SROI**

In response to ‘myths’ that SROI is time consuming, complicated and impenetrable, the Guide then presents an interview with Jeremy Nicholls – Chief Executive of the SROI Network and the individual chiefly responsible for taking SROI forward from its origins in the US. Whilst his message that most social purpose organisations appear to spend more time and money on their financial accounting (the means to the end) than on managing the value they create (the end) is well intentioned, it seems somewhat trite when faced with the reality that organisations are obliged by law to submit financial returns and do not have the same obligations, nor necessarily have the capacity or capability to spend on/indulge in, ‘accounting for value’.

This theme is picked up again in *the bigger picture on accounting for impact* in which a charity accountant advocates that social businesses should provide a standardised template of external reporting, alongside statutory accounts, which summarises and draws out highlights of that measurement, to greatly enhance comparability across the sector. It should be pointed out at this point that lack of comparability is one of the obvious drawbacks of the SROI method: organisations or programmes cannot (or, more accurately, should not) be compared using the SROI ratio alone. This is an understandable frustration for those investors or funders who are keen to gain some insight into which investment would provide best bang for their buck – particularly if it’s the tax payer’s buck.

Completing such templates, on top of statutory requirements, do not seem (to him) to be an onerous requirement. I would tend to agree – to a point. The reality is however, that many, particularly small, social businesses which would really benefit from undertaking an exercise of this type would really struggle to do so for all manner of different reasons, particularly capacity. Furthermore, there is an incessant call from small and medium-sized businesses in the private sector to eliminate red tape: all the better, it is claimed, to concentrate upon trading and ‘wealth creation’. So why should social businesses *voluntarily* burden themselves by adopting another layer of reporting/red tape, on top of that required by the competition?

**Outcomes-based commissioning**

The second part of the Guide is dedicated to public sector commissioning and procurement – an area that has been sadly neglected in the whole ‘accounting for value’ movement; not having a specific strand within the Government’s three year SROI programme aimed at raising awareness of the technique with procurement professionals was, at least in my eyes, a significant weakness. Miia Chambers of P3 Charity and Social Enterprise demonstrates a fine understanding of (and a fair amount of frustration with) the public sector procurement process and posits that many of the problems – and the solutions – lie in the hands of public sector procurement professionals, most of whom, she points out have not been trained in outcome and social value measurement and have very little support to know where to start. Given the layers of bureaucracy and time lag between central Government policy initiatives, the majority of which now involve moving performance measurement away from
compliance, input and process towards outcomes and impact, the areas of commissioning and procurement – particularly at the local level – represent a serious pinch point where public sector reform could be delayed or entirely derailed. The Social Value Bill, currently making its way through the UK parliament, will hopefully go some way to addressing this, although it has recently dropped the requirement to set out a legal definition of a social enterprise. One of its proposals is that public sector contracts will include provisions relating to social outcomes and social value, so this should provide encouragement and levers for those commissioners seeking to maximise social value from public investments. Given that this Guide is aimed at social businesses, this part seems somewhat incongruous. Social businesses attempting to penetrate public sector markets will be well aware of the difficulties in doing so, and – even when they are successful – the frustrations involved when funders demand targets based upon outputs and often ridiculous compliance measures. It is somewhat naive to think that social businesses will – other than very rarely – have the power to educate their funding ‘masters’.

Social Investment

Sarah Foster of social finance provider Big Issue Invest provides a comprehensive outline of the due diligence process employed by her social investment organisation in the third part of the Guide: a thorough assessment of the management’s capacity, the robustness of the business model, the organisation’s financial performance and an assessment of the market and possible competition. She also outlines what an investor looks for in terms of potential for social impact and the scalability/potential for growth. A slightly different perspective – one from a ‘mainstream investor’ – is offered by the Head of Community Banking at RBS in his article Banking on Added Value:

“In a world where people care even more about what they are investing in, social business has a great story to tell – but one that needs to be backed up by robust information on both financial and social returns.”

Finally, something called the Transformational Index is presented, designed to help social enterprises and investors to describe their impact and set a measurement framework. Recognising that measurement is all around us, measuring leads us to comparison, which leads to judgements:

“Like it or not, measurement influences and reflects implicit measurements of value. And these are important to how decisions get made: more reason then, to make sure that our measuring devices match the ends and means which we believe to be important”

While, on the surface this seems self evident and sensible, particularly as a countermeasure to ‘mission drift,’ what if the social business is selling goods and services to the public sector? Infuriation can then arise when their ends and means do not match those of their funder who – whilst sharing a commitment to improving society – will likely still be bogged down in a morass of outputs to measure and, as mentioned earlier, to compound the problem will not have been trained in outcome and social value measurement!

We are therefore still waiting for the Guide for social businesses which addresses the problem of what you do when you know better what is best for your target group than your funders do. They know it too: that’s why they’re funding you to provide the service. But the
reality of the situation is that they are still counting what they always have, whether it makes sense or not, and – by golly – you will too, even to the detriment of the service.