Why measuring and communicating social value can help social enterprise become more competitive

By Jeremy Nicholls

A social enterprise think piece for the Office of the Third Sector, November 2007
Why measuring and communicating social value can help social enterprise become more competitive

By Jeremy Nicholls

A social enterprise think piece for the Office of Third Sector, November 2007

This think piece represents the views of the author alone. It is intended to stimulate consideration of the issues and debate. The ideas and analysis contained in this paper do not represent the views of ministers or government policy.
## Contents

1. Introduction ........................................ 2
2. What’s the problem with current measures of value? .......... 3
3. The relevance of social enterprise ........................................ 5
4. Why is measurement so important? ..................................... 6
5. What is happening to improve our understanding of value? .................................................. 7
6. What needs to happen to capture more value more quickly? .................................................. 10
7. The opportunity for social enterprise ........................................ 12
8. Policy recommendations ........................................ 13
9. Conclusion ........................................ 14
Notes ........................................ 15
1. Introduction

In the UK the gap between rich and poor is increasing¹, social mobility is static or worsening², and there are still many communities with high levels of all the problems that get swept up into the catch-all phrase of multiple deprivation. For societies to continue to spend high proportions of income dealing with the results of high levels of inequality is surely not a good use of societies' resources and reducing inequality must remain a key objective for us all. This paper argues that these problems are the result of something fundamental about how value is recognised in markets.

One of the generally recognised difficulties with value that is recognised is the existence of externalities. Externalities are impacts on people that are not involved in a transaction but are affected by that transaction and are often presented as being exceptions. However the nature of the impacts on others is much broader than is generally recognised and the impact increases as inequality increases. Externality is prevalent rather than exceptional and its relationship with market transactions and inequality has implications for how we recognise value.

This paper looks at problems in recognising value, and in particular social value, in market economies and argues that the search for solutions, in which many are involved, is important for the future competitiveness of business. The importance of measurement systems to social change and the particular development of financial accounting provide background. The focus is on one of the factors that affects price, the frameworks and standards that could provide better information on social value.

The paper reviews the approaches that are being taken and suggests that standardised processes of understanding social (and environmental value) will be critical, as recognised by an increasing congruence amongst those who have focused on these processes. The opportunity for social enterprise to benefit from the measurement of social and environmental value is considered and the paper argues that social enterprises are well placed to use measures of social value to increase their own competitiveness and contribute to a more equitable society. Finally the paper outlines steps that could be taken to promote and extend these approaches.
2. What’s the problem with current measures of value?

Markets are places where people come to trade goods and services, commonly using money to save the time and costs required in bartering. In a market place, value is only realised when a trade is successful. The realised value is circumscribed by what the buyer and seller agree and by the rules that manage trading in that market, and is measured using the financial price as a proxy for the value. The main problem is that transactions have impacts on people that are not involved in the transaction and that the degree to which the costs and benefits of these impacts are included in the price agreed depends on: the information available; the extent to which those trading are interested in taking these impacts into account and the extent to which the legislation that defines the marketplace requires traders to take these impacts into account.

Frameworks and standards develop to provide information for customers. Customers both demand and respond to standards and frameworks on which value can be assessed and they also demand and respond to legislation – standards inform future legislation and legislation enforces standards. As customer demand changes, standards change to reflect that demand, and legislation supports those standards, so more value can be recognised. Legislation often arises where the government, acting on behalf of citizens, decides that its decisions are ‘better’ because they take into account impacts across society and give more weight to the future – legislation around seatbelts, smoking and lending would all fall into this category. Changes in any of these factors alter the environment in which trades are agreed and change relative prices.

As a result prices arising from successful trades are a proxy for value but will be incomplete. They may miss out costs and benefits of the impact of a transaction on people not involved in that transaction. They may miss out costs or benefits for those involved in the transaction who based their decisions on incomplete information. People may choose to give less importance to costs or benefits depending on when they arise; the further off they are in the future the more they may be ‘discounted’. Finally, using prices as a proxy for value will also miss out the value of things which are not traded, for example the ‘no use’ value of heritage, where people value it even if they do not want to use it, and the use value of ‘non traded’ things like air and other public goods which are available to all.4

Financial prices are proxies for the relative value of things and not the absolute value of a thing. There is no reason for the prices arising from the interplay of the factors listed above to be an ‘accurate’ measure of value, not least because it is an ever-changing set of prices. Information is an important factor and may allow more of the value to be recognised but there is no simple relationship between more information and any change in relative value that emerges from that information. The increase in sales of organic food depends on information on what is and is not organic. On the other hand, whilst people are now aware of the link between flying and global warming, we keep on flying – a Mori poll in 2006 found that 32% still knew little or nothing about the threat of climate change and only 11% thought that individuals should change their behaviour as a result. As Nicholls points out, “there is a complex series of interactions between awareness, concern and action that are shaped by many… influences.”5

Information on the impacts of transactions on others which contributes to these impacts being taken into account can increase value and is often referred to as the value arising from social, environmental or economic impacts. Sustainability reporting also uses the same words to describe organisations reporting on social, environmental and economic impacts.

Market economics and public policy recognises the issues of information and externality. In relation to externalities, by a combination of redistribution and legislation (to protect both those involved in transactions and those affected by them) and by the provision of public goods and interventions designed to meet the needs for social justice. In relation to the need for information, there is the intervention, for example, to ensure standards are established and adhered to. However the difficulty is that most transactions will have externalities and the ability for external intervention in markets to address specific ‘market failures’ will be constrained by the extent to which these externalities are recognised, the cost of intervening, the likely success of the intervention and the political acceptability of that intervention – for example, where taxation policy for the many is used to capture the cost to society of the actions of a few.
Inequality in society is a particular problem for the measuring of value. Even for those individuals who have gained financially from trading in markets, it is becoming increasingly apparent that more income does not always lead to more value, for example an increase in happiness⁶,⁷ and so decisions taken to increase income are not increasing the value gained. For those that are less well off, R Wilkinson’s work⁸ shows that it is both inequality and absolute low levels of income that contribute to poor health and so increase health care costs. There is an impact on people of other people’s transactions. Inequality becomes an example of an externality in which economic decisions are not increasing value and may result in increasing cost to others and, in time, to those who have to pay taxes to deal with the results of inequality.

This is more than the common view of externality, based on the costs or benefits of impacts to people not involved in a transaction, but one in which externality arises from the transaction because there is an impact on (and a cost for) a group of people by the very fact that they are aware of transactions happening that they might want to take part in but cannot.

If better information on social costs changed relative financial prices this could reduce inequality and social exclusion but it does not mean that all the decisions that are made under a new set of relative financial prices will be beneficial to all stakeholders. The negotiating power of those involved in trading, and those affected by trading, will determine the legislation under which a market operates. In order to reduce inequality and develop prices that reflect relative values more accurately, the aim is to have markets where the values of customers, the information they receive and the impact of trading is transparent and where there is accountability to all those affected.

It is important to recognise that there is not a set of prices that will be inclusive of all the impacts that result from the provision of goods and services. However, increased understanding can contribute to more sustainable and equitable decisions, which will change relative financial prices. This in turn will stimulate new products and services and this is particularly important for social enterprises as organisations committed to reducing inequality by improving people’s access to opportunities.
Social enterprises, as enterprises delivering goods and services that reduce inequality by helping people access new opportunities, represent a growing number of people that, through their businesses, recognise that business can create social (as well as environmental and economic) value. Other business models (sustainable enterprise, responsible enterprise or social value business to name a few of the words being used today) are, to one extent or another, seeking to better understand and manage the way they recognise value for society. It is possible to imagine a continuum of business purpose, from those whose primary goal is to create social value through to those whose primary goal is financial profit. Interest in frameworks for measuring social value as part of businesses’ competitiveness will depend on where a business sits along this continuum.

Social enterprises operate in markets in order to address social needs and reduce inequality, recognising that this has value. They do so often trading using financial prices from existing markets which do not recognise this value in the same way. By so doing, they can put themselves at a disadvantage to their competitors, who may not use the same measure of value, especially the values that take into account wider and longer term impacts. In the short term, and within prevailing sets of relative prices, it can cost more to create social value. This is not to say that it always will cost more and that innovative businesses cannot bring new products to market that reduce inequality (for example mobile phones which allow farmers to get accurate information on market prices before taking their goods to markets) but that these outcomes are not necessarily the primary business objective as they are in a social enterprise. This difference gives social enterprise a particular interest in approaches to measuring social value.

Social enterprises should be able to use ways of understanding and measuring social value to improve their own business performance, to influence customers and meet customers’ requirements and to innovate, creating new goods and services.
4. Why is measurement so important?

Although there is no guarantee that information arising from measurement will affect decisions, major transformations in history have often involved new ways of measurement and reporting that have underpinned changes in behaviour. Often the histories do not describe how the interrelation between changes in the way people organise and changes in the way people can measure were both critical to the transformation. Change drives the need for new ways of measuring, and new ways of measuring stimulate change.

By the late thirteenth century Venice was the most prosperous city in Europe and dominated Mediterranean commerce. The system of double entry bookkeeping was developed during this period, used by the Medici Bank, the largest bank in Europe, and first documented by Luca Pacioli in a mathematics textbook in 1494.

Forms of a joint stock company had been used since the thirteenth century but freedom to incorporate with limited liability was not available in Britain until 1856, and in the majority of the states of the United States until 1860. The distrust in the joint stock company that had preceded this was, in part, addressed by a combination of developments in accounting and in independent audit. In 1854 the first Institutes of Chartered Accountants were granted royal approval in Scotland.

By 1886 there were over a thousand limited liability companies and 98% had an external audit even though this was not required by law (compare this number with the recent thousandth Community Interest Company (CIC)). Not until 1907 were public limited liability companies required to file a balance sheet that would be available to the public. This step allowed potential suppliers to assess a company’s ability to pay, extending accountability (the process by which business accounts to and is held to account by stakeholders) from the shareholder to the supplier. Secret reserves (which would suppress profits) were allowable until the Companies Act 1948. Only in the 1982 Companies Act were standard formats for companies’ accounts considered, in order to comply with the EEC directives and the Fourth Directive still requires that accounts should be ‘true and fair’, a key principle for financial reporting.10

All of these examples of approaches to measurement – through new tools, new methods and new organisations – have been fundamental in allowing societies to recognise and release new forms of value. Most have required supporting legislation and all have been part of an ongoing process of improving accountability. Although recent developments in social reporting are often perceived as very different to the development of financial reporting, it is possible to see many of the developments in business accounting over the last 150 years as increases in the way in which business account for their actions and are held to account by their stakeholders, from shareholder to supplier to employee to neighbour.

Some of the more recent changes in legislation recognise the responsibility of a business to people who are not parties to the business’s contracts. These changes occurred alongside increases in the market value of those businesses which are listed on public exchanges and it is possible to argue that these increases in accountability contributed to the increases in market value as the risks faced by investors fell.

Within these developments there are two different trends. One is towards new indicators or measures of value and one is to standardising the processes by which value is understood and compared. Both will be necessary if value-driven businesses and social enterprises are to unlock the value that they believe is both possible and necessary. One of the lessons from history is that the potential value to societies of new ways of measuring only becomes possible when these methods have gained currency and when principles and standards become shared. Accountancy is built on a number of simple but shared principles, for example of ‘going concern’, matching, prudence and accruals, which underpin the profession. Social accounting needs a similar set of shared principles.
5. What is happening to improve our understanding of value?

Since the latter decade of the last century there has been a growth in social and environmental reporting – the Kyoto Principle in 1997, the Dow Jones Sustainability Index, the first Global Reporting Initiative (GRI) in 1999 and the start of carbon trading schemes in 2003. These have been associated with developing standards and organisations, for example AccountAbility’s AA1000, the start of the social accounting network in the UK in 1999 and issue of ISAE 3000 in 2004. There are now other social audit and social return networks developing across Europe. Most recently, the new directors’ responsibilities in the 2006 Companies Act to have regard for the impact of the business on stakeholder groups should affect business decisions.

Environmental issues have been at the forefront of these changes. In part because pollution is a classic example of an externality and because climate change has become so important and also because measurement systems have been developed for environmental issues. This has meant for example that it has been possible for the European Commission to publish guidelines on where state aid is permissible if the positive impact on the environment outweighs the effect of ‘distorting’ the market.

KPMG have issued a report on the joint use of AA1000s (a standard for assurance of sustainability reports) and ISAE 3000 (required to be used by professional accountants from 1 January 2005 in assurance engagements). In general these approaches have been used by larger organisations, although the Global Reporting Initiative has issued guidelines for small and medium enterprises (SME) and for public sector reporting. Business in the Community’s CR index and the Small Business Journey11 all provide approaches to help businesses manage and report on their Corporate Social Responsibility (CSR) activities.

The vision of the Global Reporting Initiative is:

“that reporting on economic, environmental, and social performance by all organisations becomes as routine and comparable as financial reporting”.

In the third sector, approaches such as Social Return on Investment (SROI) and Social Accounting have been more commonly used. Social Accounting Network’s mission is:

“to promote and support social accounting as the preferred means whereby organisations operating in the community, social economy and public sectors report on their social, environmental and economic performance and impact”.

SROI started in the United States and has been developed in Europe by members of the European SROI Network and in the UK initially by the new economics foundation14 and more recently within a network of SROI practitioners. SROI analysis is:

“The process of understanding, managing and reporting on the social environmental and economic value created by an organisation.”

Although AA1000 and Social Accounting have similar roots16 there is perhaps a difference in that one focuses on measuring whether an organisation achieves its desired social impact and the other focuses on a means of revealing the missing value that is being created (or destroyed) by that organisation. These are often similar, and yet, for a value-driven business, the measurement of this missing value is what allows the organisation to be sure it is true to its organisational values. The stakeholder is the source of understanding value, so this means assessing value in relation to what the stakeholder wants from their involvement with an organisation and not assessing value in relation to the organisation’s perception of its value.

Social Return on Investment goes further in finding financial proxies for these indicators, both as a process in order to facilitate analysis and to provide clarity around completeness, and also as a principle, to provide more equality to the voice of those whose value is not recognised by financial transactions. All these approaches sit alongside financial reporting and could be fully integrated with an organisation’s financial reporting systems. However, although more than 1,000 organisations use GRI to produce their sustainability reports and there are currently over 80 examples of social accounts on the Social Auditing Network’s website17, these are both small numbers when compared with the total number of organisations that could use these approaches.
There have been fewer attempts at analysing the profit and loss and balance sheets of businesses in ways which separate financial and social income, costs and assets to help investors better assess the business and its potential. It would mean that financial and social accounting would be better integrated, although SROI explores the different returns on the social and ‘core’ parts of a business. As Nigel Kershaw from the Big Invest argues, these approaches are necessary because “We need to find ways of investing that give blended social and financial value.”

From another perspective, businesses that understand and manage their impacts or create other value should, in theory, be better-managed businesses and a better risk for investors because they are seeking to reduce uninsurable high consequence risks. These businesses may have a lower cost of capital.

Accountancy practice continues to grapple with the value of what are known as intangibles, for example, corporate intellectual property (items such as patents, trademarks, copyrights) and brand recognition where the value has been estimated by investors as the difference between the book value of a company and its market value. The value of these intangibles can be recognised in a balance sheet on acquisition but not on internally generated value. There are not well-developed markets for these assets and future benefits are often uncertain. There are proposals to address these problems, and some companies have been actively exploring new ways of reporting, for example the Skandia Navigator.

For social value, others, especially those in investment markets, are exploring new sources of information that relate to social and environmental impacts, for example Enhanced Analytics, New Philanthropy Capital and Generation Investment. In time it may be possible to develop financial statements that recognise social intangibles and analyse the social aspects of profit and loss accounts. SROI builds on this analysis to provide a value for the social benefits being created.

There are many toolkits which support aspects of these processes or overlap with approaches to management development.

- The Balanced Score Card is “a management system that enables organisations to clarify their vision and strategy and translate them into action.”
- Brian is a tool that provides the business adviser with a way of “measuring and monitoring both the business and social capital of an enterprise.”
- LM3 is a tool “to measure how much your organisation or initiative impacts on the local economy” and help work out where change can improve that impact.
- Social Enterprise London has developed an electronic Performance Measurement Tool “which will serve as a simple, do-it-yourself method of measuring and managing your performance.”
- Responsibility Northwest, with the support of the Northwest Development Agency, has developed an approach to regional and subregional reporting on responsible business practice.

This is not intended to be a full survey but only to show that this has become a busy area against a context of a relatively small number of organisations using these approaches. No wonder that there is potential for confusion, even though new ideas and new approaches may bring improvements. The growing number of labels and tools and the difficulties of auditing these can confuse customers and perhaps even reduce demand for these approaches.

Any system for measuring social, environmental and economic value will need to be based on recognition that the results are relative and arise from negotiation between different stakeholders exercising power. This means that the key is to have a process which is shared by users. There will always be many different possible processes and yet many of the benefits are only realised as one becomes dominant. This requires those involved in different approaches to be willing to compromise in the search of a set of core principles.

Measures of social value will be different in different markets and for different people. However some commonality of indicators within similar markets will also facilitate the ability to trade on social and environmental value. In public procurement the desire to move from purchasing outputs (which are often poor proxies for the change that is sought) to purchasing outcomes, requires agreement on measures of outcome that are both practical for the seller to report on and credible to the buyer. The Office of the Third Sector is currently supporting...
work on the development of social clauses with the Northeast Centre for Excellence that could meet this requirement. There is an advantage in sets of outcome indicators that are common to particular social objectives, as these would reduce the risk that procurement would not achieve intended results. There is also, though, a risk that these become an end in themselves. Space needs to be left for ongoing innovation to continue to expand our understanding of and ability to measure outcomes.30

Value will be in the eye of the stakeholder. Not just the buyer and the seller, but also those affected in the performance of a contract, for example congestion caused by new building developments will affect a variety of stakeholders in different ways. Whilst the price paid is a proxy of the value for the buyer and seller, new proxies and new ways of weighting the interests of different stakeholders will be required. Identifying those affected, for example customers, employees, suppliers or neighbours (and recognising that often those affected will be future generations), and understanding their objectives and issues, will be the starting point. Facilitating a discussion on value can go a long way to highlighting the types of value being missed by financial transactions. This stakeholder approach to understanding value ensures that those affected across all stages, from production to consumption, are considered and that they develop an understanding of their role in the creation of value.

This could throw up many different issues and a process for prioritising and selecting those issues will be necessary. AccountAbility has developed a solution by exploring the concept of materiality in financial reporting.31

Next, any measures will need to be measures of the result of the organisation’s work (the outcomes) rather than ways of summarising its activities. Finally measures will need to take account of what may have happened anyway, recognising that stakeholders can achieve their objectives without the intervention of the organisation. Most importantly, the organisation should respond and change to the process of measurement. We measure in order to act and learn from our actions.

Some of these approaches, for example, Social Accounting, SROI and sustainability reporting, have the same basic principles. These principles are that:

- stakeholders are central to understanding value
- there needs to be more transparency in prioritising stakeholders’ issues
- value is in the result of an organisation work and not in a summary of its activities
- it should be recognised that people will achieve their goals or meet their needs in many different ways
- the purpose of understanding is to change
- reporting change to stakeholders is one route to better accountability
6. What needs to happen to capture more value more quickly?

So, there is progress and there has been a growth in the number of frameworks and standards to help businesses and consumers understand the impact of their decisions. However, despite the growth in interest, the numbers of social enterprises, let alone the numbers of businesses, that use these new ways of understanding and reporting on their impacts, and thereby accounting for value, has not yet taken off.

More is required to get to a point where change in measures of value changes the nature of demand. Progress does not imply a linear route towards ‘success’ but one in which the varying costs and benefits of incremental changes determine progress.

Getting to a standard process

1. Further convergence is required on approaches to understanding value so that there are shared principles. This would seem a reasonable goal for the social economy and for social enterprise in the UK and across Europe and could be developed to ensure consistency with GRI, AccountAbility and other similar standards. The Government’s Greenbook, which outlines an approach to cost benefit analysis to inform investment decisions, could be aligned with these principles.

2. Innovation, in some areas, is needed to provide ways of measuring some outcomes. This probably needs to be developed on a sector by sector approach since the outcomes, and therefore the indicators, will vary for different stakeholders, with different objectives, in different markets. Nonetheless compromises here, whilst possibly meaning that some indicators of value are missed out, will make it easier to draw general lessons and could result in a big increase in overall value being recognised, especially in public sector procurement. This also means recognising that whilst there will be an overall benefit in increasing standardisation some organisations may benefit more than others.

3. Migration from some approaches to others will occur, in part as a result of competition between different approaches. It will not be enough to have more consistency in the ways in which social and environmental value is understood, measured and reported.

At the same time there are other more practical barriers relating to the supply and demand for these approaches:

4. On the supply side there is still an impression that existing methods are too expensive and that the benefits are too uncertain. Systematic approaches need to be developed, as these will bring down costs.

Selling Added Value is an approach in West Yorkshire that is focusing on the relationship between the social enterprise and existing and potential customers, a focus which reduces cost and identifies the overlap between the social value that can be provided and demand for that value. The project is also supporting the development of an online SROI package which should also make this approach more accessible.

In Sweden, a new online social accounting service has been launched. SROI networks and others in Europe are seeking to develop databases for indicators and case studies.

These, and similar developments, aim to reduce the cost of these approaches and increase demand.

Focusing on short-term benefits should increase the numbers of organisations that can report both commercial benefits and real changes to their organisations that followed the process.

5. On the demand side the largest opportunity would appear to be in changing public sector procurement. Existing public contracts for goods and services will often not only include outputs but will also score on the basis of delivery, capacity and innovation and may include community benefit clauses. In the short term, approaches to understanding and managing value could help increase the scores for delivery and capacity and show the clear links between activity and community benefits. In the medium term, they may provide a way for potential buyers to make results of expenditure part of the core criteria of a contract, aligning the procurement with both corporate and other departmental objectives. Adding social or community clauses to contracts is a stage on the route to changing corporate objectives so that they more closely relate to departmental objectives (and outcomes) and will make the
issues being considered in social clauses core aspects of the contract. It is not so much about considering social or community clauses, especially for local authorities which have a duty to deliver social, economic and environmental well-being to communities, but to consider outcome criteria (rather than outputs) in contract specifications as a way of identifying added value. This is the approach being taken by Selling Added Value in West Yorkshire and by the new economic foundation, working with Camden Council. These approaches could result in standard measures of outcomes in specific sectors.

The Selling Added Value approach has emphasised the difficulty of selling outcomes that relate to more than one public procurement objective within the same contract. This is difficult enough where the outcomes are within the remit of one department but becomes much more difficult when developing a contract across departments and between different organisations. The process by which this becomes more possible is likely to depend on the level at which social value is being incorporated.

On investment, the Adventure Capital Fund is working with the new economic foundation to use SROI as a means of better understanding the added value being created by its investments; an approach which could be extended to other investment funds.

6. In the private sector there is some evidence that increasing business responsibility and concerns of risk management will affect supply chains and suppliers’ ability to provide assurance that such issues are being addressed. In retail markets there is a growing number of kite marks and certifications for different impacts in different markets, including Fairtrade and the Soil Association, as well as, for example, compliance with ILO Labour Standards, and growth in the volume of business associated with these certifications.

Legislation

Whether or not there should be further legislation on social reporting, and at what point it would be beneficial, remains contentious. The advantage is that it would increase the number of organisations reporting on value, resulting in levels of information that can move markets. In the majority of developments of ways societies have measured the world around them, some legislation has been required to guarantee standardisation to protect customers and has followed demands from customers for that standardisation and the assurance it gives. Legislation can also create competitive advantage where new business models are specifically designed to exploit changes in legislation.

However, in the short term although all organisations do not need to wake up tomorrow and use the same process, those that do may be able to use the information they gain to be more competitive than others. There is already considerable legislation around many social and environmental issues (for example health and safety, age discrimination) but compliance with these does not necessarily require an understanding of the relationships between business values, products and services, markets and value creation. Evidence of learning, as a result of following a process for understanding value, is important in remaining competitive and this is the emphasis within the Performance Improvement Diagnostic developed by the c3 partnership across the west of England.35

Without intervention markets will reward short-term benefits but there may be other ways to increase the time periods over which benefits are measured. One example is the role of balance sheets. Balance sheets follow directors’ legal responsibility to safeguard the assets of a business, a longer timescale than annual profitability. The public sector’s exploration of a public sector balance sheet36 could increase planning horizons throughout public sector procurement and investment and encourage longer-term measures of change, with lower discount rates.

One issue in any development of standards and related legislation will be the role of audit or assurance. Often one of the concerns around social auditing is that it could lead to the creation of a new class of people at a similar scale as seen in the growth of the accountancy profession. However, the benefits provided by audit, the information that allows investors, suppliers and others to make better decisions, exceeds the cost of the accounting and audit function.
Social enterprise is well placed to respond to these opportunities to use the recognition of social value as a means to increase competitiveness. Although take-up may be relatively low there is a high awareness and interest in reporting on social value. Cost is still perceived as a barrier by some yet a combination of new approaches to bring down cost and increase recognition that understanding and managing social value is an investment will help, as will the potential overlap between public procurement of social value and social enterprise’s ability to provide it. Improving the quality and impact of social enterprise will directly contribute to a reduction in inequality. Even with consistent standards, this will be an incremental approach. Some sources of social value will become recognised in some markets.

This may provide social enterprise with a short-term competitive advantage. However changes in measurement of value are open to all business types along the continuum of those interested in social value and, although some legal forms may flourish, this will be linked to changes in measurement. The aim should not be more social enterprise per se but on changing the market place and the values of those active in markets so that enterprises that create more social value are more successful than others – they have a competitive edge.

Social enterprise does not have monopoly on either the creation of social value or an interest in how business can create wider value and so remain competitive. There will be an increasing overlap with the CSR agenda and relevance for new businesses started by people who want to create value in their communities.

At the same time there are a number of risks:

1. There is a risk that the approach to CSR and social value for both small businesses and social enterprises is based on checklists of types of social value. Using such a system, the most important areas of an organisation’s impact or value can be missed as check-lists may focus on common denominators – for example, costs relating to overheads – and not on differences, which may be the market places in which those businesses operate. They can also reduce the interest in innovation by encouraging a view that there is little point in exceeding the kite mark. In both cases, value would continue to be lost and businesses would not become more competitive. And this is the goal, to ensure that organisations, which are better at recognising new sources of value, are rewarded in markets.

2. The second risk is that the existing social enterprise sector remains protective of its uniqueness by reference to legal structures and to the role of profit rather than by measures of the social value that is being created. This could restrict the extent to which the emphasis was on social value creation and reduce the level of investment in understanding and managing social value – understanding that is then available to, and seen as potentially relevant to, all businesses.

Most small businesses are not driven solely by profit and owners start their businesses because of a desire to provide a service or a product – profit is a necessary condition of staying in business. Equally, at the other end of the scale, most public limited companies only distribute a small percentage of their profits and, if asked, consider that they are meeting social goals through the goods and services that they provide. They will also have social and environmental impacts (both positive and negative) that result from the delivery of their products and services. Whether or not profits are distributed is not necessarily a good indicator of whether or not social value is being created.

3. The third risk is that social enterprise becomes equated with the provision of public services which reduces the number of markets in which the measurement and creation of social value was being explored by social enterprise. The sector’s value should not be defined as the ‘added value’ of social enterprise over direct public provision or private sector contracting of public services. It is surely better to ensure that social enterprise opportunities are being explored throughout the value chain.
8. Policy recommendations

The policy recommendations from this paper are therefore:

- to support, at least within the European social economy, negotiation and agreement on a shared set of principles for the process by which social value is understood
- to find ways in which public procurement and public investment reward organisations that understand, manage and report on the social value they create
- to develop specific outcome indicators that relate to public sector targets and which can be incorporated in public procurement together with exploring opportunities for procurement to meet several, and potentially cross-departmental, objectives
- to support more research in measures of social capital and similar specific intangibles and to support measures of social return
- to review, and potentially amend, the Treasury's Green Book so that it, too, is aligned with these principles, in particular the focus on stakeholders. This need not be a difficult task but could have a significant impact on decisions
- to ensure that regional implementation of European Structural Funds takes account of these principles in the design of programmes (to ensure that, for example, business support services are able to consider values in business aims and social, and other values, in business operations) and in contract management and programme monitoring
- to discuss the implications for this approach for Community Interest Companies (CICs) reporting with the CIC regulator
- to encourage research links between the accountancy profession and relevant academic bodies on the development of accounting methods for social intangibles
- to support existing networks that are working to expand the use of approaches to social accounting
9. Conclusion

At its heart this is a simple proposition – better information for those making decisions to spend money to meet their needs can contribute to changing those decisions. If that information relates to the impact of spending on social inclusion and inequality then the decisions may have more inclusive consequences. Businesses that can understand their stakeholders’ objectives, and find ways of measuring and reporting against progress to meeting these, have an opportunity to become more competitive. Social enterprises can influence, both through their work and their ability to measure social impact, the extent to which those spending recognise the relevance of social value to their own spending decisions and develop new sources of information in this process.

The financial value released by the late nineteenth century combination of the limited liability company, financial accounting and audit has been very high. If a similar scale of social value could be released by the development and broad take-up of social accounting, the benefits to society could be dramatic in minimising social inequality and supporting social justice – without retracting on the principles of a regulated market economy. Social enterprise, public policy and public demand all have a role to play in supporting and encouraging this opportunity.
Notes

1 ONS (for 2004/06) and Joseph Rowntree Foundation research (July 2007)

2 London School of Economics Research for Sutton Trust in 2007

3 As an example of the relationship between frameworks, standards and principles, Social Return on Investment (SROI) is a framework for understanding value that has a standardised methodology building on a set of principles.

4 John Holden, Capturing Cultural Value, Demos 2004

5 In his paper on ‘What is the future of social enterprise in ethical markets’

6 www.happyplanetindex.org/

7 www.worldvalueessurvey.org

8 Richard Wilkinson, The impact of inequality, 2005

9 Rebecca Harding, Social Entrepreneurs Specialist Summary 2006, GEM 2006


11 www.smallbusinessjourney.com

12 www.globalreporting.org

13 www.socialauditnetwork.org.uk

14 Nicholls, Mackenzie and Somers, Measuring real value, a DIY guide to Social Return in Investment, new economics foundation, 2007

15 Scholten, Nicholls, Olsen and Galimidi, Social Return on Investment: a guide to SROI analysis, 2006

16 Simon Zadek, John Pearce and Peter Raynard, Social Accounting for Small Organisations, new economics foundation, 1996

17 www.socialauditnetwork.org.uk

18 Andrea Westall and Danny Chalkely (eds), Social Enterprise Futures, 2007


20 www.juergendaum.com


22 www.valuebasedmanagement.net

23 www.enhancedanalytics.com

24 www.balancedscorecard.org

25 www.co-active3.org.uk

26 www.neweconomics.org

27 www.sel.org.uk

28 www.smallbusinessjourney.com/Page368.asp

29 see also Alex Nicholls’ paper on ‘What is the future of social enterprise within ethical markets?’

30 see Andrea Westall’s paper on social innovation

31 Guidance note on the principles of Materiality, Completeness and Responsiveness, AccountAbility, 2006

32 see also Mike Aiken’s paper on ‘What is the role of social enterprise in creating and maintaining employment for disadvantaged groups?’,

33 www.sellingaddedvalue.co.uk

34 www.visvardi.se

35 www.rise-sw.co.uk

36 Andrew Holder, Developing the public sector balance sheets, DTI 1998

37 See for example AccountAbility’s work on Responsible Competitiveness

38 As explored in more detail in Alex Nicholls’ paper on ‘The future of social enterprise in ethical markets’.